Raiffeisen Bank International

Semi-Annual Financial Report as of 30 June 2018

Survey of key data

Raiffeisen Bank International (RBI)

Monetary values in € million	2018	2017	Change
Income statement	**1/1-30/6**	**1/1-30/6**	
Net interest income	1,663	1,593	4.4%
Net fee and commission income	869	843	3.2%
Net trading income and fair value result	16	27	(40.6)%
General administrative expenses	(1,494)	(1,503)	(0.6)%
Impairment losses on financial assets	83	(100)	-
Profit/loss before tax	1,024	849	20.7%
Profit/loss after tax	820	656	25.0%
Consolidated profit/loss	756	587	28.7%
Statement of financial position	**30/6**	**31/12**	
Loans to banks	9,774	10,741	(9.0)%
Loans to customers	77,895	77,745	0.2%
Deposits from banks	26,474	22,378	18.3%
Deposits from customers	79,908	84,974	(6.0)%
Equity	11,968	11,241	6.5%
Total assets	143,556	135,146	6.2%
Key ratios	**1/1-30/6**	**1/1-30/6**	
Return on equity before tax	18.7%	17.4%	1.3 PP
Return on equity after tax	14.9%	13.4%	1.5 PP
Consolidated return on equity	15.5%	12.9%	2.6 PP
Cost/income ratio	56.0%	58.9%	(2.9) PP
Return on assets before tax	1.69%	1.36%	0.32 PP
Net interest margin (average interest-bearing assets)	2.48%	2.44%	0.05 PP
Provisioning ratio (average loans and advances to customers)	(0.22)%	0.26%	(0.48) PP
Bank-specific information	**30/6**	**31/12**	
NPL ratio	4.8%	5.7%	(0.9) PP
NPE ratio	3.2%	4.0%	(0.8) PP
NPL coverage ratio	73.5%	67.0%	6.5 PP
NPE coverage ratio	59.5%	56.1%	3.3 PP
Risk-weighted assets (total RWA)	74,346	71,902	3.4%
Common equity tier 1 ratio (transitional)	12.8%	12.9%	(0.1) PP
Common equity tier 1 ratio (fully loaded)	12.8%	12.7%	0.0 PP
Total capital ratio (transitional)	17.7%	17.9%	(0.2) PP
Total capital ratio (fully loaded)	17.6%	17.8%	(0.2) PP
Stock data	**1/1-30/6**	**1/1-30/6**	
Earnings per share in €	2.21	1.79	23.5%
Closing price in € (30/6)	26.29	22.10	19.0%
High (closing prices) in €	35.32	24.44	44.5%
Low (closing prices) in €	25.92	17.67	46.7%
Number of shares in million (30/6)	328.94	328.94	0.0%
Market capitalization in € million (30/6)	8,648	7,270	19.0%
Resources	**30/6**	**31/12**	
Employees as at reporting date (full-time equivalents)	50,025	49,700	0.7%
Business outlets	2,411	2,409	0.1%
Customers in million	16.7	16.5	1.3%

On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) took effect. In addition to the adoption of IFRS 9, RBI has also changed the presentation of its statement of financial position, which is now aligned with the financial reporting standards (FINREP) issued by the European Banking Authority (EBA). With the adoption of the standards, it was also necessary to adjust the figures of the comparable period and comparable reporting date.

Content

In this report RBI denotes the RBI Group. If RBI AG is used it denotes Raiffeisen Bank International AG.

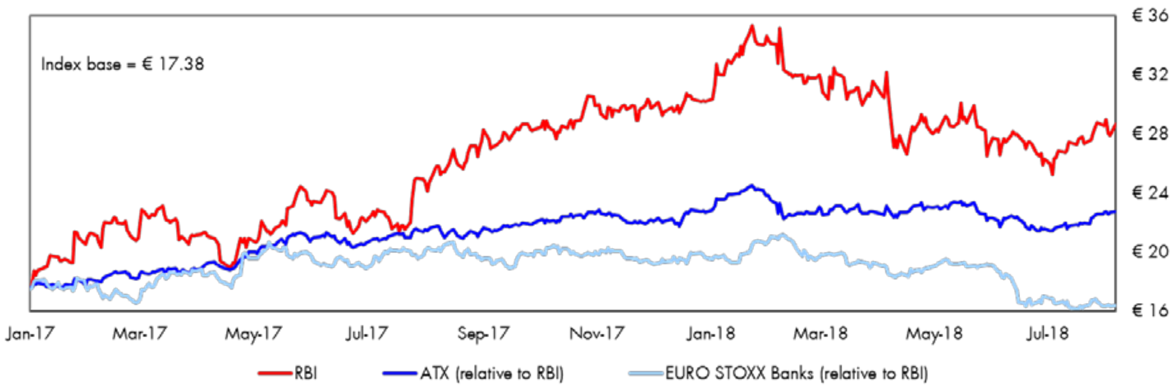
Adding and subtracting rounded amounts in tables and charts may lead to minor discrepancies. Changes in tables are not based on rounded amounts.

RBI in the capital markets

Performance of RBI stock

The escalation of US sanctions against specific Russian business people and companies caused the Moscow Stock Exchange to fall significantly in April. RBI's stock also came under pressure as a result, declining 17 per cent in the second quarter of 2018 to trade at € 26.29 on 30 June 2018. The EURO STOXX Banks index was down 12 per cent during the same period and the Austrian ATX stock index retreated 5 per cent. Towards the end of the second quarter in particular, the main stock exchange indices also gave back the bulk of their interim increases and closed the second quarter with modest gains in the low single-digit percentage range. This was mainly due to uncertainty caused by the entry into force of the first protective tariffs and by the announcement of further trade barriers on the part of the US, which could adversely impact international trade and the movement of goods. The difficult process in forming a government that followed the Italian general elections in March also put pressure on financial markets in the second quarter, and in particular bank securities, as fears repeatedly surfaced over a renewed flare-up of the euro crisis. Since the end of the second quarter to the editorial deadline for this report on 06 August, RBI's stock traded in an overall positive market environment and closed at € 28.65.

Price performance since 1 January 2017 compared to ATX and EURO STOXX Banks



Annual General Meeting

RBI's Annual General Meeting on 21 June 2018 approved all resolutions proposed relating to the individual agenda items. Among other things, it was resolved to pay a dividend of € 0.62 per ordinary share (with dividend entitlement). Entrepreneur Andrea Gaal was newly elected to the Supervisory Board.

Active capital market communications

On 15 May 2018, RBI published its figures for the first quarter of 2018. Some 150 institutional investors and international analysts participated in the subsequent conference call.

Conference calls and the investor presentation in London are available online at www.rbinternational.com → Investor Relations → Presentations & Webcasts.

In the second quarter, RBI offered interested investors an opportunity to obtain first-hand information at road shows and conferences in Amsterdam, The Hague, Hong Kong, London, Los Angeles, Milan, Paris, Tokyo, Zurich and Zürs. In a deal-related roadshow in connection with the first benchmark green bond issued by an Austrian bank, RBI gave presentations in Amsterdam, Copenhagen, The Hague, Helsinki, Frankfurt, London, Paris and Rotterdam, as well as at an investor lunch in Vienna.

A total of 22 equity analysts and 21 debt analysts, at the end of the second quarter 2018, provided investment recommendations on RBI. Therefore, RBI remained the Austrian company with the largest number of analyst teams regularly reporting on it.

Green bond issuance

On 28 June, RBI successfully placed the first benchmark-sized green bond issued by an Austrian bank. The bond has an issue size of € 500 million, a maturity of three years and a coupon of mid-swap plus 40 basis points. The issue was significantly oversubscribed with an order volume of € 1.3 billion.

Stock data and details

RBI's stock has been listed on the Vienna Stock Exchange since 25 April 2005. At the end of the second quarter of 2018, the regional Raiffeisen banks held approximately 58.8 per cent of RBI shares, with the remaining shares in free float.

Share price as at 30 June 2018	€ 26.29
High/low (closing prices) in the second quarter of 2018	€ 32.17/€ 25.92
Earnings per share for the first half of 2018	€ 2.21
Bookvalue per share as at 30 June 2018	€ 31.00
Market capitalization as at 30 June 2018	€ 8.6 billion
Average daily trading volume in the second quarter of 2018	575,458 shares
Stock exchange turnover in the second quarter of 2018	€ 983 million
Free float as at 30 June 2018	approximately 41.2%
ISIN	AT0000606306
Ticker symbols	RBI (Vienna Stock Exchange)
	RBI AV (Bloomberg)
	RBIV.VI (Reuters)
Market segment	Prime Market
Number of shares issued as at 30 June 2018	328,939,621

Rating details

Rating	Moody's Investors Service	Standard & Poor's
Long-term rating	A3	BBB+
Outlook	stable	positive
Short-term rating	P- 2	A- 2
Subordinated (Tier 2)	Baa3	BBB-
Additional Tier 1	Ba3(hyb)	BB
Junior Subordinated (Legacy Tier 1)	Ba3	BB+

Financial calendar 2018/19

31 October 2018	Start of Quiet Period
14 November 2018	Third Quarter Report, Conference Call
30 January 2019	Start of Quiet Period
06 February 2019	Preliminary Results 2018
13 February 2019	Start of Quiet Period
13 March 2019	Annual Report 2018, Conference Call
14 March 2019	RBI Investor Presentation, London
01 May 2019	Start of Quiet Period
15 May 2019	First Quarter Report, Conference Call
03 June 2019	Record Date Annual General Meeting
13 June 2019	Annual General Meeting
19 June 2019	Ex-Dividend Date
21 June 2019	Record Date Dividends
24 June 2019	Dividend Payment Date
30 July 2019	Start of Quiet Period
13 August 2019	Semi-Annual Report, Conference Call
31 October 2019	Start of Quiet Period
14 November 2019	Third Quarter Report, Conference Call

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Group management report

Market development

Following 2.5 per cent euro area GDP growth in 2017, sentiment indicators have deteriorated since February 2018 – in some cases significantly – and economic indicators such as industrial production and retail sales have also remained below expectations. Although the first quarter of 2018 saw a continuation of the upward trend, with GDP expanding 0.4 per cent quarter-on-quarter, the pace of growth moderated compared to 2017. The upswing is also expected to level off for both full-year 2018 (up 2.3 per cent) and for 2019 (up 1.7 per cent). The inflation rate averaged 1.3 per cent up until April 2018, and from May the sharp rise in the oil price boosted energy prices, pushing the inflation rate higher to 2.0 per cent by June. By end-2018, inflation should ease back towards 1.5 per cent.

The ECB intends to lower its net bond purchases to € 15 billion per month from October to end-December 2018 and to stop them entirely thereafter. While key rates in Europe look set to remain unchanged until the summer of 2019 and beyond, the US central bank has signaled plans to deliver additional key rate hikes in the coming quarters.

The Austrian economy put in a comparatively robust performance in the first half of 2018, continuing its broad-based upswing despite a slight slowdown. Nevertheless, Austria's economic growth cycle is seen to have passed its peak at the end of 2017. Thanks to the very positive winter period, however, overall the same high GDP growth rate as in the previous year (3.0 per cent) is realistically conceivable in 2018. The slowdown in quarterly GDP growth rates is not expected to be reflected in a lower annual growth rate until 2019 (1.9 per cent), with economic growth in 2018 and 2019 driven both by somewhat improving domestic demand as well as foreign trade.

The economies of the Central European region (CE) continued to grow dynamically in the first quarter of 2018, albeit growth rates in some CE countries were down from the previous quarter. This trend, coupled with the fact that a number of leading indicators declined – in some cases markedly – from their highs at the turn of the year, suggests that the economic growth cycle in the CE region has also already peaked. Nonetheless, the region's real GDP growth should continue to hold above the 4 per cent level for full-year 2018 and come in at 4.2 per cent, with Poland likely to record the highest growth rate of all CE countries (4.6 per cent). In 2019, GDP growth in the CE region is expected to fall to 3.7 per cent and therefore back below the 4 per cent mark. In terms of underlying growth factors, it is anticipated that domestic consumption will continue to increase at a healthy pace in 2018 while investment growth in some markets could even accelerate. Private consumption is benefiting from the ongoing decline in the unemployment rate and from significant wage increases due to growing workforce shortages.

GDP growth in Southeastern Europe (SEE) should be lower in 2018, at 3.8 per cent, down from 5.1 per cent in 2017. Although economic indicators in the region's smaller markets showed a positive trend in the first two quarters, Romania (the largest SEE market) will not be able to match its exceptional performance of last year. While Romania experienced unexpected decreases both in private consumption and in gross fixed capital formation in the first half of 2018, precisely these factors were the drivers of growth in the remaining SEE countries. These differences should even out again in 2019, however, with the region's GDP growth forecast to decline to 3.4 per cent. Fiscal policy in Romania poses the greatest macroeconomic risk on this front. In contrast, it is worth highlighting the economic trend in Bosnia and Herzegovina, where investment spending is expected to accelerate in the run-up to the general elections to be held on 18 October 2018 due to an increase in the number of infrastructure projects.

In Eastern Europe (EE), economic conditions significantly improved in the first half of 2018. The Russian economy benefited from continued high oil prices and healthy household demand. As a result, economic growth ranging between 1.5 per cent and 2 per cent is within reach for Russia in 2018 and 2019. However, its future economic development will heavily depend on how Russia's economic momentum will be impacted by the partially countervailing effects of tax law changes, restrictive fiscal policy, the implementation of national flagship projects and additional cautious rate cuts. The escalation of US sanctions in April has so far had no lasting negative effects on Russia's financial markets or on its economy – despite slightly higher risk premiums. In the base case scenario, further US sanctions will not adversely affect Russian oil and gas exports or the functioning of the Russian financial and banking sectors. In Belarus and in Ukraine, economic momentum in the first half of 2018 also surprised to the upside; as a result, both economies could achieve significant GDP growth in the vicinity of 3 per cent for 2018. In Ukraine, however, the parliamentary and presidential elections, which will be held in 2019, could heighten political uncertainty in 2018. Continued collaboration with the International Monetary Fund (IMF) will play a pivotal role in this context. Despite convergence on a number of issues, no agreement was reached with the IMF in the first half of 2018. In view of the elections scheduled for 2019, from a macroeconomic perspective an agreement with the IMF would be desirable in the second half of 2018.

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

Region/country	2017	2018e	2019f	2020f
Czech Republic	4.5	3.5	3.2	2.5
Hungary	4.0	4.2	3.4	2.2
Poland	4.6	4.6	3.9	2.7
Slovakia	3.4	4.0	4.0	2.8
Slovenia	5.0	4.3	3.0	2.0
Central Europe	**4.4**	**4.2**	**3.7**	**2.6**
Albania	3.8	4.0	3.8	2.2
Bosnia and Herzegovina	2.6	3.0	3.0	2.5
Bulgaria	3.6	4.0	3.8	2.5
Croatia	2.9	2.3	2.5	2.0
Kosovo	4.5	4.2	4.0	3.0
Romania	7.0	4.2	3.5	3.0
Serbia	1.9	4.0	3.5	3.5
Southeastern Europe	**5.1**	**3.8**	**3.4**	**2.8**
Belarus	2.4	3.0	2.5	2.0
Russia	1.5	1.5	1.5	1.5
Ukraine	2.5	3.0	2.5	3.0
Eastern Europe	**1.6**	**1.6**	**1.6**	**1.6**
Austria	**3.0**	**3.0**	**1.9**	**1.2**
Germany	**2.5**	**2.2**	**1.6**	**1.0**
Euro area	**2.5**	**2.3**	**1.7**	**1.3**

Source: Raiffeisen Research – the above values are based on research analysts' estimates at the end of July 2018.

