Group management report

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Market development

Strong economic growth in the euro area amid low interest rates

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

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

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

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

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

Strong growth in CE and SEE, moderate recovery in Russia

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

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

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

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

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

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

Banking sector in Austria

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

Development of the banking sector in CEE

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

Regulatory environment

Changes in the regulatory environment

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

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

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

Basel IV

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

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

BCBS 239

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

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

Bank recovery and bank resolution

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

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

Payment Services Directive 2

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

General Data Protection Directive (GDPR)

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

Preparation for the implementation of MiFID II and PRIIP

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

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

Banking supervision

The focus of the ECB banking supervision was on three areas in 2017: Risks relating to the business model and profitability, credit risk with an emphasis on non-performing loans and risk management in general. The focus of the Joint Supervisory Team was also on operations outsourced by RBI and on evaluation of the internal credit risk models. The effects in relation to Brexit and developments in the Fintech sector were also analyzed. Additionally, there was an extensive process with the competent resolution authorities - with the Single Resolution Board on EU level, the Austrian Financial Market Authority and the respective national authorities in the EU member states in which RBI is present with network banks, to establish the capability to resolve the bank.

Earnings and financial performance

RBI's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU. RBI AG also prepares individual financial statements in accordance with the Austrian Commercial Code (UGB) in conjunction with the Austrian Banking Act (BWG), which provide the formal basis of assessment for calculating dividend distributions and taxes. For more information on disclosures required by the UGB and BWG, please see note (46) other disclosures according to BWG in the consolidated financial statements.

The merger of Raiffeisen Zentralbank Österreich AG (RZB AG) into RBI AG took place in March 2017. Consequently, the constituent items from the statement of financial position and income statement of RZB AG and its consolidated subsidiaries were integrated into the RBI Group. The figures for the previous year's comparable period and reporting date are stated on a pro forma basis in this section as though the merged company had already existed in this form in the previous year. In particular, all effects in connection with the sale and valuation of the UNIQA Insurance Group AG stake were eliminated in the pro forma income statement for 2016. The pro forma figures were neither audited nor reviewed by an auditor. In contrast, the comparable figures in the consolidated financial statements section are based on the previous year's published figures in accordance with IFRS.

Following the early completion of the transformation program, which was launched in 2015, the Non-Core segment was dissolved at the beginning of 2017, with the remaining business allocated to the regional segments.

Significant events

Completion of merger with RZB AG

Following the RBI AG Extraordinary General Meeting in January 2017, which approved the merger with RZB AG with a 99.4 per cent majority, the merger was entered in the commercial register on 18 March 2017 and thereby took effect. In the course of the RBI AG capital increase, which was also entered in the commercial register, the shareholders of RZB AG were given new shares by way of consideration for the assets transferred through the merger. The total number of RBI AG shares issued is therefore now 328,939,621 compared to 292,979,038 previously.

The merger of RZB AG into RBI AG increased the number of consolidated companies by 175 specialized financial institution subsidiaries to 281 companies. The merger resulted in an increase in total assets of € 22,941 million and in equity of € 519 million. Further details are given in the notes in the principles underlying the preparation of financial statements section and in the statement of changes in equity.

The segmentation changed as a result of the merger of RZB AG and RBI AG. RBI's previous segments – Central Europe, Southeastern Europe, Eastern Europe and Corporate Center – were expanded to include the corresponding RZB areas. The Group Corporates & Markets segment was introduced for operating business booked in Austria.

Placement of additional tier 1 capital (AT1)

In order to further optimize its capital structure, RBI placed perpetual additional tier 1 capital (AT1) with a volume of € 650 million and a value date of 5 July 2017. The coupon is 6.125 per cent p.a. until December 2022, after which it will be reset. Semiannual coupon payments on scheduled coupon dates of 15 December and 15 June of each year are discretionary. According to IAS 32, the AT1 is classified as equity due to the terms and conditions of the issue.

RBI placed further perpetual AT1 capital with a volume of € 500 million and a value date of 24 January 2018. The discretionary coupon on this issue is 4.5 per cent p.a. until mid-June 2025, after which it will be reset. RBI has as a result completed its planned AT1 issuance program.

Sale or IPO in Poland

In July 2017, RBI postponed the IPO of its Polish subsidiary, Raiffeisen Bank Polska S.A., Warsaw. The IPO is based on a commitment made by RBI to the Polish regulatory authority in connection with the purchase of Polbank. The postponement was due to an insufficient level of interest in the offer on terms that met the parameters of RBI's commitment to the Polish regulatory authority to float shares in Raiffeisen Bank Polska on the Warsaw Stock Exchange. The Polish regulatory authority has set a new deadline of mid-May 2018 for the IPO.

RBI is currently considering the alternative option of a sale of the core banking business of Raiffeisen Bank Polska (excluding FX portfolio) to an investor. RBI's commitment to the Polish regulator to float shares in Raiffeisen Bank Polska on the Warsaw Stock Exchange can be fulfilled either by selling at least 15 per cent of Raiffeisen Bank Polska shares to free float shareholders through an IPO, or through a sale of Raiffeisen Bank Polska's core banking operations to an investor. Given that the IFRS 5 criteria are not met, the core banking business has not been classified as an asset held for sale.

Overview of the financial year

The good overall macroeconomic situation and favorable market conditions have helped to more than double consolidated profit compared to the same period in the previous year; it rose € 596 million to € 1,116 million. In 2017, business performance continued to be affected by two principal factors driven by the macroeconomic environment: the negative impact from persistently low interest rates in Central and Southeastern Europe and the positive effects of significantly lower net provisioning for impairment losses in nearly all markets. Moreover, the results from the early completion of the transformation program at the beginning of 2017, also had a positive impact on the performance of the business. All markets in which RBI operates reported profits, which were higher in most markets, and in some cases significantly so. Owing to these factors, it will again be proposed that the Annual General Meeting, after three years in which no dividend was paid, approve a dividend of € 0.62 per share. This would correspond to a maximum dividend payout of € 204 million and a payout ratio of 18 per cent.

In addition to a € 153 million higher operating result, net provisioning for impairment losses contributed in particular to this improvement, which at € 287 million was € 471 million below the previous year's level. This was mainly attributable to a significant 35 per cent reduction in new provisioning. The NPL ratio was 5.7 per cent, 3.0 percentage points lower than at the beginning of the year. This decline was achieved through an overall improved risk position and from a clean-up of the non-performing loan portfolio. Alongside the derecognition of loans, non-performing loans totaling € 1,010 million were also sold. This was just below the level of the previous year but the gains on the sales were significantly higher.

Operating income was up 2 per cent year-on-year, or € 116 million, to € 5,228 million. The increase was mainly driven by net fee and commission income, which was up 7 per cent or € 120 million, supported by the effects of the Russian rouble appreciation and higher income from payment transfer and securities business. Net interest income remained almost unchanged, with little variation in either volumes or margins. The overall stability was due to improved margins in Russia and Poland on the one hand, and to interest margins coming under further pressure in Austria and in Central and Southeastern Europe on the other.

General administrative expenses of € 3,104 million were slightly below the previous year's level, down 1 per cent or € 37 million. Declines occurred mainly in Poland (due to the sale of the leasing subsidiary and the ongoing rightsizing program) and as a result of downscaling in Asia and the US. These positive effects were offset by currency appreciation and salary increases in Russia. The average number of employees (full-time equivalents) reduced year-on-year by 1,671 to 50,139. Nevertheless, staff expenses increased slightly, up € 2 million to € 1,554 million. Other administrative expenses also increased slightly, up nearly 1 per cent, or € 8 million, to € 1,222 million, driven by higher advertising and security expenses. The number of business outlets decreased 113 year-on-year to 2,409, mainly due to the rightsizing program in Poland (down 62 branches). As a result, office space expenses also reduced (down 6 per cent).

RBI reported total assets of € 135,146 million at year-end, corresponding to a modest increase of € 342 million, although currency depreciation had a negative impact of around € 1.9 billion. Loans and advances to customers rose 2 per cent, or € 1,463 million, to € 81,232 million. New lending in the Czech Republic, Slovakia and Russia was responsible for the increase. Loans to corporate customers (large and mid-market corporates) remained almost unchanged at € 46,875 million, while loans and advances to retail customers (private individuals as well as small and medium-sized entities) posted an increase of € 1,484 million. This was predominantly due to growth in Russia, Slovakia and the Czech Republic. This contrasted with decreases through currency depreciation and the derecognition of non-performing loans.

RBI's equity including capital attributable to non-controlling interests rose € 1,490 million to € 11,241 million. RBI placed perpetual additional tier 1 capital (AT1) with a volume of € 650 million at the beginning of the third quarter. Under IAS 32, on the basis of the terms and conditions of the issue the AT1 capital is classified as equity. While profit after tax came to € 1,246 million, other comprehensive income amounted to minus € 197 million, which was mainly attributable to the valuation result arising from the change in own credit risk for own liabilities measured at fair value of minus € 140 million, as well as currency differences of minus € 70 million.

The key regulatory capital ratios also improved: Common equity tier 1 (after deductions) was € 9,266 million at the end of the year, € 662 million higher than at year-end 2016 while taking into account the proposed dividend. Total capital pursuant to the CRR stood at € 12,892 million, corresponding to an increase of € 1,088 million compared to the 2016 year-end figure. The

increase was also due to the issue of € 650 million in AT1 capital. Total risk-weighted assets were up € 3,992 million to € 71,902 million. This includes an inorganic effect of € 2,784 million as the Polish regulator increased the risk weight of collateralized mortgage loans to 150 per cent (instead of previously 35 per cent). This had an impact of minus 54 basis points on the common equity tier 1 ratio (fully loaded). Based on total risk, the common equity tier 1 ratio (transitional) was 12.9 per cent (up 0.2 percentage points), with a total capital ratio (transitional) of 17.9 per cent (up 0.5 percentage points). Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 12.7 per cent and the total capital ratio (fully loaded) was 17.8 per cent.

Detailed review of income statement items

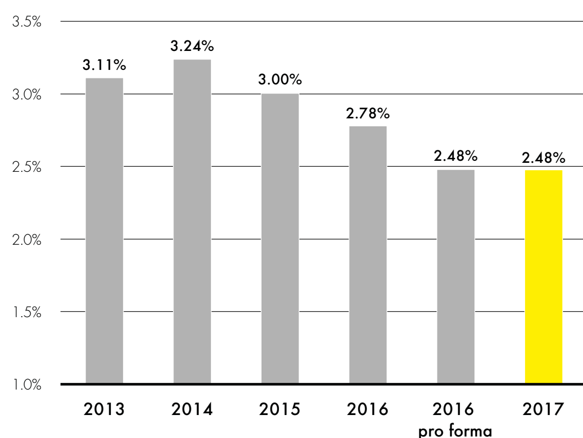
in € million	2017	2016 pro forma	Change	2016 published
Net interest income	3,208	3,197	11	2,935
Net fee and commission income	1,719	1,599	120	1,497
Net trading income	244	220	25	215
Recurring other net operating income	57	96	(39)	45
Operating income	**5,228**	**5,112**	**116**	**4,692**
Staff expenses	(1,554)	(1,552)	(2)	(1,410)
Other administrative expenses	(1,222)	(1,214)	(8)	(1,107)
hereof regulatory other administrative expenses	(148)	(152)	4	(144)
Depreciation	(328)	(375)	46	(331)
General administrative expenses	**(3,104)**	**(3,141)**	**37**	**(2,848)**
Operating result	**2,123**	**1,971**	**153**	**1,844**
Net provisioning for impairment losses	(287)	(758)	471	(754)
Other results	(224)	(267)	42	(204)
Profit/loss before tax	**1,612**	**946**	**666**	**886**
Income taxes	(366)	(310)	(56)	(312)
Profit/loss after tax	**1,246**	**636**	**610**	**574**
Profit attributable to non-controlling interests	(130)	(116)	(13)	(111)
Consolidated profit/loss	**1,116**	**520**	**596**	**463**

Operating income

Net interest income

Net interest income remained largely stable, with a slight increase of € 11 million to € 3,208 million. A rise in net interest income in Russia (up € 84 million), primarily attributable to currency effects and margins, was offset by a decline in interest income in other markets as a result of the continuing low level of interest rates.

Development of the net interest margin (average interest-bearing assets)



In the Central Europe segment, net interest income increased 44 per cent, or € 294 million, to € 960 million. The increase mainly resulted from the reclassification of Poland from the Non-Core segment to the Central Europe segment (€ 266 million). In Hungary, net interest income rose € 24 million, primarily due to liquidity-related optimization. In the Southeastern Europe segment, net interest income fell 1 per cent, or € 10 million, to € 727 million. All countries in this segment – with the exception of Romania (up € 7 million) and Serbia (up € 1 million) – reported declines. In contrast, in the Eastern Europe segment, net interest income increased 9 per cent, or € 77 million, to € 941 million. Russia posted the largest rise, with a mainly currency-related increase of € 84 million. Ukraine also reported a € 15 million increase in net interest income, mainly as a result of interest rate adjustments relating to customer deposits, while net interest income in Belarus was € 22 million lower than in the previous year due to a fall in market interest rates. In the Group Corporates & Markets segment, net interest income continued to decline and was down € 102 million due to a dividend (€ 59 million) from shares in affiliated companies reported in the previous year and the unfavorable interest rate environment, especially in the building society business.

The net interest margin remained unchanged year-on-year at 2.48 per cent. Due to the continuing low level of market interest rates, in most markets the net interest margin declined. In contrast, Eastern Europe reported a slight increase, supported by a higher local currency proportion of business volumes and positive effects from currency movements (4 basis points).

Net fee and commission income

Net fee and commission income improved 7 per cent year-on-year, or € 120 million, to € 1,719 million, as a result of higher sales in Eastern Europe. Net income from the payment transfer business posted the largest increase, of 12 per cent, or € 79 million, to € 735 million, and was driven by volumes and margins in Russia (especially in the credit card business), Ukraine, Poland, and at RBI AG. Net income from the securities business also increased € 20 million to € 151 million, with RBI AG, Raiffeisen Centrobank AG and Poland making the largest contributions. Net income from the management of investment and pension funds increased € 12 million to € 174 million due to higher volumes, mainly at Raiffeisen Capital Management, the Valida Group and in Croatia. Net income from the sale of own and third party products also grew 13 per cent, or € 8 million, to € 68 million, mainly due to developments in the Czech Republic and Russia.