Significant events in the reporting period

Adoption of IFRS 9

On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) took effect. This replaces the previous accounting standard, IAS 39 (Financial Instruments: Recognition and Measurement). The regulations set out in the new standard are primarily reflected in the loan loss provisions, as they apply to impairment losses on financial assets valued at amortized cost or at fair value recognized directly in equity. Under IFRS 9, the impairment requirements also apply to credit commitments and financial guarantees off the statement of financial position. The model used to determine impairment losses changes from a historically oriented model under IAS 39 (incurred losses) to a future oriented model under IFRS 9 (expected losses). The new rules on valuation are by contrast of lesser significance. In total, only € 307 million of loans must be accounted for at market value, representing 0.4 per cent of the volume of financial instruments.

The adoption resulted in an adjustment of minus € 170 million to equity as of 1 January 2018; the effect on the CET1 ratio (fully loaded) amounted to around 19 basis points. Loan loss provisions increased € 285 million. The adoption had a positive impact on classification and valuation of € 81 million.

In addition to the adoption of IFRS 9, RBI also changed the presentation of its balance sheet, which is now aligned with the financial reporting standards (FINREP) issued by the European Banking Authority (EBA). With the adoption of the standards, it was also necessary to adjust the figures comparable period and comparable reporting date. The changes are described in more detail in the notes, in the section on principles underlying the consolidated financial statements, under changes in the presentation of financial statements.

RBI agreed to sell its Polish subsidiary's core banking operations to BGZ BNP

In April 2018, RBI signed a contract to sell the core banking operations of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGZ BNP Paribas S.A., a subsidiary of BNP Paribas S.A. (BNP). As of 30 June 2018, total assets of approximately € 7.6 billion and total risk-weighted assets of approximately € 5.0 billion have been allocated to the core banking operations.

RBI intends to transfer the remaining Raiffeisen Bank Polska S.A. operations, mainly comprising the foreign currency retail mortgage loan portfolio, to a Polish branch of RBI AG which is to be established. As of 30 June 2018, total assets of approximately € 3.3 billion and total risk-weighted assets of approximately € 4.2 billion have been allocated to the retained operations.

The demerger is expected to take place in the fourth quarter of 2018 subject to regulatory approvals. On finalization of the execution of this transaction, RBI's commitment to the Polish regulator PFSA to list shares in Raiffeisen Bank Polska S.A. on the Warsaw Stock Exchange is deemed to be fulfilled.

As the IFRS 5 application criteria are met, as of 30 June 2018 the core banking operations of Raiffeisen Bank Polska S.A. have been shown as a disposal group and reported under other assets and other liabilities on the statement of financial position. In accordance with IFRS 5 disclosure requirements, the statement of financial position items (assets and liabilities) relating to the aforementioned disposal group have not been reclassified for prior periods. As the sale does not meet any of the criteria set out in IFRS 5.32, it is not classified as a discontinued operation.

Following the signing of the contract before the end of the second quarter, the agreed purchase price has been used as the fair value of the disposal group. The agreed sales price is PLN 3,250 million, equating to approximately € 775 million, and is therefore less than the net assets allocated to the disposal group, which amounted to € 857 million at 30 June 2018. The direct impact of the sale on the RBI Group's consolidated profit is approximately minus € 121 million, excluding potential effects from deconsolidation. The final calculations will be subject to the relevant contractual provisions (including a review of the financial data submitted). A positive impact of approximately 0.9 percentage points on the RBI Group's CET1 ratio (fully loaded) is expected in the fourth quarter as a result of the sale.

Placement of additional tier 1 capital (AT1)

RBI placed a further perpetual AT1 capital issue in an amount of € 500 million and with a value date of 24 January 2018. The issue has a discretionary coupon of 4.5 per cent p.a. until mid-June 2025, after which it will be reset. The AT1 is classified as equity under IFRS due to the terms and conditions of the issue. As a result of this issue, together with the € 650 million AT1 capital placed in July 2017, RBI has now completed its planned AT1 issuance program.

Green bond issuance

On 28 June, RBI issued the first benchmark-sized green bond from an Austrian bank. The bond has a notional amount of € 500 million, a maturity of three years, and carries a coupon of mid-swap plus 40 basis points. The offering was significantly oversubscribed, with an order book of € 1.3 billion. The issuance forms part of RBI's ongoing strategy - which it has been putting into effect for many years - to pursue sustainable business activities. The proceeds from the green bond will be used to finance sustainable projects across the entire RBI network. The allocation of funds follows a clearly defined selection and evaluation process. Ongoing reporting also ensures that after the investment is made the criteria have been fulfilled and assesses the contribution to improved sustainability.

Earnings and financial performance

RBI's positive earnings performance continued in 2018, in particular supported by the good credit risk situation. Among other things, this was reflected by the fact that in the first half of 2018, active risk management enabled the sale of a significant number of loans at a net profit, which led to an overall net release under impairment losses on financial assets of € 83 million. The operating result also improved further compared to the prior year (up € 127 million), primarily due to higher interest and dividend income.

The expected loss of € 121 million included in the results due to the sale of the core banking business of Raiffeisen Bank Polska by way of demerger to a subsidiary of BNP Paribas constituted a significant one-off effect. In accordance with IFRS 5, the portfolio has been classified as held for sale and the corresponding assets and liabilities will be recognized in other assets/liabilities until the closing of the transaction.

In the first half of 2018, consolidated profit was € 756 million, a 29 per cent or € 169 million improvement year-on-year.

in € million	1/1-30/6/2018	1/1-30/6/2017	Change	
Net interest income	1,663	1,593	69	4.4%
Dividend income	57	23	34	144.8%
Net fee and commission income	869	843	27	3.2%
Net trading income and fair value result	16	27	(11)	(40.6)%
Net gains/losses from hedge accounting	(2)	4	(6)	-
Other net operating income	65	60	5	9.0%
Operating income	**2,669**	**2,551**	**119**	**4.7%**
Staff expenses	(780)	(780)	(1)	0.1%
Other administrative expenses	(573)	(572)	(1)	0.1%
Depreciation	(141)	(151)	10	(6.8)%
General administrative expenses	**(1,494)**	**(1,503)**	**9**	**(0.6)%**
Operating result	**1,175**	**1,048**	**127**	**12.2%**
Other result	(94)	32	(126)	-
Levies and special governmental measures	(141)	(131)	(10)	7.3%
Impairment losses on financial assets	83	(100)	184	-
Profit/loss before tax	**1,024**	**849**	**176**	**20.7%**
Income taxes	(205)	(193)	(12)	6.1%
Profit/loss after tax	**820**	**656**	**164**	**25.0%**
Profit attributable to non-controlling interests	(64)	(68)	5	(7.1)%
Consolidated profit/loss	**756**	**587**	**169**	**28.7%**

Operating income was up 5 per cent year-on-year, or € 119 million, to € 2,669 million. Net interest income rose 4 per cent to € 1,663 million, driven by the 5 basis point improvement in the net interest margin to 2.48 per cent and by a 1 per cent increase in the Group's interest-bearing assets due to growth in short-term loans. The improvement in the net interest margin was attributable to the positive development of margins in Romania, the Czech Republic and Ukraine. Net fee and commission income (up € 27 million to € 869 million) increased year-on-year despite significant depreciation of Eastern European currencies. Net income from the loan and guarantee business increased. In contrast, net trading income fell € 11 million, largely due to valuation losses on derivatives.

General administrative expenses showed a small € 9 million year-on-year decline to € 1,494 million. Currency movements resulted in a € 32 million reduction. In addition, although the average number of employees (full-time equivalents) reduced year-on-year by 214 to 50,116, staff expenses increased slightly by € 1 million to € 780 million due to salary adjustments. Other administrative expenses also remained at the same level as the comparable period (up € 1 million). The number of business outlets decreased by 14 year-on-year to 2,411; the largest decline occurred in Romania (down 33), whereas Bulgaria reported the largest increase (up 11). Depreciation of tangible and intangible fixed assets fell 7 per cent, or € 10 million, with the most significant declines in Russia (due to adjustments to the useful life of licenses in the previous year) and in Croatia.

The expected € 121 million loss from the sale of the core banking business of Raiffeisen Bank Polska is included in the other result.

The expense for levies and special governmental measures rose € 10 million year-on-year to € 141 million. This change mainly resulted from a release of provisions totaling € 22 million in the previous year in connection with the "Walkaway Law" in Romania. In contrast, contributions to the resolution fund, which (like the majority of the bank levies) have to be recognized in full at the start of the year in accordance with IFRIC 21, fell € 10 million primarily due to lower contributions in Romania and at RBI AG.

There was a net release of € 83 million of impairment losses on financial assets in the reporting period, whereas impairment losses on financial assets of € 100 million were required in the same period of last year. This positive development was driven by a good macroeconomic environment with regard to inflows and the enabling of successful recoveries totaling € 361 million. The most significant changes to risk costs occurred in the Group Corporates & Markets segment (down € 113 million), in Croatia (down € 42 million) and in Romania (down € 31 million). The improvement in the NPL ratio therefore also continued in 2018; since the start of the year it fell a further 0.9 percentage points and stood at 4.8 per cent at the end of June. Nevertheless, the NPL coverage ratio rose a further 6.5 percentage points to 73.5 per cent.

Quarterly results

in € million	Q2/2017	Q3/2017	Q4/2017	Q1/2018	Q2/2018
Net interest income	796	814	818	829	834
Dividend income	18	6	5	9	48
Net fee and commission income	433	429	446	410	460
Net trading income and fair value result	26	(1)	10	(1)	18
Net gains/losses from hedge accounting	2	3	(23)	(1)	(1)
Other net operating income	22	19	21	45	20
Operating income	**1,297**	**1,270**	**1,278**	**1,291**	**1,379**
Staff expenses	(392)	(365)	(409)	(384)	(396)
Other administrative expenses	(292)	(271)	(315)	(286)	(287)
Depreciation	(75)	(74)	(75)	(70)	(71)
General administrative expenses	**(758)**	**(710)**	**(798)**	**(740)**	**(754)**
Operating result	**540**	**560**	**479**	**551**	**625**
Other result	9	(1)	(31)	27	(121)
Levies and special governmental measures	(12)	(16)	(17)	(132)	(8)
Impairment losses on financial assets	(18)	(91)	(121)	83	0
Profit/loss before tax	**519**	**452**	**311**	**529**	**496**
Income taxes	(118)	(97)	(77)	(98)	(106)
Profit/loss after tax	**401**	**356**	**234**	**430**	**389**
Profit attributable to non-controlling interests	(34)	(33)	(28)	(31)	(33)
Consolidated profit/loss	**367**	**322**	**206**	**399**	**357**

Development of second quarter 2018 compared to first quarter 2018

Operating income

Net interest income increased slightly – by 1 per cent, or € 6 million, to € 834 million – due to a € 7 million rise in both Ukraine and in Romania. This contrasted with a currency-related € 5 million decline in net interest income in Russia. The net interest margin remained unchanged at 2.48 per cent.

Dividend income increased € 39 million to € 48 million, as the majority of payment dates fall in the second quarter due to the timing of the respective shareholder meetings at which the corresponding resolutions are passed.

Compared to the first quarter of 2018, net fee and commission income improved 12 per cent, or € 50 million, to € 460 million. The rise was mainly a result of seasonally-related higher revenues in clearing, settlement and payment services in all countries and at RBI AG.

Net trading income increased € 19 million quarter-on-quarter to € 18 million, primarily due to higher net income from the valuation of debt securities.

Other net operating income fell quarter-on-quarter from € 45 million to € 20 million. The decline was attributable to the sale of registered bonds at RBI AG in the first quarter of 2018. In Croatia, gains/losses on derecognition of non-financial assets held for sale declined € 3 million.

General administrative expenses

Staff expenses increased € 12 million to € 396 million in the second quarter of 2018, mainly due to salary adjustments and an increase in provisions for overdue vacations. At € 287 million, other administrative expenses remained constant. Within other administrative expenses, IT expenses increased € 8 million, and legal, advisory and consulting expenses as well as advertising expenses each rose € 3 million. This contrasted with declines in deposit insurance fees (down € 17 million) and in office space expenses (down € 2 million).

Other result

In the second quarter of 2018, the other result amounted to minus € 121 million compared to a positive other result of € 27 million in the first quarter. This was due to two main factors: The expected € 121 million loss from the sale of the core banking operations of Raiffeisen Bank Polska was recognized in the second quarter. A goodwill impairment of € 8 million was also recognized, in connection with the initial consolidation of a Hungarian real estate company.

Levies and special governmental measures

Levies and special governmental measures decreased € 124 million compared to the first quarter to € 8 million. Bank levies amounted to € 17 million in the second quarter of 2018 (previous quarter: € 70 million). The largest decline was attributable to the one-off payment of € 41 million made by RBI AG in the first quarter of 2018. This was the second of a total of four annual payments, which in accordance with IFRIC 21 are to be posted in their entirety in the first quarter. In Hungary, the bank levy for the full year was also posted in the first quarter of 2018 (€ 13 million). In addition, contributions to the resolution fund were likewise booked for the whole year in the first quarter and amounted to € 62 million; whereas in the second quarter there were releases totaling € 8 million due to lower requirements from the regulatory authorities, primarily at RBI AG, and in Poland and the Czech Republic.

Impairment losses on financial assets

In the second quarter of 2018, no net impairment losses on financial assets were reported, whereas in the previous quarter, net releases of loan loss provisions amounted to € 83 million. The largest changes were in Russia (impairment losses of € 15 million due to new non-performing loans in the second quarter compared to a net release of € 17 million in the first quarter after the sale of a large corporate customer's non-performing loan), in Poland (impairment losses of € 22 million in the second quarter compared to a net release of € 10 million in the previous quarter, resulting from the migration of loans from Stage 2 to Stage 1 under IFRS 9), and in Romania (impairment losses of € 17 million mainly due to the calibration of risk parameters for retail customers compared to a net release of € 2 million in the first quarter). This contrasted with net releases in the Group Corporates & Markets segment in the amount of € 52 million (up € 25 million) and in some other markets.

Income taxes

Income taxes increased € 8 million to € 106 million primarily due to higher earnings. The tax rate increased 3 percentage points to 21 per cent.

Consolidated profit

Consolidated profit declined € 43 million to € 357 million, primarily due to the expected € 121 million loss recognized in the second quarter from the sale of the core banking operations of Raiffeisen Bank Polska; which offset the € 74 million improvement in the operating result to € 625 million.

Statement of financial position

Since the start of the year, RBI's total assets rose 6 per cent, or € 8,410 million, to € 143,556 million. Currency movements – predominantly the depreciation of the Hungarian forint by 6 per cent, of the Russian rouble by 5 per cent, and of the Polish zloty by 4 per cent, countered by the 10 per cent appreciation of the Ukrainian hryvnia – had a negative effect of € 644 million on total assets.

Assets

in € million	30/6/2018	31/12/2017	Change	
Loans to banks	9,774	10,741	(967)	(9.0)%
Loans to customers	77,895	77,745	150	0.2%
Securities	19,360	21,967	(2,607)	(11.9)%
Cash and other assets	36,527	24,694	11,833	47.9%
Total	**143,556**	**135,146**	**8,410**	**6.2%**

The decline in loans to banks of 9 per cent, or € 967 million, to € 9,774 million, was predominantly due to higher loans to the Czech National Bank on the comparable reporting date.