Net trading income

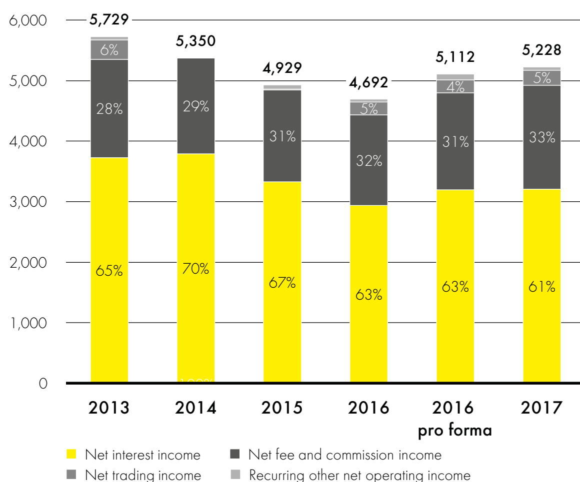
Net trading income increased € 25 million year-on-year to € 244 million. This included a € 31 million rise in net income from currency-based transactions to € 143 million, mainly due to valuation gains from derivatives and foreign currency positions in Russia, Slovakia and Serbia, and to an increase in the Czech Republic due to the removal of the minimum exchange rate for the Czech koruna. In contrast, Croatia reported a € 7 million decline, attributable to lower income from securities positions. Belarus and Poland also reported declines for the same reason. Net income from equity and index-based transactions increased € 30 million to € 16 million due to higher volumes in the issuance and sale of certificates (particularly partial protection and guarantee certificates) at Raiffeisen Centrobank AG. Net income from interest-based business fell € 42 million to € 82 million, primarily due to a decline in interest income and valuation gains from derivatives and securities positions at RBI AG, as well as in Albania, Romania and Croatia, while an increase was reported in the Czech Republic.

Recurring other net operating income

Recurring other net operating income declined € 39 million year-on-year to € 57 million. In addition to an increase in sundry operating expenses, primarily in Serbia, Russia and Romania, as well as the discontinuation of profit contributions as a result of the disposal of a service subsidiary (€ 9 million), the following changes in various individual items were posted: In the Czech Republic, recurring other net operating income fell € 7 million, as the previous year had included the sale of the card acquiring business (€ 8 million positive effect). In Poland, the disposal of the leasing company resulted in a € 10 million reduction in income from leasing activities. Furthermore, in Hungary, net proceeds from the disposal of tangible and intangible fixed assets declined € 6 million, while € 7 million in provisions for litigation were released in Slovakia. Finally, the expenditure for other taxes fell € 8 million in Hungary and at RBI AG.

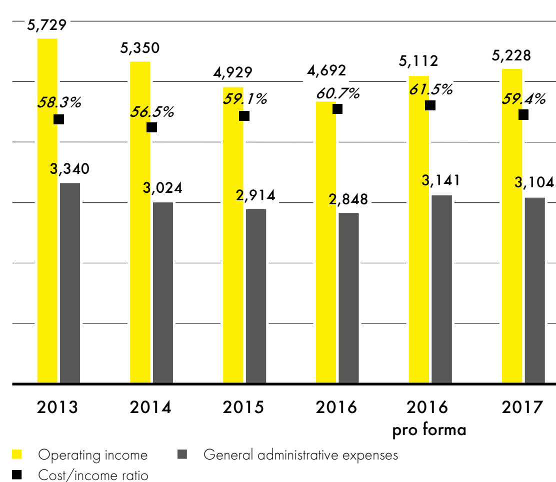
Development of operating income

in € million



Cost/income ratio performance

in € million



General administrative expenses

Despite effects from currency appreciation, the Group's general administrative expenses fell 1 per cent year-on-year, or € 37 million, to € 3,104 million. In particular, the average exchange rate of the Russian rouble appreciated 12 per cent year-on-year. The cost/income ratio improved 2.1 percentage points to 59.4 per cent due to higher operating income.

Staff expenses

Staff expenses, which constituted the largest item within general administrative expenses (50 per cent), increased € 2 million to € 1,554 million. An increase in staff expenses was reported in Russia (up € 41 million) in particular, and was primarily caused by the appreciation of the Russian rouble but also by salary adjustments and increased staffing levels. This contrasted with declines due to exiting operations in Asia and the US (down € 20 million), and in Poland due to the sale of the leasing company and the ongoing rightsizing measures (down € 14 million).

The average number of staff (full-time equivalents) fell 1,671 year-on-year to 50,139. The largest decline was posted in Ukraine (down 1,360). Further reductions resulted from the disposal of Group assets in the previous year.

Other administrative expenses

Other administrative expenses increased 1 per cent, or € 8 million, to € 1,222 million. Advertising, PR and promotional expenses were up € 12 million, mainly as a result of various advertising campaigns supporting the launch of new retail products in Russia. Security expenses increased € 11 million, especially in Romania and Russia. In contrast, office space expenses were down € 15 million. Higher expenses in the previous year relating to the closure of branches in Asia, contrasted with a reduction in expenses in the financial year following branch and location optimization measures in Poland. The number of business outlets decreased 113 year-on-year to 2,409, mainly in Poland due to the ongoing rightsizing program and the sale of leasing activities (down 62 branches), as well as branch closures in Romania (down 26).

Depreciation of tangible and intangible fixed assets

Depreciation of tangible and intangible fixed assets fell 12 per cent year-on-year, or € 46 million, to € 328 million. The largest decline was reported in Poland, where in the previous year an impairment of the brand was recognized in the amount of € 26 million. The sale of the leasing company also resulted in a decline. Further reductions were also reported in Slovakia and as a result of the downscaling in Asia. In contrast, impairment charges in relation to buildings in the Raiffeisen Immobilienfonds portfolio in the amount of € 25 million were booked in the reporting period.

The Group invested € 410 million in fixed assets in the reporting period. Of that amount, 35 per cent (€ 144 million) was invested in own tangible fixed assets. Investments in intangible assets – mainly related to software projects – amounted to 49 per cent. The remainder was invested in assets in the operating leasing business.

Net provisioning for impairment losses

Net provisioning for impairment losses declined 62 per cent overall year-on-year, or € 471 million, to € 287 million. This included a € 449 million reduction in individual loan loss provisions to € 322 million, while net releases of portfolio-based loan loss provisions increased € 20 million to € 24 million. Gains from loan termination or sale remained almost unchanged at € 11 million.

Net provisioning for impairment losses in the financial year included € 179 million in relation to corporate customers (previous year: € 500 million), and € 123 million in relation to retail customers (previous year: € 241 million).

The largest declines in net provisioning for impairment losses were recorded at RBI AG, where the provisioning requirement fell € 128 million to € 134 million, and in Russia, where it fell € 99 million to € 47 million. Both declines were the result of higher allocations in the previous year, particularly for large individual cases in the corporate customer business. In Albania, a net release of € 3 million in the year under review, contrast with net provisioning of € 65 million in the previous year due to the default of several large corporate customers. The risk situation also improved significantly in Ukraine, primarily supported by sales of non-performing loans, with a net release of € 58 million in the financial year compared to a net release of € 2 million in the previous year. Developments were also positive in Hungary, where a net release of € 52 million was recorded for the financial year (previous year: net release of € 7 million), and with reductions of € 20 million in Belarus and of € 15 million in the Czech Republic. In contrast, net provisioning in Poland increased € 37 million to € 77 million. This related both to corporate customers – especially project financing in connection with wind farms – and to retail customers, primarily in the mortgage lending business. In Croatia, the default of a large corporate customer was in particular responsible for the € 25 million increase in net provisioning to € 48 million.

The significant credit risk improvement is also reflected in the portfolio of non-performing loans, which declined € 2,299 million to € 4,611 million during the year. The reduction was primarily attributable to sales of non-performing loans (€ 1,010 million) and to the derecognition of uncollectible loans (€ 1,635 million). Currency effects resulted in a € 145 million further decline. The largest reductions occurred in Group Corporates & Markets (down € 723 million), Ukraine (down € 635 million) and Hungary (down € 183 million). As a result, the NPL ratio declined 3.0 percentage points year-on-year to 5.7 per cent. Non-performing loans compared to loan loss provisions totaling € 3,091 million (down € 2,103 million). As a result of the derecognition of loans and sales of non-performing loans, the NPL coverage ratio fell 8.1 percentage points to 67.0 per cent.