Loans to customers remained unchanged due to the IFRS 5 reclassification of two Group units (assets held for sale, comprising the core banking operations of Raiffeisen Bank Polska and Raiffeisen Pension Insurance); without the IFRS 5 reclassification, loans to customers would have risen 6 per cent or € 4,340 million. The largest increases were recorded at RBI AG (up € 2,566 million or 14 per cent, mainly due to repurchase agreements with insurance companies and securities firms), in Slovakia (up € 541 million or 6 per cent), in Romania (up € 443 million or 9 per cent), in the Czech Republic (up € 400 million or 4 per cent), in Ukraine (up € 267 million or 24 per cent, partly due to currency effects), and in Russia despite the depreciation of the Russian rouble (up € 183 million or 2 per cent; or 7 per cent on a currency-adjusted basis). The increase in Central, Southeastern and Eastern Europe totaled € 1,177 million for loans to households and € 674 million for non-financial corporations.

The € 2,607 million decline in securities is largely attributable to the IFRS 5 reclassification of the core banking operations of Raiffeisen Bank Polska.

Since the beginning of the year, cash balances rose € 4,759 million to € 21,665 million, primarily at RBI AG as a result of deposits at the Austrian National Bank and repurchase agreements. Other assets increased from € 7,619 million by € 7,074 million to € 14,862 million, largely due to the sale and associated IFRS 5 reclassification of the core banking operations of Raiffeisen Bank Polska.

Liabilities

in € million	30/6/2018	31/12/2017	Change	
Deposits from banks	26,474	22,378	4,097	18.3%
Deposits from customers	79,908	84,974	(5,066)	(6.0)%
Debt securities issued and other liabilities	25,206	16,553	8,653	52.3%
Equity	11,968	11,241	727	6.5%
Total	**143,556**	**135,146**	**8,410**	**6.2%**

The volume of Group financing from banks grew 18 per cent, or € 4,097 million, to € 26,474 million, predominantly at RBI AG.

The decline in deposits from customers mainly resulted from the IFRS 5 reclassification, without which there would have been a rise of 4 per cent or € 3,189 million. The largest increases came from RBI AG (up € 1,819 million or 12 per cent, mainly due to short-term deposits), Slovakia (up € 718 million or 7 per cent) and Romania (up € 274 million or 4 per cent).

The growth in debt securities issued and other liabilities resulted predominantly from the IFRS 5 reclassification of the core banking operations of Raiffeisen Bank Polska.

For information relating to funding, please refer to note (40) Risks arising from financial instruments, in the risk report section of the interim consolidated financial statements.

Equity on the statement of financial position

Equity including capital attributable to non-controlling interests increased € 897 million to € 11,968 million, of which € 497 million was attributable to capital transactions, € 703 million to total comprehensive income for the period, minus € 307 million to dividend payments and minus € 170 million to the effect of the application of IFRS 9.

RBI successfully placed € 500 million of additional perpetual tier 1 capital (AT1) at the beginning of the year, thereby increasing capital by € 497 million after deduction of issuance costs and discount. According to IFRS, the AT1 is classified as equity due to the terms and conditions of the issue.

After RBI did not distribute dividends to shareholders for the 2014 to 2016 financial years in order to strengthen its capital basis, the Annual General Meeting in June 2018 approved a dividend payment of € 0.62 per share for 2017. This amounted to a total dividend distribution of € 204 million. A total of € 75 million was also paid out to non-controlling interests in Group companies. Dividend payments of € 29 million were made on AT1 capital.

Total comprehensive income of € 703 million comprises profit after tax of € 820 million and other comprehensive income of minus € 116 million. The effect of currency translation on the Group's results was minus € 163 million, representing the largest driver in other comprehensive income. The strongest currency effects were related to the depreciation of the Russian rouble (minus € 87 million) and of the Polish zloty (minus € 70 million). These effects were only partially offset by the partial hedge of net investments in foreign operations, which generated a positive contribution of € 35 million.

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

As at 30 June 2018, RBI's common equity tier 1 capital (CET1) after deductions amounted to € 9,486 million, which was an increase of € 220 million compared to the 2017 year-end figure. A material factor behind the improvement was the inclusion of the interim profit in regulatory capital. CET1 was negatively impacted through the introduction of the new accounting standard IFRS 9 on 1 January 2018 and foreign exchange effects. Tier 1 capital after deductions increased € 870 million to € 10,709 million, particularly as a result of the placement of € 500 million of perpetual additional tier 1 capital in January 2018.

In contrast, tier 2 capital declined € 587 million to € 2,466 million, due to early repayments and maturing of capital instruments. RBI's total capital amounted to € 13,176 million, representing an increase of € 284 million compared to the 2017 year-end figure.

Risk-weighted assets (total RWA) reached € 74,346 million as at 30 June 2018. The € 2,444 million increase was mainly attributable to new business and also business developments in Russia, Romania, the Czech Republic and Slovakia. This resulted in a CET1 ratio (fully loaded) of 12.8 per cent, an increase of 0.1 percentage point compared to year-end 2017.

Risk management

For further information on risk management, please refer to note (40) Risks arising from financial instruments, in the risk report section of the interim consolidated financial statements.

Events after the reporting date

There were no significant events after the reporting date.

Outlook

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

Impairment losses on financial assets (risk costs) in 2018 are expected to be below 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.

In the coming years we target a consolidated return on equity of approximately 11 per cent.

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 sale of the core banking operations in Poland is not reflected in the targets in this outlook.

Segment report

Segmentation principles

Segment reporting at RBI is based on the current organizational structure pursuant to IFRS 8. A cash generating unit within the Group is a country. The Group's markets are thereby consolidated into regional segments comprising countries with comparable economic profiles and similar long-term economic growth expectations.

This results in the following segments:

- Central Europe: Czech Republic, Hungary, Poland, Slovakia, and Slovenia
- Southeastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, and Serbia
- Eastern Europe: Belarus, Russia and Ukraine
- Group Corporates & Markets: operating business booked in Austria – Austrian and international corporate customers, Markets, Financial Institutions & Sovereigns, business with the Raiffeisen Banking Group (RBG) and specialized financial institution subsidiaries, e.g. Raiffeisen Centrobank AG, Kathrein Privatbank Aktiengesellschaft, Raiffeisen Leasing Group, Raiffeisen Factor Bank AG, Raiffeisen Bausparkasse Österreich Gesellschaft mbH and Raiffeisen Kapitalanlage-Gesellschaft mbH
- Corporate Center: central control functions in RBI AG (e.g. Treasury), other Group units and minority interests (including UNIQA Insurance Group AG and LEIPNIK-LUNDENBURGER INVEST Beteiligungs AG)

Central Europe

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Net interest income	493	463	6.6%	246	248	(0.8)%
Dividend income	6	5	36.8%	6	1	>500.0%
Net fee and commission income	283	274	3.0%	147	136	7.7%
Net trading income and fair value result	14	28	(51.4)%	1	13	(95.6)%
Net gains/losses from hedge accounting	(13)	2	–	(13)	0	>500.0%
Other net operating income	(16)	12	–	(10)	(6)	71.6%
Operating income	**767**	**784**	**(2.1)%**	**376**	**391**	**(3.9)%**
General administrative expenses	(437)	(436)	0.3%	(216)	(220)	(1.8)%
Operating result	**330**	**348**	**(5.1)%**	**159**	**171**	**(6.7)%**
Other result	(10)	(3)	254.5%	(10)	1	–
Levies and special governmental measures	(64)	(66)	(3.4)%	(9)	(55)	(84.3)%
Impairment losses on financial assets	(13)	(5)	162.6%	(27)	14	–
Profit/loss before tax	**244**	**274**	**(11.2)%**	**113**	**130**	**(13.0)%**
Income taxes	(59)	(41)	45.4%	(27)	(32)	(13.4)%
Profit/loss after tax	**185**	**234**	**(21.0)%**	**86**	**99**	**(12.8)%**

The segment's profit after tax fell € 49 million year-on-year to € 185 million. This was mainly due to a € 40 million decline in net income in Hungary resulting from a reduction of € 29 million in net releases of loan loss provisions and the deconsolidation of a real estate fund. In Poland, profit after tax was down € 13 million. While loan loss provisioning was lower, one-off effects (termination of the existing portfolio cash flow hedge and a tax effect in the same period of the previous year) led to a decrease in profit after tax.

Operating income

Net interest income increased 7 per cent year-on-year, or € 31 million, to € 493 million. This mainly reflected the positive performance in the Czech Republic, where higher interest rates in the repo business and increased customer loan volumes in particular led to a rise of € 27 million in net interest income. In Slovakia, net interest income increased € 6 million as a result of higher loan volumes. In Poland, net interest income remained almost unchanged at € 126 million. In contrast, net interest income in Hungary fell € 2 million due to lower interest rates. The segment's net interest margin improved 10 basis points to 2.19 per cent.

Net fee and commission income rose € 8 million year-on-year to € 283 million. In Slovakia, net fee and commission income increased € 4 million to € 81 million mainly as a result of improved margins in the custody business. The Czech Republic also reported a € 3 million increase to € 69 million, primarily as a result of lower expenses in the credit card business.

Net trading income and fair value result fell € 14 million year-on-year to € 14 million. The Czech Republic reported a drop of € 15 million due to income achieved in the previous year in connection with the removal of the minimum Czech koruna exchange rate. In Hungary, the result improved € 2 million, which was mainly attributable to currency translation.

Net gains from hedge accounting declined € 15 million year-on-year, mainly in Poland. The sale of the core banking operations of Raiffeisen Bank Polska resulted in termination of the existing portfolio cash flow hedges in the second quarter of 2018. These hedged cash flow fluctuations from foreign currency loans and deposits in local currency by means of foreign currency interest rate swaps. The termination had a neutral effect on capital, but resulted in the reclassification through profit and loss of the cash flow hedge reserve of minus € 13 million recognized in other comprehensive income in previous periods.

Other net operating income declined € 28 million to minus € 16 million. The decrease of € 10 million in the result in Poland was largely due to gains from the sale of loans in the same period in the previous year. In addition, the deconsolidation of a real estate fund led to a decrease of € 7 million in Hungary. The Czech Republic reported a reduction of € 5 million, which reflected the sale of bonds in the previous year.

General administrative expenses

General administrative expenses increased slightly by € 1 million year-on-year to € 437 million. Staff expenses were up € 5 million due to salary adjustments in Slovakia and Poland, while the segment's legal, advisory and consulting expenses were up € 3 million due to an increase in advisory services in Poland and Slovakia. Office space expenses fell € 5 million as a result of the converting of business outlets to a franchise model in Poland, while the IT expense in Slovakia fell € 1 million.

The segment's average number of staff fell 366 to 13,330. The largest decrease was in Poland (down 374 due to restructuring).

The number of business outlets in the segment remained practically constant at 631 (down 3). The cost/income ratio reduced 1.4 percentage points to 57.0 per cent.

Other result

The segment's other result declined € 7 million to minus € 10 million, largely due to an impairment of goodwill arising from the first-time consolidation of a Hungarian real estate company.

Levies and expenses from special governmental measures

Levies and expenses from special governmental measures fell € 2 million year-on-year to € 64 million. Bank levies were down € 1 million to € 38 million, largely as a result of lower expenses in Poland. In Hungary, as in the same period in the previous year, the € 13 million expense for the bank levy was booked in the first quarter of 2018 for the entire year, in accordance with the applicable IFRIC 21 provisions. Contributions to the resolution fund, which have to be recognized in full at the start of the year under IFRIC 21, also decreased € 1 million to € 26 million. Contributions declined the most in Poland and Slovakia, while the Czech Republic reported an increase.

Impairment losses on financial assets

In the reporting period, impairment losses on financial assets increased € 8 million to € 13 million. The largest change was reported in Hungary, where net releases of loan loss provisions were down € 29 million year-on-year to € 11 million. In the corresponding period of the previous year, successful collection activity and increased mortgage loan collateral valuations resulted in the significantly higher net release in Hungary. In the Czech Republic, despite a € 5 million increase, impairment losses remained at a very moderate level of € 8 million. In Poland, in contrast, impairments amounted to € 12 million, a decline of € 23 million year-on-year, largely as a result of an adjustment to retail mortgage risk parameters in the same period of the previous year. In Slovakia, risk costs fell to € 3 million from the already very low level of € 6 million in the same period of the previous year.

The proportion of non-bank non-performing loans in the Central Europe segment's loan portfolio was 4.0 per cent at the end of the first half of 2018 (down 1.5 percentage points year-on-year). The NPL coverage ratio improved 10.3 percentage points year-on-year to 74.2 per cent, mainly as a result of the adoption of IFRS 9.

Income taxes

The segment's income taxes rose € 18 million year-on-year to € 59 million. The tax rate was 24 per cent, which was 9 percentage points higher than in the previous year. Poland (up € 15 million) and Hungary (up € 4 million) were mainly responsible for the increase in taxes. The main reasons for the rise in Poland were the improvement in net income and the tax income reported in the same period of the previous year due to local depreciation of intangible fixed assets.

Detailed results of individual countries:

in € million	Poland 1/1-30/6 2018	Poland 1/1-30/6 2017	Slovakia 1/1-30/6 2018	Slovakia 1/1-30/6 2017
Net interest income	126	127	139	133
Dividend income	3	2	0	0
Net fee and commission income	68	68	81	77
Net trading income and fair value result	5	4	5	6
Net gains/losses from hedge accounting	(13)	0	0	0
Other net operating income	0	10	(3)	3
Operating income	**189**	**211**	**221**	**219**
General administrative expenses	(119)	(120)	(120)	(121)
Operating result	**70**	**91**	**101**	**98**
Other result	(4)	0	2	3
Levies and special governmental measures	(23)	(28)	(15)	(15)
Impairment losses on financial assets	(12)	(35)	(3)	(6)
Profit/loss before tax	**30**	**28**	**85**	**79**
Income taxes	(18)	(3)	(18)	(17)
Profit/loss after tax	**12**	**25**	**67**	**62**
Return on equity before tax	4.2%	3.8%	15.8%	14.4%
Return on equity after tax	1.7%	3.4%	12.5%	11.3%
Net interest margin (average interest-bearing assets)	2.31%	2.20%	2.26%	2.34%
Cost/income ratio	63.0%	56.9%	54.5%	55.3%
Loan/deposit ratio	103.1%	106.7%	100.8%	99.8%
Provisioning ratio (average loans and advances to customers)	0.31%	0.89%	0.07%	0.15%
NPL ratio	10.6%	8.3%	2.7%	3.2%
NPL coverage ratio	52.9%	58.0%	77.0%	72.2%
Assets	11,119	11,791	13,187	11,864
Liabilities	9,742	10,283	12,116	10,840
Risk-weighted assets (total RWA)	9,138	6,526	6,087	5,547
Equity	1,376	1,508	1,071	1,024
Loans to customers	3,247	7,948	9,899	8,967
Deposits from customers	0	8,022	10,754	9,414
Business outlets	235	237	191	194
Employees as at reporting date (full-time equivalents)	3,722	4,054	3,925	3,896
Customers in million	0.8	0.8	0.9	0.9

in € million	Czech Republic 1/1-30/6 2018	1/1-30/6 2017	Hungary 1/1-30/6 2018	1/1-30/6 2017
Net interest income	161	134	66	69
Dividend income	1	1	2	1
Net fee and commission income	69	66	65	64
Net trading income and fair value result	1	17	3	1
Net gains/losses from hedge accounting	0	1	0	1
Other net operating income	8	12	(22)	(15)
Operating income	**241**	**231**	**115**	**121**
General administrative expenses	(125)	(121)	(71)	(74)
Operating result	**115**	**111**	**44**	**48**
Other result	0	0	(8)	(6)
Levies and special governmental measures	(10)	(8)	(16)	(15)
Impairment losses on financial assets	(8)	(4)	11	41
Profit/loss before tax	**97**	**99**	**31**	**68**
Income taxes	(19)	(20)	(5)	(1)
Profit/loss after tax	**78**	**79**	**26**	**67**
Return on equity before tax	16.0%	17.6%	9.9%	22.2%
Return on equity after tax	12.9%	14.1%	8.4%	21.9%
Net interest margin (average interest-bearing assets)	2.04%	1.70%	1.94%	2.11%
Cost/income ratio	52.2%	52.1%	62.0%	60.5%
Loan/deposit ratio	89.9%	85.9%	64.1%	67.6%
Provisioning ratio (average loans and advances to customers)	0.16%	0.08%	(0.74)%	(2.96)%
NPL ratio	2.1%	3.6%	6.8%	10.9%
NPL coverage ratio	102.2%	72.0%	84.6%	64.3%
Assets	15,986	16,592	7,162	6,922
Liabilities	14,769	15,385	6,577	6,222
Risk-weighted assets (total RWA)	6,949	6,339	3,479	3,536
Equity	1,217	1,207	584	700
Loans to customers	10,540	9,808	3,091	2,808
Deposits from customers	11,947	11,887	5,238	4,667
Business outlets	133	131	71	71
Employees as at reporting date (full-time equivalents)	3,358	3,309	2,035	1,991
Customers in million	1.1	1.2	0.5	0.5

Southeastern Europe

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Net interest income	388	364	6.6%	198	190	3.9%
Dividend income	7	5	42.0%	5	2	148.6%
Net fee and commission income	201	192	4.8%	108	94	14.7%
Net trading income and fair value result	16	16	0.2%	7	8	(12.7)%
Net gains/losses from hedge accounting	0	0	–	0	0	>500.0%
Other net operating income	21	19	9.5%	8	13	(34.6)%
Operating income	**634**	**597**	**6.2%**	**326**	**308**	**6.1%**
General administrative expenses	(337)	(328)	2.7%	(167)	(169)	(1.4)%
Operating result	**297**	**269**	**10.5%**	**159**	**138**	**15.3%**
Other result	(1)	0	414.0%	(1)	0	–
Levies and special governmental measures	(11)	6	–	0	(10)	(96.7)%
Impairment losses on financial assets	5	(69)	–	(9)	14	–
Profit/loss before tax	**291**	**206**	**40.9%**	**149**	**142**	**4.5%**
Income taxes	(40)	(32)	24.9%	(20)	(20)	0.4%
Profit/loss after tax	**250**	**174**	**43.9%**	**128**	**122**	**5.2%**

The rise of 44 per cent, or € 76 million, year-on-year in profit after tax was driven by positive developments in the segment's risk situation, especially in Croatia and Romania, and by an 11 per cent improvement in the operating result.

Operating income

Net interest income rose 7 per cent year-on-year, or € 24 million, to € 388 million. The strongest growth was seen in Romania, where higher interest rates and volumes resulted in an increase of € 29 million in net interest income. In Serbia, net interest income was up € 2 million, which mainly reflected currency effects. Croatia reported the steepest decline of € 4 million, due to lower interest rates. In Bulgaria, net interest income was down € 2 million as a result of lower interest income. Net interest income in all other countries in the segment changed only slightly. The improvement of 4 basis points in the segment's net interest margin to 3.51 per cent was primarily attributable to the positive interest rate environment in Romania.

Dividend income was up € 2 million, largely as a result of higher income in Albania.

Net fee and commission income increased 5 per cent, or € 9 million, to € 201 million. The largest increase was reported in Romania (up € 7 million), as a result of higher volumes and margins in clearing, settlement and payment services as well as in the credit card business. In Serbia, net fee and commission income rose € 2 million, mainly as a result of higher fee and commission income in clearing, settlement and payment services.

Net trading income and the fair value result was almost unchanged year-on-year. Croatia and Albania in particular reported decreases due to currency translation. These were, however, offset by higher income from derivatives and loans and advances in Romania, Serbia and Bulgaria.

The segment's other net operating income improved € 2 million to € 21 million. Serbia was mainly responsible, with an increase of € 4 million in the result mainly arising from the derecognition of financial assets and liabilities. Croatia reported a decrease of € 2 million due to a reduction in the operating lease portfolio.

General administrative expenses

General administrative expenses increased 3 per cent, or € 9 million, year-on-year to € 337 million. Staff expenses were constant at € 148 million. The average number of employees fell 135 to 14,788, primarily as a result of developments in Romania (down 61) and Albania (down 49). Other administrative expenses were up 7 per cent, or € 9 million, to € 149 million and mainly reflected a rise in IT expenses, deposit insurance fees and legal, advisory and consulting expenses in Romania and Bulgaria.

The number of business outlets fell 16 year-on-year to 979, largely due to closures in Romania. The cost/income ratio improved from 54.9 to 53.1 per cent.

Levies and expenses from special governmental measures

Levies and expenses from special governmental measures were up € 17 million year-on-year to € 11 million. In 2018, no expenses for special governmental measures were reported, while in the previous year provisions of € 22 million in connection with the "Walkaway Law" in Romania were released. The contributions to the resolution fund, which have to be recognized in full at the start of the year under IFRIC 21, fell € 4 million to € 11 million – mainly as a result of a lower contribution in Romania.

Impairments on financial assets

In the reporting period, the segment recognized a net release of loan loss provisions of € 5 million, compared to impairments of € 69 million booked in the corresponding period of the previous year.

The positive trend in the risk situation in Croatia was mainly responsible for the decline. The country reported a net release of loan loss provisions of € 3 million compared to impairments of € 39 million in the same period of the previous year due to defaults in the corporate customer business. A significant improvement in risk costs was also reported by Romania, where the need for impairments was € 31 million lower. Loan loss provisions in the comparable prior year period amounted to € 46 million largely as a result of the voluntary conversion of Swiss franc loans. In Bulgaria, there was a net release of € 5 million in the reporting period, after a step-up in collection activity and the termination of a large corporate customer's non-performing loan resulted in a net release of € 11 million in the same period of the previous year. In the other countries there were no significant changes.

The proportion of non-bank non-performing loans in the segment's loan portfolio was 6.6 per cent (down 3.6 percentage points year-on-year) at the end of the first half of 2018. The NPL coverage ratio was 85.5 per cent (up 8.9 percentage points year-on-year as a result of the introduction of IFRS 9).

Income taxes

Income taxes were up € 8 million year-on-year to € 40 million, primarily due to improved earnings in Romania, Croatia and Serbia. In contrast, the tax rate fell 2 percentage points to 14 per cent; tax-reducing effects in Croatia resulting from the non-capitalization of tax loss carryforwards in the same period of the previous year were largely responsible for the decrease.

Detailed results of individual countries:

	Albania		Bosnia and Herzegovina		Bulgaria	
in € million	**1/1-30/6 2018**	**1/1-30/6 2017**	**1/1-30/6 2018**	**1/1-30/6 2017**	**1/1-30/6 2018**	**1/1-30/6 2017**
Net interest income	27	28	33	33	50	52
Dividend income	1	0	1	0	4	3
Net fee and commission income	8	7	19	20	23	22
Net trading income and fair value result	(3)	(1)	0	0	2	1
Net gains/losses from hedge accounting	0	0	0	0	0	0
Other net operating income	(1)	0	1	0	2	2
Operating income	**33**	**35**	**53**	**53**	**81**	**80**
General administrative expenses	(21)	(21)	(25)	(25)	(46)	(43)
Operating result	**11**	**14**	**28**	**28**	**35**	**38**
Other result	0	0	0	0	0	0
Levies and special governmental measures	0	0	0	0	(4)	(4)
Impairment losses on financial assets	12	10	0	(1)	5	11
Profit/loss before tax	**22**	**24**	**29**	**27**	**36**	**45**
Income taxes	(3)	0	(3)	(3)	(4)	(4)
Profit/loss after tax	**19**	**24**	**26**	**24**	**32**	**40**
Return on equity before tax	20.8%	25.1%	20.7%	20.8%	16.0%	19.5%
Return on equity after tax	18.0%	25.0%	18.6%	18.3%	14.4%	17.5%
Net interest margin (average interest-bearing assets)	3.00%	3.02%	3.40%	3.60%	2.79%	3.17%
Cost/income ratio	66.0%	60.6%	47.2%	47.0%	56.7%	53.1%
Loan/deposit ratio	44.4%	42.7%	75.8%	71.9%	83.7%	86.2%
Provisioning ratio (average loans and advances to customers)	(3.46)%	(3.14)%	(0.06)%	0.18%	(0.43)%	(1.01)%
NPL ratio	15.7%	18.5%	6.4%	8.1%	3.5%	5.7%
NPL coverage ratio	78.3%	76.2%	95.7%	81.3%	102.2%	83.3%
Assets	1,872	1,928	2,208	2,111	3,804	3,422
Liabilities	1,642	1,708	1,931	1,846	3,371	2,979
Risk-weighted assets (total RWA)	1,394	1,450	1,722	1,560	1,901	1,726
Equity	231	220	277	265	433	442
Loans to customers	667	671	1,222	1,132	2,400	2,130
Deposits from customers	1,531	1,593	1,725	1,687	2,898	2,490
Business outlets	78	79	102	98	147	136
Employees as at reporting date (full-time equivalents)	1,236	1,257	1,311	1,288	2,570	2,590
Customers in million	0.5	0.5	0.4	0.4	0.6	0.6

in € million	Croatia 1/1-30/6 2018	Croatia 1/1-30/6 2017	Romania 1/1-30/6 2018	Romania 1/1-30/6 2017	Serbia 1/1-30/6 2018	Serbia 1/1-30/6 2017
Net interest income	61	65	156	127	42	40
Dividend income	0	0	1	1	0	0
Net fee and commission income	33	34	92	84	22	20
Net trading income and fair value result	2	4	12	9	4	2
Net gains/losses from hedge accounting	0	0	0	0	0	0
Other net operating income	8	10	3	4	7	3
Operating income	**104**	**114**	**264**	**225**	**74**	**64**
General administrative expenses	(60)	(64)	(134)	(127)	(37)	(35)
Operating result	**44**	**50**	**130**	**98**	**37**	**29**
Other result	0	0	(1)	0	0	0
Levies and special governmental measures	(3)	(3)	(3)	13	0	0
Impairment losses on financial assets	3	(39)	(15)	(46)	1	(1)
Profit/loss before tax	**44**	**7**	**110**	**65**	**38**	**28**
Income taxes	(8)	(10)	(17)	(9)	(5)	(4)
Profit/loss after tax	**37**	**(3)**	**93**	**55**	**33**	**25**
Return on equity before tax	14.2%	2.3%	28.7%	17.6%	15.6%	12.0%
Return on equity after tax	11.8%	–	24.2%	15.0%	13.6%	10.4%
Net interest margin (average interest-bearing assets)	2.95%	3.17%	4.01%	3.55%	4.03%	4.20%
Cost/income ratio	57.6%	56.2%	50.9%	56.4%	49.8%	54.5%
Loan/deposit ratio	73.4%	77.6%	77.7%	74.8%	73.5%	72.2%
Provisioning ratio (average loans and advances to customers)	(0.24)%	3.17%	0.62%	2.07%	(0.11)%	0.17%
NPL ratio	12.5%	18.1%	5.0%	8.0%	3.7%	8.0%
NPL coverage ratio	83.0%	75.0%	82.0%	72.4%	94.1%	90.3%
Assets	4,568	4,436	8,576	7,747	2,382	2,245
Liabilities	3,946	3,807	7,757	6,980	1,901	1,737
Risk-weighted assets (total RWA)	2,795	2,750	4,985	4,368	1,783	1,651
Equity	622	628	819	766	481	508
Loans to customers	2,361	2,426	5,247	4,521	1,261	1,129
Deposits from customers	3,415	3,297	6,761	6,018	1,789	1,681
Business outlets	79	78	436	469	89	87
Employees as at reporting date (full-time equivalents)	2,049	2,110	5,248	5,330	1,541	1,523
Customers in million	0.6	0.5	2.3	2.3	0.8	0.7

Eastern Europe

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Net interest income	498	493	0.9%	250	247	1.1%
Dividend income	1	2	(48.8)%	1	0	–
Net fee and commission income	216	227	(5.0)%	111	105	6.5%
Net trading income and fair value result	10	40	(75.4)%	4	6	(41.7)%
Net gains/losses from hedge accounting	0	(6)	–	0	0	–
Other net operating income	5	(2)	–	(3)	8	–
Operating income	**730**	**755**	**(3.3)%**	**363**	**366**	**(0.8)%**
General administrative expenses	(301)	(302)	(0.5)%	(151)	(149)	1.5%
Operating result	**429**	**453**	**(5.3)%**	**212**	**217**	**(2.4)%**
Other result	(1)	1	–	(1)	0	37.7%
Levies and special governmental measures	0	0	–	0	0	–
Impairment losses on financial assets	25	20	22.1%	(7)	32	–
Profit/loss before tax	**453**	**474**	**(4.4)%**	**205**	**248**	**(17.5)%**
Income taxes	(96)	(100)	(3.5)%	(45)	(51)	(12.7)%
Profit/loss after tax	**357**	**374**	**(4.6)%**	**160**	**197**	**(18.7)%**

The year-on-year decline in profit after tax of 5 per cent, or € 17 million, to € 357 million was largely due to the lower net trading income and fair value result.

As in the previous year, the Eastern Europe segment was affected by a high level of currency volatility in the reporting period. The average exchange rate of the Belarus rouble fell 13 per cent year-on-year, that of the Russian rouble dropped 11 per cent and that of the Ukrainian hryvnia was down 10 per cent. The exchange rate of the Russian rouble decreased 5 per cent since the start of 2018, while the exchange rate for the Ukrainian hryvnia appreciated 10 per cent and that for the Belarus rouble gained 2 per cent.

Operating income

Net interest income in Eastern Europe was up 1 per cent, or € 4 million, year-on-year to € 498 million. Ukraine reported the strongest growth with a rise of € 14 million, due to higher interest rates and corporate loan volumes. Despite the depreciation of the Russian rouble, net interest income in Russia was up € 6 million, largely as a result of lower interest expenses for customer deposits. In contrast, net interest income in Belarus fell € 16 million year-on-year due to lower market interest rates. Despite the positive developments in Ukraine, the segment's net interest margin declined 4 basis points year-on-year to 6.54 per cent as a consequence of lower margins in Belarus.

Net fee and commission income was down 5 per cent, or € 11 million, to € 216 million. In Russia, net fee and commission income decreased € 9 million to € 149 million, largely as a result of higher fee and commission expenses in clearing, settlement and payment services. Belarus also reported a currency-related reduction of € 2 million to € 24 million.

Net trading income and fair value result declined from € 40 million in the same period of the previous year to € 10 million in the reporting period. Russia posted a decline of € 31 million, which mainly reflected a lower valuation result from currency-based derivatives.