The provisioning ratio – net provisioning for impairment losses in relation to the average volume of loans and advances to customers – fell 0.58 percentage points year-on-year to 0.35 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives and liabilities improved € 218 million year-on-year to minus € 41 million. This improvement was due to better valuation results from bank book derivatives, particularly interest rate swaps used to hedge government bonds in the fair value securities portfolio, as well as from own issues. From the start of 2017, the change in the credit spread on own liabilities (previous year: minus € 119 million) is reported directly in equity.

Net income from financial investments

Net income from financial investments declined € 263 million year-on-year to minus € 83 million. This was primarily attributable to lower net proceeds from sales of equity participations (in the previous year proceeds of € 132 million were recorded from the sale of Visa Europe Ltd. shares to Visa Inc.) and to a negative valuation result of minus € 68 million from the fair value portfolio of securities, compared to plus € 70 million in the previous year, largely as a result of the valuation of government bonds hedged by interest rate swaps.

Bank levies and non-recurring effects

The expense for bank levies fell € 54 million year-on-year to € 121 million. The reduction was largely due to a € 45 million decrease in expenses in Austria and a € 6 million decrease in Hungary (in each case resulting from changes in the calculation base). In Poland, the expense for bank levies fell € 3 million.

In Romania, after the Constitutional Court ruled that the Walkaway Law could not be applied retrospectively, the majority of the provision recognized for this purpose, totaling € 21 million, was released in the first quarter of 2017. In the previous year, a provision of € 27 million had been formed for the law, which was new at that time.

Net income from the disposal of Group assets

In the financial year, net income from the disposal of 49 subsidiaries amounted to minus € 2 million. In the previous year, net income of € 27 million resulted mainly from the sale of the Polish leasing company and of a real estate leasing project in the Czech Republic. Of the subsidiaries deconsolidated in the financial year, 43 were due to immateriality, two as a result of sale, three due to the termination of business activity, and one due to a change in control. The companies were active in leasing, financing and banking business, as well as suppliers of ancillary services.

Income taxes

Income taxes increased 18 per cent, or € 56 million, year-on-year to € 366 million, while the effective tax rate decreased 10 percentage points to 23 per cent. The sharp reduction was firstly the result of an improved contribution to earnings by RBI AG and secondly the use of loss carryforwards non-capitalized in some Group units (Albania, Hungary). In addition, the tax rate fell significantly in Poland, following higher tax expenses in the previous year due to the intragroup sale of the leasing company.

Comparison of results with the previous quarter

in € million	Q4/2017	Q3/2017	Change	
Net interest income	816	803	13	1.6%
Net fee and commission income	448	429	19	4.4%
Net trading income	62	50	12	23.6%
Recurring other net operating income	13	9	4	43.0%
Operating income	**1,339**	**1,291**	**48**	**3.7%**
Staff expenses	(409)	(365)	(43)	11.9%
Other administrative expenses	(314)	(272)	(42)	15.6%
hereof regulatory other administrative expenses	(18)	(17)	(1)	5.1%
Depreciation	(90)	(81)	(9)	11.1%
General administrative expenses	**(813)**	**(718)**	**(95)**	**13.2%**
Operating result	**526**	**573**	**(47)**	**(8.2)%**
Net provisioning for impairment losses	(127)	(84)	(43)	52.0%
Other results	(88)	(37)	(51)	138.3%
Profit/loss before tax	**311**	**452**	**(142)**	**(31.3)%**
Income taxes	(77)	(97)	20	(20.8)%
Profit/loss after tax	**234**	**356**	**(121)**	**(34.1)%**
Profit attributable to non-controlling interests	(28)	(33)	5	(16.1)%
Consolidated profit/loss	**206**	**322**	**(116)**	**(36.0)%**

Operating income

Net interest income

Compared to the third quarter of 2017, net interest income rose 2 per cent, or € 13 million, to € 816 million in the fourth quarter. This was mainly attributable to a € 9 million increase in interest income from loans and advances to customers, as well as a € 4 million increase in current income from associates. The net interest margin rose 4 basis points quarter-on-quarter to 2.50 per cent, with positive effects from the key rate hikes in the Czech Republic and Romania, as well as a higher volume of local loans in Russia.

Net fee and commission income

Net fee and commission income improved 4 per cent compared to the third quarter, or € 19 million, to € 448 million, largely attributable to seasonally related higher revenues from various services. The largest increase – 6 per cent, or € 12 million, to € 197 million – was in net income from the payment transfer business, particularly in the credit card business in Russia and Romania. Net income from the securities business rose € 9 million to € 43 million, mainly at RBI AG, as well as in Hungary and Slovakia.

Net trading income

Net trading income increased 24 per cent quarter-on-quarter, or € 12 million, to € 62 million, with net income from currency-based transactions improving € 8 million, mainly due to valuation gains from derivatives and foreign currency positions in Russia. Net income from equity- and index-based transactions recorded an increase of € 6 million, resulting from seasonally related higher revenues from the issuance and sale of certificates (particularly partial protection and guarantee certificates) at Raiffeisen Centrobank AG.

Recurring other net operating income

In the fourth quarter of 2017, recurring other net operating income increased € 4 million quarter-on-quarter to € 13 million, mainly driven by € 6 million higher net income arising from non-banking activities.

General administrative expenses

At € 813 million, general administrative expenses in the fourth quarter were up 13 per cent, or € 95 million, from € 718 million in the previous quarter.

Staff expenses rose € 43 million in the fourth quarter to € 409 million. This was mainly due to higher bonus provisions at several Group units, as well as adjustments to provisions for employee benefits at RBI AG and an increase in the number of staff in Russia.

Other administrative expenses increased € 42 million to € 314 million due to seasonally related factors. The drivers included higher advertising and advisory and consulting expenses in Russia and at RBI AG, as well as a one-off effect for office space expenses in Hungary.

Depreciation of tangible and intangible fixed assets rose € 9 million quarter-on-quarter to € 90 million as a result of a € 5 million increase in impairment charges relating to buildings in the portfolio held by Raiffeisen Immobilienfonds. In addition, higher depreciation of tangible fixed assets was recorded in Romania.

Net provisioning for impairment losses

Compared to the third quarter, net provisioning for impairment losses was up € 43 million to € 127 million. This was mainly attributable to an increase in individual loan loss provisions due to one large individual case in the corporate customer business at RBI AG.

The portfolio of non-performing loans was down € 832 million quarter-on-quarter to € 4,611 million, largely supported by sales and the derecognition of non-performing loans. On a currency-adjusted basis, the decline was € 878 million. Decreases were recorded in nearly all markets. The largest declines were reported in Ukraine (down € 271 million), Group Corporates & Markets (down € 250 million), Croatia (down € 133 million), Romania (down € 73 million), the Czech Republic (down € 41 million), and in Hungary (down € 33 million). Compared to the previous quarter, the NPL ratio decreased from 6.7 per cent to 5.7 per cent while the NPL coverage ratio fell 2.4 percentage points to 67.0 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives declined to minus € 45 million in the fourth quarter, down from minus € 22 million in the third quarter. The main driver was the termination of a portfolio fair-value hedge following derecognition of the underlying transactions in Russia.

Net income from financial investments

Net income from financial investments fell to minus € 29 million in the fourth quarter, following a positive result of € 5 million in the third quarter, and was driven by a € 50 million increase in impairment charges in relation to equity participations. This mainly

affected companies valued at equity. This was offset by a € 23 million improvement in net income from the portfolio of securities available for sale in Hungary and the Czech Republic.