The net gains from hedge accounting improved € 6 million, solely in Russia, where in the previous year a net loss from changes in market value from hedging positions was reported, which was attributable to the hedged risk. In contrast, no results from portfolio fair value hedge accounting were recognized in Russia in the reporting period due to derecognition of the underlying transactions.

Other net operating income increased € 7 million to € 5 million, as a result of the release of provisions for litigation in Russia.

General administrative expenses

General administrative expenses declined 1 per cent year-on-year, or € 1 million, to € 301 million. The decrease was largely attributable to currency depreciation. The average headcount rose – mainly in Russia – by 2 per cent from 17,856 to 18,225, while staff expenses increased due to salary adjustments in Russia and Ukraine. Other administrative expenses in the segment increased slightly, by 1 per cent, or € 1 million, to € 107 million. They were up 5 per cent in Russia as a result of an increase in deposit insurance fees and higher IT expenses for developing new IT applications; however fell 5 per cent in Ukraine mostly due to lower office space expenses. Depreciation declined 17 per cent, or € 6 million, to € 32 million primarily as a result of an adjustment to the useful life of licenses in Russia in the previous year. The cost/income ratio rose from 40.0 to 41.2 per cent.

Impairment losses on financial assets

In the reporting period, a net release of loan loss provisions of € 25 million was recognized compared to € 20 million in the same period of the previous year. There was a net release of € 2 million in Russia, versus impairments of € 14 million in the comparable prior year period. Sales of non-performing corporate customer loans played a significant role in the positive trend. The decrease in the net release of provisions in Ukraine from € 34 million in the same period of the previous year to € 19 million in the reporting period reflected lower sales of non-performing loans. An improved macroeconomic environment and loan sales were responsible for the net release of € 4 million in Belarus.

The proportion of non-bank non-performing loans in the segment's loan portfolio amounted to 6.6 per cent at the end of the first half of 2018 (down 5.1 percentage points year-on-year). The NPL coverage ratio was 79.1 per cent (down 3.9 percentage points year-on-year due to loan sales).

Income taxes

The segment's tax expense decreased € 4 million to € 96 million, largely for earnings-related reasons. The tax rate remained steady at 21 per cent.

Detailed results of individual countries:

	Belarus		Russia		Ukraine	
in € million	1/1-30/6 2018	1/1-30/6 2017	1/1-30/6 2018	1/1-30/6 2017	1/1-30/6 2018	1/1-30/6 2017
Net interest income	45	60	347	341	106	92
Dividend income	0	0	1	2	0	0
Net fee and commission income	24	26	149	157	43	44
Net trading income and fair value result	2	2	2	32	6	6
Net gains/losses from hedge accounting	0	0	0	(6)	0	0
Other net operating income	(1)	(1)	7	(3)	(1)	3
Operating income	**70**	**87**	**506**	**523**	**154**	**144**
General administrative expenses	(35)	(39)	(204)	(202)	(61)	(61)
Operating result	**35**	**49**	**301**	**321**	**93**	**83**
Other result	0	0	0	0	(1)	0
Levies and special governmental measures	0	0	0	0	0	0
Impairment losses on financial assets	4	0	2	(14)	19	34
Profit/loss before tax	**39**	**49**	**303**	**308**	**111**	**117**
Income taxes	(11)	(12)	(66)	(67)	(19)	(21)
Profit/loss after tax	**28**	**37**	**237**	**241**	**92**	**96**
Return on equity before tax	21.0%	23.7%	38.1%	34.1%	80.4%	92.8%
Return on equity after tax	15.2%	17.9%	29.8%	26.7%	66.4%	76.3%
Net interest margin (average interest-bearing assets)	6.37%	9.16%	5.82%	5.75%	11.30%	10.15%
Cost/income ratio	50.2%	44.3%	40.4%	38.6%	39.6%	42.5%
Loan/deposit ratio	91.1%	99.2%	85.5%	85.1%	82.3%	61.8%
Provisioning ratio (average loans and advances to customers)	(1.02)%	(0.05)%	(0.05)%	0.34%	(3.36)%	(6.64)%
NPL ratio	5.4%	8.2%	4.2%	6.1%	19.2%	40.5%
NPL coverage ratio	89.7%	76.0%	75.0%	73.1%	81.8%	90.8%
Assets	1,665	1,472	12,738	11,978	2,284	2,111
Liabilities	1,314	1,115	10,985	10,169	1,997	1,872
Risk-weighted assets (total RWA)	1,539	1,402	8,142	8,049	2,177	1,917
Equity	351	357	1,753	1,809	287	239
Loans to customers	997	880	8,133	7,461	1,398	1,047
Deposits from customers	1,118	903	9,550	8,811	1,702	1,700
Business outlets	88	90	188	183	501	498
Employees as at reporting date (full-time equivalents)	1,876	1,951	8,694	7,912	7,846	7,904
Customers in million	0.8	0.8	2.6	2.4	2.5	2.5

Group Corporates & Markets

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Net interest income	277	294	(5.7)%	145	133	9.3%
Dividend income	22	14	54.8%	19	3	>500.0%
Net fee and commission income	175	160	9.6%	97	79	22.8%
Net trading income and fair value result	24	50	(52.2)%	6	18	(65.5)%
Net gains/losses from hedge accounting	0	(2)	–	0	0	(18.5)%
Other net operating income	88	46	88.9%	25	63	(59.7)%
Operating income	**586**	**563**	**4.1%**	**292**	**294**	**(0.8)%**
General administrative expenses	(320)	(325)	(1.5)%	(160)	(160)	0.4%
Operating result	**266**	**238**	**11.8%**	**132**	**135**	**(2.2)%**
Other result	(4)	(3)	38.5%	(4)	0	>500.0%
Levies and special governmental measures	(11)	(11)	1.9%	(5)	(7)	(31.2)%
Impairment losses on financial assets	78	(35)	–	52	27	93.6%
Profit/loss before tax	**329**	**189**	**73.8%**	**175**	**154**	**13.2%**
Income taxes	(65)	(38)	70.5%	(33)	(33)	(0.1)%
Profit/loss after tax	**263**	**151**	**74.7%**	**142**	**122**	**16.8%**

The strong increase in net income in the Group Corporates & Markets segment was mainly due to the good performance in terms of risk costs. Net releases of loan loss provisions of € 78 million were booked in the reporting period, whereas impairment losses of € 35 million were booked in the same period of the previous year due to the default of several large corporate customers. The releases were mainly attributable to profitable sales of non-performing loans.

The Group Corporates & Markets segment encompasses RBI's operating business booked in Austria. The contributions to profit come from RBI AG's corporate customer and markets business, with further significant contributions from the Austrian specialized financial institution subsidiaries. The following table shows the main profit contributions by sub-segment:

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Corporates Vienna	112	53	113.2%	74	38	95.8%
Markets Vienna	83	45	86.0%	22	62	(64.7)%
Specialized financial institution subsidiaries and other	68	54	27.3%	46	22	108.2%
Group Corporates & Markets	**263**	**151**	**74.7%**	**142**	**122**	**16.8%**

Operating income

Net interest income declined 6 per cent year-on-year, or € 17 million, to € 277 million, due to margin reductions in the corporate customer business. The segment's net interest margin continues to be impacted from the weak interest rate environment, leading to a 9 basis point reduction to 1.29 per cent in the reporting period.

Dividend income increased € 8 million to € 22 million, mainly due to a dividend payment from an unconsolidated leasing company.

Net fee and commission income increased 10 per cent, or € 15 million, to € 175 million. Higher fee and commission income was primarily reported in clearing, settlement and payment services and in the institutional investor business, as well as from structured issues of own bonds.

Net trading income and fair value result was down € 26 million year-on-year to € 24 million. The main declines occurred in market making in the capital markets business due to spread widening, partly offset by increases in banknote trading.

Other net operating income improved € 41 million to € 88 million. RBI AG reported income of € 25 million from the release of a provision in connection with the termination of a long-standing legal dispute with an Icelandic bank. A further € 11 million came from the sale of registered bonds.

General administrative expenses

The segment's general administrative expenses fell 2 per cent, or € 5 million, to € 320 million. This decline was mainly the result of the disposal of a Group unit. The segment's cost/income ratio improved 3.1 percentage points to 54.6 per cent.

Impairment losses on financial assets

Net releases of loan loss provisions amounted to € 78 million in the reporting period, compared to impairment losses of € 35 million in the same period in the previous year due to several large corporate customer defaults. At RBI AG, aside from restructuring and the sale of non-performing loans, loan loss provisions were released for an Icelandic bank and several large corporate customers.

The share of non-bank non-performing loans in the segment's loan portfolio was 3.9 per cent at the end of the first half of 2018; the NPL coverage ratio was 57.0 per cent.

Income taxes

Income tax expense increased € 27 million to € 65 million reflecting higher net income.

Corporate Center

in € million	1/1-30/6 2018	1/1-30/6 2017	Change	Q2/2018	Q1/2018	Change
Net interest income	(18)	(44)	(58.7)%	(18)	0	>500.0%
Dividend income	698	723	(3.5)%	688	10	>500.0%
Net fee and commission income	(1)	(7)	(82.6)%	1	(2)	–
Net trading income and fair value result	(36)	(91)	(60.0)%	0	(36)	(99.6)%
Net gains/losses from hedge accounting	10	11	(1.7)%	10	0	>500.0%
Other net operating income	26	42	(39.1)%	30	(4)	–
Operating income	**678**	**634**	**6.9%**	**712**	**(33)**	**–**
General administrative expenses	(159)	(169)	(6.2)%	(90)	(69)	30.9%
Operating result	**520**	**465**	**11.7%**	**622**	**(102)**	**–**
Other result	(72)	16	–	(98)	27	–
Levies and special governmental measures	(55)	(60)	(8.3)%	5	(60)	–
Impairment losses on financial assets	(5)	(8)	(38.2)%	(3)	(1)	131.6%
Profit/loss before tax	**388**	**414**	**(6.2)%**	**526**	**(137)**	**–**
Income taxes	57	18	210.7%	19	38	(49.8)%
Profit/loss after tax	**445**	**432**	**2.9%**	**544**	**(99)**	**–**

This segment essentially comprises net income from Group head office's governance functions and other Group units. Therefore, its results are generally more volatile. Despite the recognition of the expected loss of € 121 million from the sale of the core banking operations of Raiffeisen Bank Polska, the segment's profit after tax remained at the same level as in the previous year. This was due to an improvement in net trading income, as well as higher contributions to profit from companies valued at equity.

Operating income

The segment's net interest income increased € 26 million year-on-year to minus € 18 million. Lower surplus liquidity and lower funding costs were largely responsible for this positive trend.

Dividend income fell € 25 million to € 698 million. The dividends came mainly from Group units belonging to other segments and are therefore of an intra-Group nature. The dividend distribution date is determined by the corresponding resolutions adopted at the relevant Annual General Meetings.

Net fee and commission income improved € 6 million to minus € 1 million, largely as a result of increased income from the credit card business.

Net trading income and fair value result increased € 54 million year-on-year to minus € 36 million, mainly due to gains from currency translation of US dollar and Swiss franc positions at RBI AG.

Other net operating income decreased € 16 million to € 26 million. The main drivers were provisions in connection with litigation involving RBI AG and lower income from intra-Group service charges.

General administrative expenses

The segment's general administrative expenses fell 6 per cent, or € 10 million, to € 159 million due to the deconsolidation of a company in the same period of the previous year.

Other result

The other result amounted to minus € 72 million in the reporting period after a positive result of € 16 million in the corresponding period of the previous year. The main reason for the change was the recognition in the reporting period of the expected loss of € 121 million from the sale of the core banking operations of Raiffeisen Bank Polska.

In contrast, the results for the reporting period from companies valued at equity were up € 10 million and impairment charges for equity investments were down € 21 million.

Levies and expenses from special governmental measures

The levies and expenses from special governmental measures reported in the segment declined € 5 million to € 55 million. At € 44 million, the expenses for bank levies remained unchanged compared to the same period in the previous year. The RBI AG contributions to the resolution fund allocated to this segment decreased € 5 million to € 11 million. In accordance with the underlying provisions of IFRIC 21 the expenses for bank levies for the entire year were booked in the first quarter. The one-off payment (€ 163 million) that is stipulated by law is spread over a four-year period: of that amount, € 41 million was booked in the reporting period and allocated to the Corporate Center segment.

Income taxes

Tax income of € 57 million was posted in the reporting period, compared to € 18 million in the same period in the previous year.

Interim consolidated financial statements

(Interim report as at 30 June 2018)

Company

Raiffeisen Bank International AG (RBI AG) is registered in the commercial register of the Commercial Court of Vienna under FN 122.119m. Its address is Am Stadtpark 9, 1030 Vienna.

RBI's home market consists of Austria, where it does business as a leading commercial and investment bank, as well as Central and Eastern Europe (CEE). Subsidiary banks cover 14 markets in the region. The Group also contains many other financial service companies specializing in sectors such as leasing, asset management and M&A. All told, RBI's more than 50,000 employees serve 16.7 million clients at more than 2,400 business outlets located mostly in CEE.

Since the company's shares are traded on a regulated market as defined in sec. 1 para. 2 of the Austrian Stock Market Act (BörseG) (prime market of the Vienna Stock Exchange) and numerous RBI AG issues are listed on a regulated market in the EU, RBI AG is required by sec. 59a of the Austrian Banking Act (BWG) to prepare consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). The eight regional Raiffeisen banks are core shareholders that collectively hold approximately 58.8 per cent of the shares, with the remaining shares in free float.

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

The interim report as at 30 June 2018 underwent a review by the certified auditor KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. Please refer to the corresponding section in the notes to the interim consolidated financial statements.

Material changes

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. In addition to the introduction of IFRS 9, RBI has also made changes to the presentation of the statement of financial position. It is now based on the requirements for the reporting of financial information (FinRep) issued by the European Banking Authority (EBA). The change also made it necessary to adapt the figures of the comparable period and the comparable reporting date. This change firstly improves comparability while also enabling more efficient processing of financial statements in accordance with commercial law and regulatory requirements.

The changes are explained in greater detail in the notes in the section entitled, principles underlying the consolidated financial statements, under changes in the presentation of the financial statements and IFRS 9 transition.

Statement of comprehensive income

Income statement

in € million	Notes	1/1-30/6/2018	1/1-30/6/2017
Net interest income	[1]	1,663	1,593
Dividend income	[2]	57	23
Net fee and commission income	[3]	869	843
Net trading income and fair value result	[4]	16	27
Net gains/losses from hedge accounting	[5]	(2)	4
Other net operating income	[6]	65	60
Operating income		**2,669**	**2,551**
Staff expenses		(780)	(780)
Other administrative expenses		(573)	(572)
Depreciation		(141)	(151)
General administrative expenses	**[7]**	**(1,494)**	**(1,503)**
Operating result		**1,175**	**1,048**
Other result	[8]	(94)	32
Levies and special governmental measures	[9]	(141)	(131)
Impairment losses on financial assets	[10]	83	(100)
Profit/loss before tax		**1,024**	**849**
Income taxes	[11]	(205)	(193)
Profit/loss after tax		**820**	**656**
Profit attributable to non-controlling interests		(64)	(68)
Consolidated profit/loss		**756**	**587**

Earnings per share

in € million	1/1-30/6/2018	1/1-30/6/2017
Consolidated profit/loss	756	587
Dividend claim on additional tier 1	(30)	0
Profit/loss attributable to ordinary shares	**726**	**587**
Average number of ordinary shares outstanding in million	329	328
Earnings per share in €	**2.21**	**1.79**

As there were no conversion rights or options outstanding, a dilution of earnings per share did not occur. The dividend on additional tier 1 capital is calculated; the effective payment is based on the decision of the Board at the respective payment date.

Other comprehensive income and total comprehensive income

in € million	1/1-30/6/2018	1/1-30/6/2017
Profit/loss after tax	**820**	**656**
Items which are not reclassified to profit and loss	**28**	**(86)**
Remeasurements of defined benefit plans	(3)	2
Fair value changes of equity instruments - fair value through other comprehensive income	14	0
Fair value changes due to changes in credit risk of financial liabilities - designated fair value through profit/loss	18	(86)
Share of other comprehensive income from companies valued at equity	0	(2)
Deferred taxes on items which are not reclassified to profit and loss	(1)	0
Items that may be reclassified subsequently to profit or loss	**(144)**	**(6)**
Hedge of net investments in foreign operations	35	(4)
Exchange differences	(163)	3
Adaptions to the cash flow hedge reserve	13	6
Fair value changes of financial assets - fair value through other comprehensive income	(16)	1
Share of other comprehensive income from companies valued at equity	(13)	(9)
Other items	1	0
Deferred taxes on items which may be reclassified to profit and loss	(1)	(3)
Other comprehensive income	**(116)**	**(93)**
Total comprehensive income	**703**	**563**
Profit attributable to non-controlling interests	(70)	(73)
hereof income statement	(64)	(68)
hereof other comprehensive income	(7)	(5)
Profit/loss attributable to owners of the parent	**633**	**490**

In the previous year, RBI elected to adopt on an early basis the requirements of IFRS 9.7.1.2 regarding the presentation of gains and losses on financial liabilities designated at fair value through profit or loss. IFRS 9 requires changes in the fair value of these designated liabilities caused by a change in the default risk of RBI to be booked in other comprehensive income. Under IAS 39, these changes were reported in the income statement. Minus € 86 million were recognized directly in other comprehensive income in the first half of 2017; the effect amounted to € 18 million in the reporting period. With the adoption of IFRS 9, liabilities designated at fair value were reclassified as financial liabilities - amortized cost with a carrying amount of € 448 million. This resulted in a significant decline in fair value changes caused by changes in credit risk on financial liabilities. The difference between the current fair value of these designated liabilities and the amounts contractually required to be paid at maturity was € 431 million. There have been no significant transfers within equity or derecognition of liabilities designated at fair value in the reporting period.

Currency developments resulted in a negative effect of € 163 million since the start of the year. The Russian rouble depreciated 5 per cent, resulting in a negative effect of € 87 million, while the Polish zloty depreciated 4 per cent, resulting in a negative effect of € 70 million. These declines were partially offset by the Ukrainian hryvnia, which appreciated 10 per cent and produced a positive effect of € 38 million.

Statement of financial position

Assets in € million	Notes	30/6/2018	31/12/2017
Cash, cash balances at central banks and other demand deposits	[12]	21,665	16,905
Financial assets - amortized cost	[13]	95,749	96,307
Financial assets - fair value through other comprehensive income	[14]	4,605	6,589
Non-trading financial assets - mandatorily fair value through profit/loss	[15]	535	-
Financial assets - designated fair value through profit/loss	[16]	3,919	5,370
Financial assets - held for trading	[17]	4,534	4,622
Hedge accounting	[18]	623	597
Investments in subsidiaries, joint ventures and associates	[19]	946	923
Tangible fixed assets	[20]	1,429	1,540
Intangible fixed assets	[21]	659	721
Current tax assets	[22]	166	189
Deferred tax assets	[22]	118	114
Other assets	[23]	8,609	1,268
Total		**143,556**	**135,146**

Equity and liabilities in € million	Notes	30/6/2018	31/12/2017
Financial liabilities - amortized cost	[24]	114,443	114,794
Financial liabilities - designated fair value through profit/loss	[25]	1,838	2,509
Financial liabilities - held for trading	[26]	5,068	4,414
Hedge accounting	[27]	233	265
Provisions for liabilities and charges	[28]	805	872
Current tax liabilities	[29]	70	75
Deferred tax liabilities	[29]	68	63
Other liabilities	[30]	9,064	913
Equity	[31]	11,968	11,241
Consolidated equity		10,197	9,937
Non-controlling interests		638	660
Additional tier 1		1,134	645
Total		**143,556**	**135,146**

The growth in cash, cash balances at central banks and other demand deposits was primarily attributable to an increase in deposits at the Austrian National Bank and a rise in repurchase transactions with credit institutions at RBI AG.

The increase in other assets/other liabilities was largely due to the presentation in accordance with IFRS 5 of the core banking business of Raiffeisen Bank Polska S. A , Warsaw. This required the corresponding assets and liabilities to be recognized in the subitems non-current assets and disposal groups classified as held for sale and liabilities of disposal groups classified as held for sale. For further details please refer to the notes (23) Other assets.

Statement of changes in equity

in € million	Subscribed capital	Capital reserves	Retained earnings	Cumulative other comprehensive income	Consolidated equity	Non-controlling interests	Additional tier 1	Total
Equity as at 31/12/2017	**1,002**	**4,992**	**6,496**	**(2,553)**	**9,937**	**660**	**645**	**11,241**
Impact of adopting IFRS 9	0	0	(223)	60	(163)	(7)	0	(170)
Equity as at 1/1/2018	**1,002**	**4,992**	**6,273**	**(2,492)**	**9,774**	**653**	**645**	**11,071**
Capital increases/ decreases	0	0	0	0	0	0	497	497
Allocation dividend - AT1	0	0	(29)	0	(29)	0	29	0
Dividend payments	0	0	(204)	0	(204)	(75)	(29)	(307)
Own shares	0	0	3	0	3	0	(8)	(5)
Other changes	0	0	20	0	20	(10)	0	10
Total comprehensive income	0	0	756	(123)	633	70	0	703
Equity as at 30/6/2018	**1,002**	**4,992**	**6,818**	**(2,615)**	**10,197**	**638**	**1,134**	**11,968**

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. The changeover effect reduced equity by € 170 million. Due to the adaptation of various parameters based on new historical information, the transition effect was recalculated resulting in an effect of minus € 40 million compared to the figure published in the first quarter. More details on the changeover are available in the notes in the section entitled, Principles underlying the consolidated financial statements, under IFRS 9 transition.

RBI placed another issue of perpetual additional tier 1 capital (AT1) with a volume of € 500 million on 24 January 2018. According to IFRS 32, the additional tier 1 capital is classified as equity due to the terms of issue. Taking into account the issue costs and the discount, this increased equity by € 497 million.

in € million	Subscribed capital	Capital reserves	Retained earnings	Cumulative other comprehensive income	Consolidated equity	Non-controlling interests	Additional tier 1	Total
Equity as at 1/1/2017	**1,002**	**4,994**	**5,455**	**(2,354)**	**9,096**	**655**	**0**	**9,752**
Capital increases/ decreases	0	0	0	0	0	0	0	0
Dividend payments	0	0	0	0	0	(83)	0	(83)
Own shares	0	(2)	2	0	0	0	0	0
Other changes	0	0	(30)	0	(30)	32	0	2
Total comprehensive income	0	0	587	(97)	490	73	0	563
Equity as at 30/6/2017	**1,002**	**4,992**	**6,014**	**(2,452)**	**9,557**	**677**	**0**	**10,234**

Statement of cash flows

in € million	Notes	1/1-30/6/2018	1/1-30/6/2017
Cash, cash balances at central banks and other demand deposits as at 1/1	**[12]**	**16,905**	**16,839**
Operating activities:			
Profit/loss before tax		1,024	849
Adjustments for the reconciliation of profit/loss after tax to the cash flow from operating activities:			
Write-downs/write-ups of tangible fixed assets and financial investments	[7, 8, 10]	315	–
Net provisioning for liabilities and charges and impairment losses	[6]	(104)	–
Gains/losses from disposal of tangible fixed assets and financial investments	[8]	(21)	–
Gains/losses from companies valued at equity	[8]	(13)	–
Net of net interest income and dividend income	[1, 2]	(1,720)	–
Interest received		2,143	–
Interest paid		(649)	–
Dividends received		89	–
Income taxes paid		(51)	–
Other adjustments (net)		759	–
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:			
Financial assets - amortized cost	[13]	(3,814)	–
Financial assets - fair value through other comprehensive income	[14]	(342)	–
Non-trading financial assets - mandatorily fair value through profit/loss	[15]	(517)	–
Financial assets - designated fair value through profit/loss	[16]	494	–
Financial assets - held for trading	[17]	(518)	–
Tax assets	[22]	(19)	–
Other assets	[23]	234	–
Financial liabilities - amortized cost	[24]	8,912	–
Financial liabilities - designated fair value through profit/loss	[25]	(429)	–
Financial liabilities - held for trading	[26]	389	–
Negative fair values from hedge accounting	[27]	(4)	–
Provisions for liabilities and charges	[28]	(69)	–
Tax liabilities	[29]	(137)	–
Other liabilities	[30]	(296)	–
Net cash from operating activities		**5,653**	**1,055**

in € million	Notes	1/1-30/6/2018	1/1-30/6/2017
Investing activities:			
Payments for purchase of:			
Investment securities and shares	[13, 14, 15, 16, 17, 19]	(2,227)	(1,845)
Tangible and intangible fixed assets	[20, 21]	(122)	(168)
Subsidiaries		(8)	0
Proceeds from sale of:		**0**	**0**
Investment securities and shares	[13, 14, 15, 16, 17, 19]	1,271	2,485
Tangible and intangible fixed assets	[20, 21]	82	97
Subsidiaries		0	3
Net cash from investing activities		**(1,004)**	**572**
Financing activities:			
Capital increases	[31]	497	0
Inflows/outflows of subordinated capital		(504)	(1)
Dividend payments	[31]	(104)	(83)
Net cash from financing activities		**(111)**	**(30)**
Effect of exchange rate changes		221	56
Cash, cash balances at central banks and other demand deposits as at 30/6	**[12]**	**21,665**	**18,492**

Due to economic reasons there are no details available for net cash from operating activites.

The capital increases in the area of financing activities are attributable to the placement of additional tier 1 capital (AT1) with undefined maturity in the volume of € 500 million by RBI.

Segment reporting

As a rule, internal management reporting at RBI is based on the current organizational structure. This matrix structure means that each member of the Management Board is responsible both for individual countries and for specific business activities (country and functional responsibility model). A cash generating unit within the Group is a country. The presentation of the countries includes not only subsidiary banks, but all operating units of RBI in the respective countries (such as leasing companies). Accordingly, the RBI management bodies – Management Board and Supervisory Board – make key decisions that determine the resources allocated to any given segment based on its financial strength and profitability, which is why these reporting criteria are an essential component in the decision-making process. Thus, the division into segments was also undertaken in accordance with IFRS 8. The reconciliation contains mainly the amounts resulting from the elimination of intra-group results and consolidation between the segments.

This results in the following segments:

- Central Europe: Czech Republic, Hungary, Poland, Slovakia, and Slovenia
- Southeastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania, and Serbia
- Eastern Europe: Belarus, Russia and Ukraine
- Group Corporates & Markets: operating business booked in Austria – Austrian and international corporate customers, Markets, Financial Institutions & Sovereigns, business with the Raiffeisen Banking Group (RBG) and specialized financial institution subsidiaries, e.g. Raiffeisen Centrobank AG, Kathrein Privatbank Aktiengesellschaft, Raiffeisen Leasing Group, Raiffeisen Factor Bank AG, Raiffeisen Bausparkasse Österreich Gesellschaft mbH and Raiffeisen Kapitalanlage-Gesellschaft mbH
- Corporate Center: central control functions in RBI AG (e.g. Treasury), other Group units and minority interests (including UNIQA Insurance Group AG and LEIPNIK-LUNDENBURGER INVEST Beteiligungs AG)

1/1-30/6/2018 in € million	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates & Markets
Net interest income	493	388	498	277
Dividend income	6	7	1	22
Net fee and commission income	283	201	216	175
Net trading income and fair value result	14	16	10	24
Net gains/losses from hedge accounting	(13)	0	0	0
Other net operating income	(16)	21	5	88
Operating income	**767**	**634**	**730**	**586**
General administrative expenses	(437)	(337)	(301)	(320)
Operating result	**330**	**297**	**429**	**266**
Other result	(10)	(1)	(1)	(4)
Levies and special governmental measures	(64)	(11)	0	(11)
Impairment losses on financial assets	(13)	5	25	78
Profit/loss before tax	**244**	**291**	**453**	**329**
Income taxes	(59)	(40)	(96)	(65)
Profit/loss after tax	**185**	**250**	**357**	**263**
Profit attributable to non-controlling interests	(28)	0	(28)	(2)
Consolidated profit/loss	**157**	**250**	**329**	**262**
Return on equity before tax	13.2%	25.9%	51.2%	21.4%
Return on equity after tax	10.0%	22.3%	40.3%	17.1%
Net interest margin (average interest-bearing assets)	2.19%	3.51%	6.54%	1.34%
Cost/income ratio	57.0%	53.1%	41.2%	54.6%
Loan/deposit ratio	92.5%	74.9%	85.5%	160.1%
Provisioning ratio (average loans and advances to customers)	0.08%	(0.07)%	(0.54)%	(1.53)%
NPL ratio	4.0%	6.6%	6.6%	3.9%
NPL coverage ratio	74.2%	85.5%	79.1%	57.0%
Assets	46,702	24,299	16,685	46,014
Liabilities	42,463	21,317	14,293	45,437
Risk-weighted assets (total RWA)	25,738	15,191	11,858	20,300
Average equity	3,680	2,244	1,771	3,080
Loans to customers	26,806	13,762	10,529	25,161
Deposits from customers	27,938	18,813	12,369	20,736
Business outlets	631	979	777	24
Employees as at reporting date (full-time equivalents)	13,052	14,703	18,416	2,799
Customers in million	3.4	5.4	5.8	2.1

1/1-30/6/2018 in € million	Corporate Center	Reconciliation	Total
Net interest income	(18)	24	1,663
Dividend income	698	(677)	57
Net fee and commission income	(1)	(5)	869
Net trading income and fair value result	(36)	(11)	16
Net gains/losses from hedge accounting	10	1	(2)
Other net operating income	26	(59)	65
Operating income	**678**	**(726)**	**2,669**
General administrative expenses	(159)	58	(1,494)
Operating result	**520**	**(667)**	**1,175**
Other result	(72)	(6)	(94)
Levies and special governmental measures	(55)	0	(141)
Impairment losses on financial assets	(5)	(7)	83
Profit/loss before tax	**388**	**(681)**	**1,024**
Income taxes	57	0	(205)
Profit/loss after tax	**445**	**(681)**	**820**
Profit attributable to non-controlling interests	0	(6)	(64)
Consolidated profit/loss	**445**	**(686)**	**756**
Return on equity before tax	–	–	18.7%
Return on equity after tax	–	–	14.9%
Net interest margin (average interest-bearing assets)	–	–	2.48%
Cost/income ratio	–	–	56.0%
Loan/deposit ratio	–	–	98.3%
Provisioning ratio (average loans and advances to customers)	–	–	(0.22)%
NPL ratio	–	–	4.8%
NPL coverage ratio	–	–	73.5%
Assets	32,767	(22,909)	143,556
Liabilities	24,113	(16,034)	131,588
Risk-weighted assets (total RWA)	15,494	(14,234)	74,346
Average equity	2,231	(2,029)	10,975
Loans to customers	3,802	(2,165)	77,895
Deposits from customers	3,684	(3,632)	79,908
Business outlets	–	–	2,411
Employees as at reporting date (full-time equivalents)	1,055	–	50,025
Customers in million	0.0	–	16.7