Bank levies

Bank levies remained almost unchanged at € 17 million in the fourth quarter of 2017 (previous quarter: € 16 million).

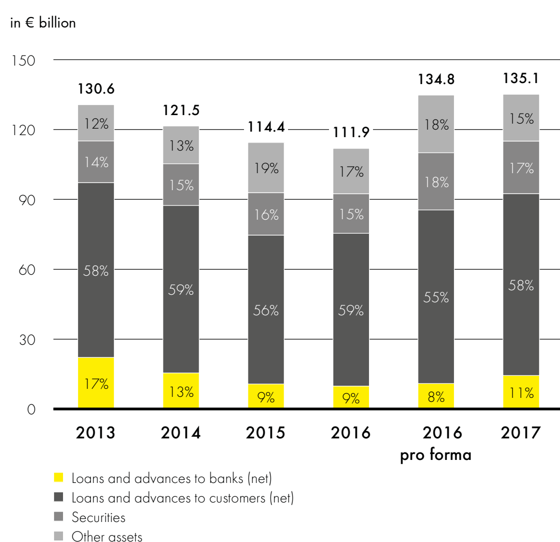
Income taxes

Income tax expense decreased € 20 million quarter-on-quarter to € 77 million. This was attributable to a lower quarterly result, notably in Russia and at RBI AG. In contrast, the effective tax rate rose to 25 per cent, up from 21 per cent in the previous quarter. This was mainly due to an extraordinary income tax payment from previous periods in the Czech Republic.

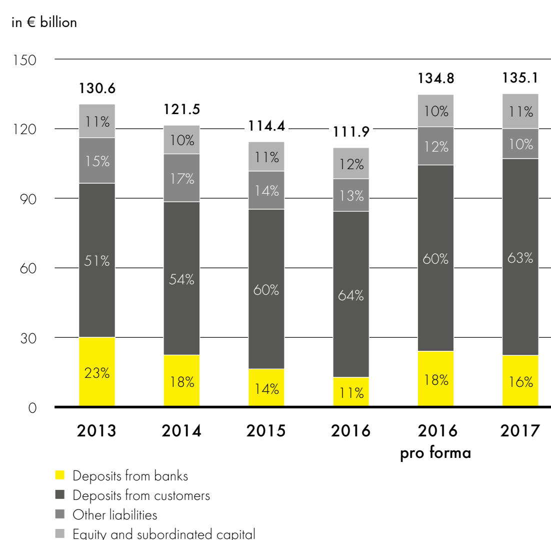
Statement of financial position

In the course of 2017, RBI's total assets rose slightly, by € 342 million to € 135,146 million, while currency movements had a negative effect of € 1,881 million. This was predominantly attributable to the depreciation of the Ukrainian hryvnia (down 15 per cent), the Belarusian rouble (down 13 per cent), the US dollar (down 12 per cent) and the Russian rouble (down 7 per cent) against the euro.

Breakdown of assets



Breakdown of equity and liabilities



Assets

In 2017, loans and advances to banks before deduction of impairment losses (€ 11 million) increased 31 per cent, or € 3,377 million, to € 14,358 million. This was mainly due to an increase in short-term positions (repurchase and securities lending transactions) by a total of € 4,720 million to € 8,094 million in connection with the optimization of the liquidity position, notably in the Czech Republic and Russia.

Loans and advances to customers before deduction of impairment losses (€ 3,091 million) increased 2 per cent year-on-year, or € 1,463 million, to € 81,232 million. This was predominantly attributable to a € 1,894 million increase in mortgage loans to € 25,689 million, primarily in the Czech Republic, Slovakia and Russia. This contrasted with a € 825 million decline in the credit business to € 44,456 million, most notably in Ukraine and at RBI AG. Based on asset classes, loans and advances to retail customers, in particular, increased by a net amount of € 1,484 million to € 33,501 million, while loans and advances to corporate customers declined € 104 million to € 46,875 million. Derecognition and sales of non-performing loans amounted to € 2,874 million.

The item securities registered a decrease of € 1,949 million to € 22,575 million, notably at RBI AG, and in Poland and Russia. The € 4,692 million decline in other assets was mainly the result of the € 3,509 million reduction in the cash reserve (particularly in the Czech Republic and at RBI AG) and the € 1,226 million reduction in trading and banking book derivatives.

Equity and liabilities

The volume of Group financing from banks (mainly commercial banks) decreased 7 per cent, or € 1,768 million, to € 22,291 million, primarily as a result of declines in short-term positions (giro and money market business) at RBI AG.

Deposits from customers increased 6 per cent year-on-year, or € 4,506 million, to € 84,831 million. In particular, deposits from retail customers were up € 2,683 million to € 50,111 million, especially in the Czech Republic, Slovakia, Romania and Russia. The € 1,273 million rise in deposits from corporate customers to € 32,696 million was mainly recorded in Slovakia, the Czech Republic and Russia. Deposits from sovereigns increased € 551 million to € 2,024 million, primarily at RBI AG.

Other liabilities fell € 3,436 million to € 12,994 million. Debt securities issued decreased € 2,642 million, primarily due to (in some cases early) redemptions. Trading liabilities and the negative fair values of derivatives declined € 1,228 million.

Funding

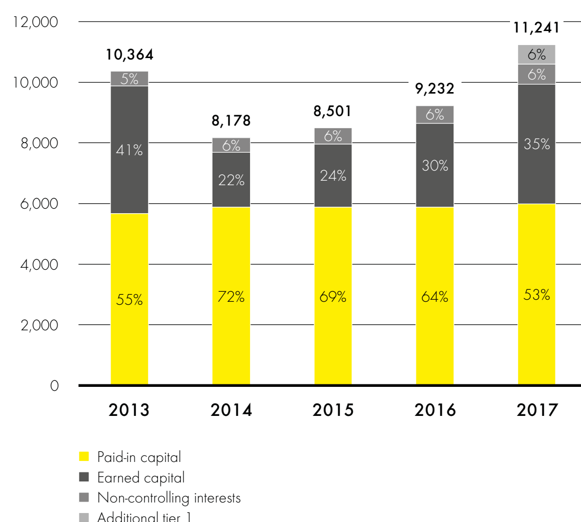
For information relating to funding, please refer to note (42) Risks arising from financial instruments, in the risk report section of the consolidated financial statements.

Equity

Equity on the statement of financial position

Equity on the statement of financial position – consisting of consolidated equity, consolidated profit/loss, non-controlling interests and additional tier 1 capital – increased 15 per cent compared to year-end 2016, or € 1,490 million, to € 11,241 million. This increase was mainly attributable to the placement of additional tier 1 capital (AT1) in an amount of € 650 million and to total comprehensive income of € 1,049 million. Dividend payments to non-controlling interests resulted in a € 90 million reduction in capital. No dividends were paid out to RBI's shareholders for the financial year 2016.

At the start of the third quarter, RBI placed € 650 million of perpetual AT1 capital. Taking into account issuance costs and the discount, this increased capital by € 645 million. According to IAS 32, the AT1 is classified as equity due to the terms and conditions of the issue. It has a coupon of 6.125 per cent p.a. until December 2022, which will be reset thereafter. The coupon payments on the scheduled semi-annual coupon dates of 15 December and 15 June each year are discretionary. In the fourth quarter of 2017, the dividend on the AT1 capital amounted to € 18 million.