1/1-30/6/2017 in € million	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates & Markets
Net interest income	463	364	493	294
Dividend income	5	5	2	14
Net fee and commission income	274	192	227	160
Net trading income and fair value result	28	16	40	50
Net gains/losses from hedge accounting	2	0	(6)	(2)
Other net operating income	12	19	(2)	46
Operating income	**784**	**597**	**755**	**563**
General administrative expenses	(436)	(328)	(302)	(325)
Operating result	**348**	**269**	**453**	**238**
Other result	(3)	0	1	(3)
Levies and special governmental measures	(66)	6	0	(11)
Impairment losses on financial assets	(5)	(69)	20	(35)
Profit/loss before tax	**274**	**206**	**474**	**189**
Income taxes	(41)	(32)	(100)	(38)
Profit/loss after tax	**234**	**174**	**374**	**151**
Profit attributable to non-controlling interests	(29)	0	(34)	1
Consolidated profit/loss	**204**	**174**	**340**	**152**
Return on equity before tax	20.9%	19.2%	53.5%	13.1%
Return on equity after tax	17.8%	16.2%	42.3%	10.5%
Net interest margin (average interest-bearing assets)	2.09%	3.47%	6.58%	1.38%
Cost/income ratio	55.6%	54.9%	40.0%	57.7%
Loan/deposit ratio	92.5%	73.5%	82.8%	153.8%
Provisioning ratio (average loans and advances to customers)	0.03%	1.10%	(0.41)%	0.27%
NPL ratio	5.6%	10.2%	11.7%	5.8%
NPL coverage ratio	63.9%	76.7%	83.0%	63.2%
Assets	46,332	22,770	15,558	44,434
Liabilities	41,897	19,823	13,153	44,547
Risk-weighted assets (total RWA)	22,046	14,070	11,368	19,961
Average equity	2,622	2,152	1,772	2,880
Loans to customers	29,569	12,549	9,388	25,509
Deposits from customers	33,991	17,468	11,414	22,018
Business outlets	634	995	771	25
Employees as at reporting date (full-time equivalents)	13,264	14,830	17,767	2,675
Customers in million	3.4	5.4	5.7	2.0

1/1-30/6/2017 in € million	Corporate Center	Reconciliation	Total
Net interest income	(44)	23	1,593
Dividend income	723	(726)	23
Net fee and commission income	(7)	(4)	843
Net trading income and fair value result	(91)	(16)	27
Net gains/losses from hedge accounting	11	(1)	4
Other net operating income	42	(58)	60
Operating income	**634**	**(782)**	**2,551**
General administrative expenses	(169)	56	(1,503)
Operating result	**465**	**(726)**	**1,048**
Other result	16	21	32
Levies and special governmental measures	(60)	0	(131)
Impairment losses on financial assets	(8)	(5)	(100)
Profit/loss before tax	**414**	**(710)**	**849**
Income taxes	18	0	(193)
Profit/loss after tax	**432**	**(710)**	**656**
Profit attributable to non-controlling interests	0	(6)	(68)
Consolidated profit/loss	**432**	**(715)**	**587**
Return on equity before tax	–	–	17.4%
Return on equity after tax	–	–	13.4%
Net interest margin (average interest-bearing assets)	–	–	2.44%
Cost/income ratio	–	–	58.9%
Loan/deposit ratio	–	–	97.8%
Provisioning ratio (average loans and advances to customers)	–	–	0.26%
NPL ratio	–	–	7.3%
NPL coverage ratio	–	–	70.5%
Assets	33,355	(23,847)	138,603
Liabilities	26,186	(17,237)	128,369
Risk-weighted assets (total RWA)	14,174	(12,599)	69,021
Average equity	2,303	(1,950)	9,778
Loans to customers	1,393	(2,024)	76,384
Deposits from customers	525	(3,691)	81,725
Business outlets	–	–	2,425
Employees as at reporting date (full-time equivalents)	1,152	–	49,688
Customers in million	0.0	–	16.5

Notes

Principles underlying the consolidated financial statements

Principles of preparation

The condensed interim consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the international accounting standards adopted by the EU on the basis of IAS Regulation (EC) 1606/2002 including the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC/SIC).

The provisions of the new accounting standard for financial instruments (IFRS 9) took effect on 1 January 2018. This chapter contains further details on the first-time application of IFRS 9. The adjustments and the consequences of the new provisions are outlined in the chapter IFRS 9 transition.

In addition to the introduction of IFRS 9, RBI has also made changes to the presentation of the statement of financial position. It is now closely based on the requirements for the reporting of financial information (FinRep) issued by the European Banking Authority (EBA). The change also made it necessary to adapt the comparable period and the comparable reporting date. The changes are explained in more detail in the chapter changes in the presentation of the financial statements.

Some IFRS explanatory notes which are included outside the notes are an integral part of the consolidated financial statements. These are mainly explanations on net income from segments, which are included in the notes on segment reporting. In addition to the disclosures pursuant to IFRS 7 which are included in the notes, the risk report section in particular contains detailed information on credit risk, concentration risk, market risk and liquidity risk. This information is presented in accordance with IFRS 8 Operating Segments and IFRS 7 Financial Instruments Disclosures.

Critical accounting judgments and key sources of estimation uncertainty

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors, such as planning and expectations or forecasts of future events that appear likely from the current perspective. This primarily affects impairment losses in the credit business, the fair value and the impairment of financial instruments, deferred taxes, provisions for pensions and pension-related liabilities, and calculations used to determine the recoverability of goodwill and the intangible asset values capitalized in the course of the initial consolidation. The actual values may deviate from the estimated figures.

Application of new and revised standards

IFRS 9 (Financial instruments; entry into force 1 January 2018)

IFRS 9 contains requirements for recognition, measurement and derecognition, and also for hedge accounting. The key requirements of IFRS 9 can be summarized as follows:

According to IFRS 9, all financial assets are measured either at amortized cost or at fair value. Debt instruments which are held within the framework of a business model whose objective is to collect the contractual cash flows and whose contractual cash flows consist of solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost in the subsequent periods. All other instruments must be measured at fair value through profit or loss.

IFRS 9 also contains an option, which cannot subsequently be revoked, to recognize subsequent changes in the fair value of an equity investment (which is not held for trading) in other comprehensive income, with only dividend income recognized in profit or loss.

According to IFRS 9, the rules for impairment are applicable for financial assets measured at amortized cost or at fair value through other comprehensive income. In accordance with IFRS 9, the impairment rules are also applicable to loan commitments off the statement of financial position and financial guarantees. The model for the risk assessment changes from a historic-oriented model in accordance with IAS 39 (incurred loss model) to a future-oriented model in accordance with IFRS 9 (expected loss model).

For subsequent measurement of financial assets measured at amortized cost, IFRS 9 provides for three stages which determine the expected amount of losses to be recognized and the recognition of interest. The Stage 1 requires, at the time of initial recognition, the recognition of twelve-month expected credit losses. If there is a significant increase in the credit risk, the loss allowance must be increased up to the amount of the expected full lifetime loss (Stage 2). When there is an objective indication of an impairment, the interest in Stage 3 must be recognized on the basis of the net carrying amount.

IFRS 9 grants accounting options for hedge accounting. In 2018, RBI continues to apply the provisions on hedge accounting pursuant to IAS 39 while, however, taking into account the changes in the disclosures in the notes pursuant to IFRS 7.

With regard to the changed principles for the recognition and measurement of financial instruments, please refer to the chapter IFRS 9 Financial instruments (entry into force 1 January 2018) in the 2017 consolidated financial statements (see Annual Report 2017, page 235 ff).

IFRS 15 (Revenue from contracts with customers; entry into force 1 January 2018)

For all contracts with customers, the accounting standard specifies how and when income is recognized, based on a five-step model, but does not have any consequences for the recognition of income arising in connection with financial instruments within the scope of IFRS 9. IFRS 15 replaces several other IFRS standards such as IAS 18 (Revenue), IAS 11 (Construction Contracts) and interpretations, which determine the timing of recognition under IFRS. The standard also requires entities to provide users of financial statements with more informative, relevant disclosures in the notes. In 2016 the IASB published clarifications on IFRS 15. These changes address three of the five identified topics (performance obligation identification, principal/agent considerations and licenses) and aim to facilitate transition for modified and completed contracts. As the focus of IFRS 15 is not on accounting for revenue from financial instruments and leases, its first-time application will not have a material impact on the consolidated financial statements of RBI.

Amendments to IFRS 4 Insurance contracts (entry into force 1 January 2018)

The amendments aim to mitigate the consequences resulting from different first-time effective dates for the application of IFRS 9 and the successor standard to IFRS 4, especially for companies whose activities are predominantly connected with insurance. Two optional approaches are being introduced which can be used by insurers if certain requirements are met: the overlay approach and the deferral approach. The application of these amendments will not have any impact on the consolidated financial statements of RBI.

Standards and interpretations not yet applicable

IFRS 16 (Leases; entry into force 1 January 2019)

For lessees, the new standard establishes an accounting model which does not distinguish between financial leasing and operating leasing. In future, most lease agreements will have to be recognized in the statement of financial position. The standard requires lessees to recognize assets and liabilities in the statement of financial position for all leases of more than twelve months, unless the underlying asset has a low value. The lessee recognizes an asset which represents its right to use the underlying asset.

It also recognizes a lease liability which represents its liability to effect the lease payments. For lessors, the rules under IAS 17 (Leases) remain largely valid, meaning that in future it will still be necessary to distinguish between financial and operating leasing with corresponding different accounting consequences. In addition, the standard also requires entities to provide users of financial statements with more informative, relevant disclosures in the notes. In 2017, RBI launched a group-wide preliminary study to analyze the impact of IFRS 16 on existing leases. In the context of this preliminary study, contracts (rental and leasing contracts) were analyzed on the basis of the extent to which the existing lease agreements were to be recorded as rights of use and lease liabilities on the statement of financial position, and on the other hand, Group-wide accounting guidelines were drafted. The analysis has shown that as of 1 January 2019, usage rights and leasing liabilities of around € 500 million are expected to be recognized. An effect on equity is not expected. In 2018 the requirements are being implemented within the framework of local implementation projects.

Changes in the presentation of the financial statements

In addition to the first-time application of IFRS 9, RBI has also made changes in the presentation of the financial statements. The presentation of the financial statements is now closely based on the requirements for the reporting of financial information (FinRep) issued by the European Banking Authority (EBA) and enables greater transparency and comparability. The changes mainly relate to the presentation of financial instruments. The items in the consolidated statement of financial position and the consolidated income statement and also in the relevant items in the notes reflect the new accounting categories pursuant to IFRS 9.

The change also made it necessary to adapt the comparable period and the comparable reporting date. The following tables show the transition for the categories recognized at the end of 2017 into the new accounting format. The explanatory notes and consequences in relation to IFRS 9 are shown separately for each measurement category in the next chapter and are already based on the adapted figures.

The column headings represent the previous items on the statement of financial position, while the line headers reflect the new presentation of the statement of financial position:

Assets in € million	Cash reserve	Loans to banks	Loans to customers	Impairment losses on loans and advances	Trading assets	Derivatives
Cash, cash balances at central banks and other demand deposits	13,330	3,576	0	0	0	0
Financial assets - amortized cost	0	10,783	81,220	(3,102)	0	0
Financial assets - fair value through other comprehensive income	0	0	0	0	0	0
Non-trading financial assets - mandatorily fair value through profit/loss	–	–	–	–	–	–
Financial assets - designated fair value through profit/loss	0	0	13	0	0	0
Financial assets - held for trading	0	0	0	0	3,942	415
Hedge accounting	0	0	0	0	0	522
Investments in subsidiaries, joint ventures and associates	0	0	0	0	0	0
Tangible fixed assets	0	0	0	0	0	0
Intangible fixed assets	0	0	0	0	0	0
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Total	**13,330**	**14,358**	**81,232**	**(3,102)**	**3,942**	**937**

Equity and liabilities in € million	Deposits from banks	Deposits from customers	Debt securities issued	Provisions for liabilities and charges	Trading liabilities
Financial liabilities - amortized cost	21,675	84,831	4,765	0	0
Financial liabilities - designated fair value through profit/loss	617	0	1,120	0	0
Financial liabilities - held for trading	0	0	0	0	4,257
Hedge accounting	0	0	0	0	0
Provisions for liabilities and charges	0	0	0	872	0
Current tax liabilities	0	0	0	75	0
Deferred tax liabilities	0	0	0	63	0
Other liabilities	0	0	0	0	0
Equity	0	0	0	0	0
Total	**22,291**	**84,831**	**5,885**	**1,010**	**4,257**

Assets in € million	Financial investments	Investments in associates	Intangible fixed assets	Tangible fixed assets	Other assets	Total assets
Cash, cash balances at central banks and other demand deposits	0	0	0	0	0	16,905
Financial assets - amortized cost	7,221	0	0	0	186	96,307
Financial assets - fair value through other comprehensive income	6,589	0	0	0	0	6,589
Non-trading financial assets - mandatorily fair value through profit/loss	-	-	-	-	-	-
Financial assets - designated fair value through profit/loss	5,357	0	0	0	0	5,370
Financial assets - held for trading	266	0	0	0	0	4,622
Hedge accounting	0	0	0	0	75	597
Investments in subsidiaries, joint ventures and associates	194	729	0	0	0	923
Tangible fixed assets	0	0	0	1,540	0	1,540
Intangible fixed assets	0	0	721	0	0	721
Current tax assets	0	0	0	0	189	189
Deferred tax assets	0	0	0	0	114	114
Other assets	0	0	0	0	1,268	1,268
Total	**19,628**	**729**	**721**	**1,540**	**1,832**	**135,146**

Equity and liabilities in € million	Derivatives	Other liabilities	Subordinated capital	Equity	Total liabilites and equity
Financial liabilities - amortized cost	0	507	3,016	0	114,794
Financial liabilities - designated fair value through profit/loss	0	0	772	0	2,509
Financial liabilities - held for trading	158	0	0	0	4,414
Hedge accounting	205	60	0	0	265
Provisions for liabilities and charges	0	0	0	0	872
Current tax liabilities	0	0	0	0	75
Deferred tax liabilities	0	0	0	0	63
Other liabilities	0	913	0	0	913
Equity	0	0	0	11,241	11,241
Total	**362**	**1,480**	**3,788**	**11,241**	**135,146**

IFRS 9 Transition

This chapter contains an analysis showing the transition from the figures presented in the annual report 2017 to those in accordance with IFRS 9 for the first-time application as at 1 January 2018. The transition provisions for IFRS 9 do not require any retroactive application to earlier reporting periods; consequently, the effect of the first-time application is reflected in the equity of the opening balance for the 2018 financial year. Due to the adaptation of various parameters based on new historical information, the transition effect was recalculated, resulting in an effect of minus € 40 million after taxes compared to the figure published in the first quarter. The transition effect recognized in equity was therefore minus € 170 million.

The following table gives an overview of the consequences of the change in assets for classification and measurement, taking into account impairments for items on and off the statement of financial position which are affected by IFRS 9, from IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018.