Total comprehensive income attributable to the Group of € 918 million comprises consolidated profit of € 1,116 million and other comprehensive income of minus € 199 million. A valuation loss from the change in the credit spread on own liabilities designated at fair value represented the largest item in other comprehensive income and amounted to € 140 million. Due to the early application of IFRS 9.7.1.2 from the 2017 financial year onward, this is reported in other comprehensive income (instead of in the income statement as was previously the case). Currency translation within the Group resulted in a reduction of € 71 million. The strongest currency effects related to the devaluation of the Russian rouble (down € 140 million) and the appreciation of the Polish zloty (€ 81 million). Since part of the equity in these currencies was hedged, the movement in the exchange rate resulted in a loss of € 6 million from the capital hedge. A further negative contribution of € 7 million came from other changes in equity of companies valued at equity. A positive impact of € 12 million resulted from deferred taxes and the cash-flow hedge contributed € 10 million.

Capital of non-controlling interests rose € 78 million to € 660 million. This was due to the proportion of total comprehensive income attributable to non-controlling interests of € 131 million, the capital effect of € 74 million from the merger of RZB AG with RBI AG, the payment of dividends totaling € 90 million to minority shareholders of Group units, as well as further smaller capital movements mainly from changes in shareholder structure.

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

The following consolidated figures have been calculated in accordance with the provisions of the Capital Requirements Regulation (CRR) and other statutory provisions such as the Implementing Technical Standards (ITS) issued by the European Banking Authority (EBA).

As at 31 December 2017, total capital amounted to € 12,892 million, representing an increase of € 1,088 million compared to the 2016 year-end figure. Common equity tier 1 (after deductions) increased € 662 million in the same period, mainly due to the inclusion of the results for 2017, while the proposed dividend of € 204 million accordingly reduced it. The impact on the common equity tier 1 ratio (fully loaded) was 28 basis points. The application of the CRR transitional provisions at the start of 2017 had a negative impact. Tier 1 capital (after deductions) increased by € 1,235 million to € 9,839 million, notably due to the issue of € 650 million of perpetual additional tier 1 capital (AT1) in July 2017. In contrast, tier 2 capital declined € 147 million to € 3,053 million due to maturing capital instruments.

The total capital requirement amounted to € 5,752 million as at 31 December 2017, an increase of € 319 million compared to year-end 2016. The total capital requirement for credit risk amounted to € 4,812 million, corresponding to a rise of € 322 million. The increase was primarily based on an inorganic effect due to the higher risk weighting for loans collateralized by real estate in Poland, as well as new business in the Czech Republic and Slovakia, which increased risk-weighted assets by € 3,992 million in total. The inorganic effect in Poland impacted the common equity tier 1 ratio (fully loaded) by minus 54 basis points. The total capital requirement for position risk in bonds, equities, commodities and currencies showed an increase of € 60 million, largely attributable to exchange rate fluctuations in the internal model and to the increase in bond positions in Russia. The decline of € 63 million in the total capital requirement for operational risk to € 664 million was attributable to the full application of the advanced measurement approach.

Based on total risk, the common equity tier 1 ratio (transitional) was 12.9 per cent, with a total capital ratio (transitional) of 17.9 per cent. Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 12.7 per cent and the total capital ratio (fully loaded) was 17.8 per cent.

Research and development

As a universal bank, RBI's activities also include research and development.

Product development

In the context of financial engineering, it develops customized investment, financing and risk hedging solutions for its customers. Financial engineering encompasses not only structured investment products, but also structured financing, i.e. financing concepts that go beyond the application of standard instruments and are used in areas such as acquisition or project financing. RBI also develops individual solutions to hedge a broad spectrum of risks, from interest rate risk and currency risk through to commodity price risk. Besides financial engineering, RBI is also actively working on the further development of integrated product solutions for international payment transfers within cash management.

Digitalization

Banks are particularly impacted by digitalization. Not only are their products changing, but their processes and areas of activity are undergoing upheaval as a result of digitalization. The digital transformation places demands on banks to, for example, adapt their business models, increase the speed at which they respond to the market and keep up with new competitors such as start-ups and fintechs. CEE provides an ideal environment for banks such as RBI to offer cross-border digital banking solutions, due to the size of several of the markets and the openness of users towards new products, services and innovative retail and communication channels.

In October 2016, the international advisory firm Deloitte together with the European Financial Management Association (EFMA) published an independent study comparing 76 banks in eight CEE countries (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) with respect to their digital competencies. The analysis, which covered a total of 361 existing functions for web and mobile applications, showed that RBI's Slovakian subsidiary bank Tatra banka sets the benchmark in the area of digital banking across the entire CEE region.

The high importance of digitalization for the further strategic development of RBI is also reflected by the Group from an organizational perspective. Group Digital Banking, a dedicated area reporting directly to the CEO, is responsible for managing the digital transformation of RBI. The implementation of the digital transformation is being undertaken by the "Innovation Management" and "Digital Roadmaps and Projects" departments. "Innovation Management" focuses on all aspects and methods with respect to internal and external innovations, while "Digital Roadmaps and Projects" is responsible for the development of digital objectives as well as a corresponding Group-wide implementation plan developed together with the respective specialist departments and 14 CEE network banks.

In June 2017, RBI launched the "Elevator Lab" program, the first CEE-wide program supporting start-ups in the financial sector, or so-called "fintechs". The goal of the program is to build long-term working relationships with selected fintechs. RBI offers the participating companies potential access to its 14 CEE markets and consequently to 16.5 million customers in the region. RBI benefits from these relationships through the innovative concepts, ideas and developments from the fintechs and can directly evaluate and potentially implement new technologies - whether in the area of new products, process streamlining or efficiency improvements - on the basis of concrete examples of their application. In total, 336 fintechs from 56 countries applied to participate in the Elevator Lab program, of which almost 30 per cent came from RBI's CEE markets. In a selection process in which more than 50 managers from RBI ("mentors") took part, the projects submitted were assessed in terms of their intrinsic value. Six finalists from the areas of "payment transfers", "RegTech" (new technologies for regulatory requirements), "Branch of the Future" and "Big Data Analytics" ultimately qualified to participate in the four-month program, in which pilot projects were developed together with the mentors. Alongside RBI AG, this also involved the network banks in Belarus, Czech Republic, Hungary, Russia and Slovakia among others.

Also in 2017, with the "Innovations Strategy" a framework was created for the structured organization and management of all of RBI's innovation activities. This strategy forms, among other things, the basis for new and further digital developments in RBI and is closely connected to the Open Banking Strategy developed by the "Digital Roadmaps and Projects" department.

Based on the requirements of the EU Payment Services Directive (PSD 2), the Open Banking Strategy highlights commercial potential resulting from opening up the banking system to the market to a greater extent than required on a regulatory level. In combination with a Group-wide digital roadmap, this results in comprehensive specification of digital objectives as well as precise guidelines for the implementation of digital projects. Working closely together with the specialist departments and the 14 CEE network banks, a transparent overview of the digital project portfolio is facilitated. This enables any redundant aspects to be avoided and synergies to be identified, improving the overall efficiency of RBI in the digital environment.

Furthermore, RBI is looking in detail at the potential and employment of new technologies, above all from Advanced Analytics and Blockchain. In November 2017, RBI became the first Austrian bank to join the Blockchain Consortium R3. The goal of this measure is to develop, together with other members of the consortium, new concepts with which Blockchain technology-based applications can also be commercially used. RBI will focus in this respect on the areas of cash and payment services, capital markets, digital identity, securities services and trade finance.

The digital implementation projects deriving from the strategies developed are then bundled together in a specific program for the digital transformation of RBI. Initial projects already under way focus on digital new customer acquisition, payment transfers, online granting of credit and the area of analytics. They all have the goal of expanding and strengthening RBI's digital market position on a long-term basis, developing new business areas and positioning RBI sustainably in a competitive environment, which poses numerous challenges but also offers many new possibilities and opportunities.

Internal control and risk management system in relation to the Group accounting process

Balanced and comprehensive financial reporting is a priority for RBI and its governing bodies. Compliance with all relevant statutory requirements is of course a basic prerequisite. The Management Board is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process while adhering to company requirements. This is embedded in the company-wide framework for the internal control system (ICS).

The ICS is intended to provide the Management Board with the information needed to ensure effective and continuously improving internal controls for accounting. The control system is designed to comply with all relevant guidelines and regulations and to optimize the conditions for specific control measures.

The consolidated financial statements are prepared in accordance with the relevant Austrian laws, predominantly the Austrian Banking Act (BWG) and Austrian Commercial Code (UGB), which govern the preparation of consolidated annual financial statements. The accounting standards, used to prepare the consolidated financial statements, are the International Financial Reporting Standards (IFRS) as adopted by the EU.

Control environment

An internal control system has been in place for many years at the Group, which includes directives and instructions on key strategic issues. It incorporates:

- The hierarchical decision-making process for approving Group and company directives, as well as departmental and divisional instructions.
- Process descriptions for the preparation, quality control, approval, publication, implementation, and monitoring of directives and instructions.
- Regulations for the revision and repeal of directives and instructions.

The senior management of each Group unit is responsible for implementing the Group-wide instructions. Compliance with Group rules is monitored, inter alia, as part of the audits performed by internal and local auditors.

The consolidated financial statements are prepared by Group Accounting & Reporting, which reports to the Chief Financial Officer. The associated responsibilities are defined for the Group within the framework of a dedicated Group function.

Risk assessment

Significant risks relating to the Group accounting process are evaluated and monitored by the Management Board. Complex accounting standards can increase the risk of errors, as can the use of differing valuation standards, particularly in relation to the Group's principal financial instruments. A difficult business environment can also increase the risk of significant financial reporting errors. For the purpose of preparing the consolidated financial statements, estimates have to be made for asset and liability items for which no market value can be reliably determined. This is particularly relevant for credit business, equity participations, trademark rights and goodwill. Social capital and the valuation of securities are also based on estimates.

Control measures

The preparation of individual financial information is decentralized and carried out by each Group unit in accordance with the RBI guidelines. The Group unit employees and managers responsible for accounting are required to provide a full presentation and accurate valuation of all transactions. Differences in local accounting standards can result in inconsistencies between local individual financial statements and the financial information submitted to RBI. The local management is responsible for ensuring implementation of mandatory internal control measures, such as the separation of functions and the principle of dual control. The reconciliation and validation controls are imbedded in the aggregation, calculation and accounting valuation activities for all financial reporting processes.

Group consolidation

The financial statement data, which are examined by an external auditor or undergo an audit review, are mostly automatically transferred to the IBM Cognos Controller consolidation system by the end of January of the subsequent year. The IT system is kept secure by limiting access rights.

The plausibility of each Group unit's financial statements is initially checked by the responsible key account manager within Group Accounting & Reporting. Group-level control activities comprise the analysis and, where necessary, modification of the financial statements submitted by Group units. In this process, the results of meetings with representatives of the individual companies, in which the financial statements are discussed, and comments from the audit of the financial statements are taken into account. The discussions cover the plausibility of the individual financial statements as well as critical matters pertaining to the Group unit.

The subsequent consolidation steps are then performed using the consolidation system, including capital consolidation, expense and income consolidation, and debt consolidation. Finally, intra-Group gains are eliminated where applicable. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS and the BWG/UGB.

In addition to the Management Board, the general control system also encompasses middle management. All control measures constitute part of the day-to-day business processes and are used to prevent, detect and correct any potential errors or inconsistencies in the financial reporting. Control measures range from managerial reviews of the results for the period, as well as the specific reconciliation of accounts, through to analyzing ongoing accounting processes.

The consolidated financial statements and management report are reviewed by the Audit Committee of the Supervisory Board and are also presented to the full Supervisory Board for information. The consolidated financial statements are published as part of the Annual Report on the company's website and in the Wiener Zeitung's official journal and are then filed in the commercial register.

Information and communication

The consolidated financial statements are prepared using Group-wide standardized forms. The accounting and valuation standards are defined and explained in the RBI Group Accounts Manual and must be applied when preparing the financial statements. Detailed instructions for the Group units on measuring credit risk and similar issues are provided in the Group directives. The relevant units are kept abreast of any changes to the instructions and standards through regular training courses.

Each year the Annual Report shows the consolidated results in the form of a complete set of consolidated financial statements. These consolidated financial statements are examined by an external auditor. In addition, the Group management report contains comments on the consolidated results in accordance with the statutory requirements.

Throughout the year, consolidated monthly reports are produced for the Group's senior management. The statutory interim reports conform to the provisions of IAS 34 and are published quarterly in accordance with the Austrian Stock Exchange Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee. Analyses pertaining to the consolidated financial state

ments are also provided for management, as are forecast Group figures at regular intervals. The financial and capital planning process, undertaken by Group Planning & Finance, includes a three-year Group budget.

Monitoring

Financial reporting is a main focus of the ICS framework, whereby financial reporting processes are subject to monitoring and control reviews, the results of which are presented to the Management Board and the Supervisory Board for evaluation. Additionally, the Audit Committee is required to monitor the financial reporting process. The Management Board is responsible for ongoing company-wide monitoring. The internal control system is based on three lines of defense:

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

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

Internal audits are the third line of defense in the monitoring process. Responsibility for auditing lies with Group Internal Audit 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 Internal Audit's internal rules also apply (notably the Audit Charter). Group Audit regularly and independently verifies compliance with the internal rules within the RBI Group units. The head of Group Internal Audit reports directly to the Management Boards, with additional reporting obligations to the chairpersons of the Supervisory Board and members of the Audit Committee of the Supervisory Board.

Capital, share, voting, and control rights

The following disclosures satisfy the provisions of § 243a (1) of the Austrian Commercial Code (UGB):

(1) As at 31 December 2017, the company's share capital amounted to € 1,003,265,844.05 and was divided into 328,939,621 voting common bearer shares. As at 31 December 2017, 394,942 of those were own shares, and consequently 328,544,679 shares were outstanding at the reporting date. In comparison with 31 December 2016 (509,977 shares), this results in a reduction of 115,035 own shares and was based on the transferring of shares within the framework of the share-based remuneration program. Please see note (32) for further disclosures.

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

(3) RLB NÖ-Wien Sektorbeteiligungs GmbH holds around 22.24 per cent of the share capital of the company according to the notification of voting rights published on 20 March 2017. By virtue of the syndicate agreement regarding RBI AG, the directly or indirectly held voting rights attached to a total of 193,449,778 shares, corresponding to a voting interest of around 58.81 per cent, are mutually attributable to the regional Raiffeisen banks and their direct and indirect subsidiaries pursuant to §§ 130 and 133 7 of the Austrian Stock Exchange Act (BörseG) as parties acting in concert as defined in § 1 6 of the Austrian Takeover Act

(ÜbG) (see the notification of voting rights published on 20 March 2017). The remaining shares of RBI AG are held in free float, with no other direct or indirect shareholdings amounting to 10 per cent or more known to the Management Board.

(4) The Articles of Association do not contain any special rights of control associated with holding shares. According to the syndicate agreement for RBI AG, the regional Raiffeisen banks can nominate nine members of the RBI AG Supervisory Board. In addition to the members nominated by the regional Raiffeisen banks, the RBI AG Supervisory Board should also include three independent representatives of free-float shareholders who are not attributable to the Austrian Raiffeisen Banking Group.

(5) There is no control of voting rights arising from interests held by employees in the share capital.

(6) Pursuant to the Articles of Association, a person who is 68 years or older may not be appointed as a member of the Management Board or be reappointed for another term in office. The rule for the Supervisory Board is that a person who is aged 75 years or older may not be elected as a member of the Supervisory Board or be re-elected for another term in office. Moreover, no person who already holds eight supervisory board mandates in publicly traded companies may be a member of the Supervisory Board. Holding a position as chairman of the supervisory board of a publicly traded company would count twice for this purpose. The Annual General Meeting may choose to waive this restriction through a simple majority of votes if permitted by law. Any candidate who has more mandates for, or chairman positions on, supervisory boards in publicly traded companies must disclose this to the Annual General Meeting. There are no further regulations regarding the appointment or dismissal of members of the Management Board and the Supervisory Board beyond the provisions of the relevant laws. The Articles of Association stipulate that the resolutions of the Annual General Meeting are, provided that there are no mandatory statutory provisions to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the votes. As a result of this provision, members of the Supervisory Board may be dismissed prematurely by a simple majority. The Supervisory Board is authorized to adopt amendments to the Articles of Association that only affect the respective wording. This right may be delegated to committees. Furthermore, there are no regulations regarding amendments to the company Articles of Association beyond the provisions of the relevant laws.

(7) Pursuant to § 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized since the Annual General Meeting of 4 June 2014 to increase the share capital with the approval of the Supervisory Board – in one or more tranches – by up to € 446,793,032.95 through issuing up to 146,489,519 new voting common bearer shares in exchange for contributions in cash and/or in kind (including by way of the right of indirect subscription by a bank pursuant to § 153 (6) of the AktG) by 25 August 2019 at the latest and to fix the offering price and terms of the issue with the approval of the Supervisory Board. The Management Board is further authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board (i) if the capital increase is carried out in exchange for contributions in kind or (ii) if the capital increase is carried out in exchange for contributions in cash and the shares issued under the exclusion of subscription rights do not exceed 10 per cent of the company's share capital (exclusion of subscription rights).

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

The Annual General Meeting held on 16 June 2016 authorized the Management Board pursuant to § 65 (1) 8, § 65 (1a) and § 65 (1b) of the AktG to purchase own shares and to retire them if appropriate without requiring any further prior resolutions to be passed by the Annual General Meeting. Own shares, whether already purchased or to be purchased, may not collectively exceed 10 per cent of the company's share capital. The authorization to purchase own shares expires 30 months after the date of the Annual General Meeting resolution, i.e. as of 15 December 2018. The acquisition price for repurchasing the shares may be no lower than € 1 per share and no higher than 10 per cent above the average unweighted closing price over the ten trading days prior to exercising this authorization. The authorization may be exercised in full or in part or also in several partial amounts, for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (§ 189a 7 of the UGB) or by third parties for the account of the company or a subsidiary.

The Management Board was further authorized, pursuant to § 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, operations or stakes in one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program (SIP) for executives and members of the Management Boards of the company and affiliated companies. In addition, if convertible bonds are issued

in accordance with the Annual General Meeting resolution of 26 June 2013, shareholders' subscription rights may also be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted to them under the terms of the convertible bonds to shares of the company. This authorization may be exercised in whole, in part or in several partial amounts for one or more purposes by the company, a subsidiary (§ 189a 7 UGB) or by third parties for the account of the company or a subsidiary and remains in force for five years from the date of this resolution, i.e. until 15 June 2021.

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

The Annual General Meeting of 16 June 2016 also authorized the Management Board, under the provisions of § 65 (1) 7 of the AktG, to purchase own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution (i.e. until 15 December 2018), provided that the trading portfolio of shares purchased for this purpose does not exceed 5 per cent of the company's respective share capital at the end of any given day. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition. This authorization may be exercised in full or in part or also in several partial amounts by the company, by a subsidiary (§ 189a 7 UGB) or by third parties acting for the account of the company or a subsidiary.

(8) The following material agreements exist, to which the company is a party and which take effect, change or come to an end upon a change of control in the company as a result of a takeover bid:

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

(9) There are no indemnification agreements between the company and its Management Board and Supervisory Board members or employees that would take effect in the event of a public takeover bid.

Risk management

For information on risk management, please refer to note (42) Risks arising from financial instruments, in the risk report section of the consolidated financial statements.

Corporate Governance

The Corporate Governance Report can be found on the RBI website (www.rbinternational.com → Investor Relations → Corporate Governance), as well as in the Corporate Governance Report chapter of the Annual Report.

Consolidated non-financial report

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

Outlook

Economic prospects

Central Europe

The strong economic growth that Central Europe (CE) achieved in 2017 should continue in 2018. Growth looks set to remain broad based, with increasing export demand, mostly supported by solid economic growth in Germany and in the euro area, rising investment spending and a pick-up in private consumer demand in the region's markets. Significant GDP growth of between 3.8 per cent and 4.6 per cent is expected for the Polish, Slovakian and Slovenian economies in 2018. Hungary and the Czech Republic should also enjoy continued growth of over 3 per cent. Accordingly, the CE economies are projected to grow at a rate of 4.1 per cent in 2018, following 4.4 per cent in 2017.

Southeastern Europe

The Southeastern Europe (SEE) region is also expected to continue its growth trend. Following very strong GDP growth of 5.1 per cent in 2017, SEE should increase its economic output in 2018 by 3.7 per cent. Economic growth in Romania is expected to slow to a rate of 4.2 per cent in 2018. Given that this is still above Romania's potential growth rate, however, external imbalances could widen further. Moreover, Romania's public deficit runs the risk of exceeding the 3 per cent Maastricht ceiling. In

Serbia, economic growth should recover somewhat in 2018, following the weak growth experienced in 2017. In Croatia, growth in 2018 is projected at 2.3 per cent, somewhat weaker than seen in 2017.

Eastern Europe

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

Austria

The economic upturn in Austria is set to continue in 2018, despite having already peaked. Real GDP growth is expected to be 2.8 per cent in 2018, around the same level as the year before. Economic growth should continue to be buoyed both by domestic demand and net exports, whereas the contribution to growth from investment is expected to fall back as a result of weakening momentum in equipment investment. In contrast, private consumption is anticipated to benefit from the ongoing increase in employment.

CEE banking sector

The very strong economic upswing in CE and SEE, as well as the return to significant growth in Russia, Ukraine and Belarus, should positively impact the CEE banking sector in 2018. Favorable developments in the (new) operating business could also be supported by stable or even slightly improved interest margins and/or somewhat steeper yield curves in CE and SEE. Following adjustments carried out in recent years (reducing foreign currency loans and shrinking NPL portfolios), further negative effects on returns to arise from legacy positions are not anticipated. Similarly, no noticeable increase in risk costs in 2018 is expected, in view of the positive macroeconomic developments and continuing decline in corporate insolvencies. All in all, the return on equity in the CEE banking sector in 2018 should thus be at least on a par with 2017, or even slightly higher.

Outlook for RBI

We will pursue loan growth with an average yearly percentage increase in the mid-single digit area.

Following very low risk costs in 2017 (€ 287 million), we expect impairment losses on financial assets in 2018 to be above the 2017 level.

We anticipate that the NPL ratio will further reduce in the medium term.

We aim to achieve a cost/income ratio of below 55 per cent in the medium term.

We target a consolidated return on equity of approximately 11 per cent in the medium term.

We target a CET1 ratio (fully loaded) of around 13 per cent post dividend in the medium term.

Based on this target, we intend to distribute between 20 and 50 per cent (dividend payout ratio) of the consolidated profit.

The targets in this outlook include the impact from IFRS 9 and FINREP.

Events after the reporting date

Change to composition of the Management Board

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

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

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