Overview - IFRS 9 Transition

Assets in € million	IAS 39 Carrying amount 31/12/2017	Reclassi- fications	Remeasure- ments	IFRS 9 Carrying amount 1/1/2018
Financial assets - amortized cost	96,307	(55)	(255)	95,998
Financial assets - fair value through other comprehensive income	6,589	368	3	6,961
Non-trading financial assets - mandatorily fair value through profit/loss	-	563	7	571
Financial assets - designated fair value through profit/loss	5,370	(854)	0	4,516
Financial assets - held for trading	4,622	(24)	0	4,598
Deferred taxes	114	0	35	149
Total	**113,003**	**0**	**(210)**	**112,793**

Equity and liabilities in € million	IAS 39 Carrying amount 31/12/2017	Reclassi- fications	Remeasure- ments	IFRS 9 Carrying amount 1/1/2018
Financial liabilities - amortized cost	114,794	448	0	115,242
Financial liabilities - designated fair value through profit/loss	2,509	(448)	(70)	1,991
Financial liabilities - held for trading	4,414	0	0	4,414
Provisions for loan commitments, financial guarantees and other commitments given	119	0	30	149
Liabilities	**121,836**	**0**	**(40)**	**121,796**
Equity	**11,241**	**0**	**(170)**	**11,071**
Total	**133,077**	**0**	**(210)**	**132,867**

Transition financial assets – amortized cost

The reclassification of € 314 million relates to subtractions of loans and advances to customers that do not have contractual cash flows that are solely payments of principal and interest and thus have to mandatorily be measured at fair value. In addition, debt instruments which are also to be allocated to this measurement category had additions from financial assets - fair value through other comprehensive income (€ 160 million) and to a lesser extent from other measurement categories where the underlying business model and the structure of the debt instruments necessitated presentation in the category amortized cost.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassi-fications	Remea-sure-ments	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other compre-hensive income 1/1/2018
Debt instruments	**7,835**	**259**	**(14)**	**8,080**	**(11)**	**(3)**
Additions from financial assets - held for trading	–	59	(6)	–	(6)	–
Additions from financial assets - designated fair value through profit/loss	–	77	(2)	–	(2)	–
Additions from financial assets - fair value through other comprehensive income	–	160	(3)	–	0	(3)
Required subtractions to non-trading financial assets - mandatorily fair value through profit/loss	–	(20)	0	–	–	–
Elected subtractions to financial assets - fair value through other comprehensive income	–	(16)	0	–	–	–
Loans and advances	**88,473**	**(314)**	**(242)**	**87,917**	**(242)**	**–**
Required subtractions to non-trading financial assets - mandatorily fair value through profit/loss	–	(314)	0	–	–	–
Total	**96,307**	**(55)**	**(255)**	**95,998**	**(252)**	**(3)**

Transition financial assets – fair value through other comprehensive income

A financial asset is subsequently measured at fair value through other comprehensive income (FVOCI) if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition, the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This category mainly includes securities from the liquidity reserve and equity instruments that were allocated to the measurement category financial assets - available for sale under IAS 39.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other comprehensive income 1/1/2018
Equity instruments	**298**	**1**	**3**	**302**	**0**	**3**
Additions from financial assets - designated fair value through profit/loss	–	1	0	–	0	0
Additions from financial assets - fair value through other comprehensive income	–	0	0	–	–	3
Debt instruments	**6,292**	**367**	**0**	**6,659**	**(3)**	**3**
Additions from financial assets - designated fair value through profit/loss	–	522	0	–	(3)	3
Additions from financial assets - held to maturity	–	16	0	–	0	0
Elected subtractions to financial assets - amortized cost	–	(160)	–	–	–	–
Elected subtractions to Financial assets - designated fair value through profit/loss	–	(11)	–	–	–	–
Loans and advances	**0**	**0**	**0**	**0**	**0**	**0**
Total	**6,589**	**368**	**3**	**6,961**	**(3)**	**7**

Transition non-trading financial assets – mandatorily fair value through profit/loss

Financial assets which are not held for trading, which additionally do not meet the criteria for classification as assets and are subsequently to be measured at amortized cost or at FVOCI are classified as assets which are subsequently to be measured at fair value through profit/loss. This measurement category includes largely additions of loans and advances to customers that do not have contractual cash flows that are solely payments of principal and interest and thus have to mandatorily be measured at fair value (€ 302 million). Affected are loans and other debt instruments which include non-SPPI incongruent interest components and did not pass the required quantitative test (see also chapter IFRS 9 Financial Instruments, entry into force on 1 January 2018, in the consolidated financial statements for 2017 (see Annual Report 2017, page 235 ff)). The resulting elected or required reclassifications in the form of additions and subtractions from the former IAS 39 measurement categories are shown in the table below.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassi-fications	Remea-sure-ments	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other compre-hensive income 1/1/2018
Equity instruments	**–**	**78**	**–**	**78**	**–**	**–**
Additions from financial assets - designated fair value through profit/loss	–	78	–	–	–	–
Debt instruments	**–**	**184**	**1**	**184**	**1**	**–**
Additions from financial assets - designated fair value through profit/loss	–	151	–	–	–	–
Additions from financial assets - loans and receivables	–	12	0	–	0	–
Additions from financial assets - held to maturity	–	20	1	–	1	–
Loans and advances	**–**	**302**	**7**	**308**	**7**	**–**
Additions from financial assets - loans and receivables	–	302	7	–	7	–
Total	**–**	**563**	**7**	**571**	**7**	**–**

Transition financial assets – designated fair value through profit/loss

Because of cancellations of equity instruments and debt instruments designated at fair value under IAS 39, subtractions from financial assets - designated fair value through profit/loss which were required or voluntary pursuant to IFRS 9 had to be reversed. Essentially, debt instruments of € 752 million and equity instruments of € 101 million were reclassified from financial assets - designated fair value through profit/loss. The resulting discretionary or required reclassifications in the form of additions and subtractions from the former IAS 39 measurement categories are shown in the table below.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassi-fications	Remea-sure-ments	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other compre-hensive income 1/1/2018
Equity instruments	**101**	**(101)**	**–**	**0**	**0**	**0**
Required subtractions to non-trading financial assets - held for trading	–	(22)	–	–	–	–
Elected subtractions to financial assets - fair value through other comprehensive income	–	(1)	–	–	–	–
Elected subtractions to non-trading financial assets - mandatorily fair value through profit/loss	–	(78)	–	–	–	–
Debt instruments	**5,255**	**(752)**	**–**	**4,503**	**1**	**(1)**
Additions from financial assets - fair value through other comprehensive income	–	11	–	–	1	(1)
Required subtractions to financial assets - held for trading	–	(13)	–	–	–	–
Required subtractions to financial assets - fair value through other comprehensive income	–	(385)	–	–	–	–
Elected subtractions to non-trading financial assets - mandatorily fair value through profit/loss	–	(151)	–	–	–	–
Elected subtractions to financial assets - fair value through other comprehensive income	–	(136)	–	–	–	–
Elected subtractions to financial assets - amortized cost	–	(77)	–	–	–	–
Loans and advances	**14**	**0**	**0**	**14**	**0**	**0**
Total	**5,370**	**(854)**	**0**	**4,516**	**1**	**(1)**

Transition financial assets – held for trading

Additions to financial assets – held for trading amounting to € 13 million are made largely from financial assets which, according to IAS 39 were voluntarily measured as designated at fair value. However, these options are limited under IFRS 9 because a financial asset can only be measured as designated at fair value through profit/loss if doing so prevents or significantly reduces a measurement or recognition inconsistency – i.e. an accounting mismatch. Where this condition was not met, the Group was, in many cases, required to reclassify equities and debt instruments under financial assets held for trading.

Subtractions, due to reclassifications from assets held for trading into the measurement category financial assets - amortized cost, amounting to € 59 million were made where the two conditions were fulfilled that the asset is held within a business model whose objective is achieved by managing assets in order to collect contractual cash flows and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other comprehensive income 1/1/2018
Derivatives	**2,138**	**0**	**0**	**2,138**	**0**	**0**
Equity instruments	**246**	**22**	**0**	**267**	**0**	**0**
Additions from financial assets - designated fair value through profit/loss	–	22	0	–	–	–
Debt instruments	**2,238**	**(46)**	**0**	**2,193**	**0**	**0**
Additions from financial assets - designated fair value through profit/loss	–	13	0	–	–	–
Subtractions to financial assets - amortized cost	–	(59)	0	–	–	–
Loans and advances	**–**	**0**	**0**	**–**	**0**	**–**
Total	**4,622**	**(24)**	**0**	**4,598**	**0**	**0**

Transition financial liabilities – designated fair value through profit/loss

A financial liability can be irrevocably designated as at fair value through profit or loss if doing so prevents or significantly reduces a measurement or recognition inconsistency – i.e. an accounting mismatch. These inconsistencies arise from measuring assets or liabilities, or recognizing the gains and losses on them, on a different basis. If a financial liability contains one or more embedded derivatives (structured financial liabilities), then according to IFRS 9, the entire financial liability may, at the time of initial recognition, be irrevocably classified as designated at fair value through profit/loss, if certain conditions are met. Reclassifications amounting to minus € 448 million and remeasurements (minus € 70 million) of financial liabilities – designated fair value through profit/loss into the measurement category financial liabilities - amortized cost had to be reversed due to cancellations of deposits and debt instruments previously designated at fair value.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1/1/2018	Retained earnings 1/1/2018	Cumulative other comprehensive income 1/1/2018
Deposits	**617**	**(71)**	**(15)**	**531**	**12**	**3**
Elected subtractions to financial liabilities - amortized cost	–	(71)	(15)	–	12	3
Debt securities	**1,892**	**(377)**	**(55)**	**1,460**	**(2)**	**57**
Additions from financial liabilities - amortized cost	–	11	0	–	0	0
Elected subtractions to financial liabilities - amortized cost	–	(388)	(55)	–	(2)	57
Other financial liabilities	**–**	**0**	**0**	**–**	**0**	**0**
Total	**2,509**	**(448)**	**(70)**	**1,991**	**10**	**60**

Transition impairments

Remeasurements due to the change from a historic-oriented risk assessment model pursuant to IAS 39 (incurred loss model) to a future-oriented model in accordance with IFRS 9 (expected loss model) were necessary for financial assets measured at amortized cost or at fair value through other comprehensive income, and also for impairment losses for loan commitments off the statement of financial position and financial guarantees.

The column reclassification relates to changes in impairment due to differences in the scope of the impairment requirements in IFRS 9 compared to IAS 39. The decrease in impairment losses of € 20 million due to reclassifications is on the one hand due to reversals of impairment on loans and receivables (€ 23 million) which have to be measured at fair value in accordance with IFRS 9 and on the other hand to debt instruments of the available for sale category measured at fair value through other comprehensive income according to IFRS 9.

The column remeasurements relates to changes in impairment due to changes in the methods used to determine the impairment allowances for financial assets that were already under IAS 39 for financial assets and under IAS 37 for credit risks off the statement of the financial position within the scope of the impairment requirements.

In addition, the increase in impairments in the column remeasurements includes effects not affecting equity resulting from the first-time application of IFRS 9. This relates on the one hand to a reduction in loan loss provisions which at the time of transition to IFRS 9 had been retrospectively identified as purchased or originated credit impaired financial assets (POCI) and on the other hand to an increase in risk provisioning for already defaulted receivables, which concerns interest receivables which were recognized off the statement of the financial position until 31 December 2017 and which are recognized as part of the gross carrying amount from 1 January 2018.

in € million	IAS 39 Carrying amount 31/12/2017	Reclassi-fications	Remeasure-ments	IFRS 9 Carrying amount 1/1/2018
Financial assets - amortized cost	**3,102**	**(23)**	**238**	**3,317**
hereof debt instruments	0	0	2	3
hereof loans and advances	3,102	(23)	236	3,315
Financial assets - fair value through other comprehensive income	**–**	**3**	**1**	**4**
hereof debt instruments	–	3	1	4
hereof loans and advances	–	0	0	0
Off balance sheet items	**119**	**–**	**30**	**149**
hereof loan commitments given	27	–	27	54
hereof financial guarantees given	84	–	0	84
hereof other commitments given	8	–	3	11
Total	**3,221**	**(20)**	**269**	**3,470**

Currencies

Rates in units per €	2018 As at 30/6	2018 Average 1/1-30/6	2017 As at 31/12	2017 Average 1/1-30/6
Albanian lek (ALL)	125,910	129,851	132,980	134,904
Belarusian rouble (BYN)	2,311	2,385	2,364	2,065
Bosnian marka (BAM)	1,956	1,956	1,956	1,956
Bulgarian lev (BGN)	1,956	1,956	1,956	1,956
Croatian kuna (HRK)	7,386	7,420	7,440	7,459
Czech koruna (CZK)	26,020	25,573	25,535	26,805
Hungarian forint (HUF)	329,770	315,607	310,330	309,270
Polish zloty (PLN)	4,373	4,232	4,177	4,271
Romanian leu (RON)	4,663	4,658	4,659	4,538
Russian rouble (RUB)	73,158	71,543	69,392	63,451
Serbian dinar (RSD)	117,890	118,207	118,440	122,980
Ukrainian hryvnia (UAH)	30,603	32,313	33,727	29,083
US-Dollar (USD)	1,166	1,206	1,199	1,088

Consolidated group

Number of units	Fully consolidated 30/6/2018	Fully consolidated 31/12/2017
As at beginning of period	**236**	**106**
Included in the course of merger	0	175
Included for the first time in the financial period	6	4
Excluded in the financial period	(14)	(49)
As at end of period	**228**	**236**

The companies which were included for the first time are mainly engaged in leasing activities. In addition, one real estate company in Hungary was included for the first time in the second quarter. In the reporting period, 13 companies – especially leasing units – were excluded from the consolidated group on grounds of immateriality, and one company was sold.

Notes to the income statement

(1) Net interest income

in € million	1/1-30/6/2018	1/1-30/6/2017
Interest income	**2,352**	**2,350**
Financial assets - held for trading	191	174
Non-trading financial assets - mandatorily fair value through profit/loss	16	0
Financial assets - designated fair value through profit/loss	33	77
Financial assets - fair value through other comprehensive income	56	16
Financial assets - amortized cost	1,930	1,934
Derivatives – hedge accounting, interest rate risk	81	98
Other assets	17	35
Interest income on financial liabilities	27	15
Interest expenses	**(689)**	**(756)**
Financial liabilities - held for trading	(152)	(126)
Financial liabilities - designated fair value through profit/loss	(32)	(46)
Financial liabilities - amortized cost	(453)	(533)
Derivatives – hedge accounting, interest rate risk	(20)	(9)
Other liabilities	(7)	(17)
Interest expenses on financial assets	(25)	(26)
Total	**1,663**	**1,593**

Net interest income includes interest income and interest expenses from mark-to-market items amounting to € 113 million.

in € million	1/1-30/6/2018	1/1-30/6/2017
Net interest income	1,663	1,593
Average interest-bearing assets	133,911	130,727
Net interest margin in per cent	**2.48%**	**2.44%**

The rise in net interest income was primarily the result of increases in Romania (increase of € 29 million due to higher interest rates and larger volumes), the Czech Republic (increase of € 27 million due in large part to higher interest rates in repo business and larger customer loan volumes), and in Ukraine (increase of € 14 million due to higher interest rates and larger volumes of corporate loans). The positive development of net interest income in Russia was offset by the depreciation of the Russian rouble.

The improvement in the net interest margin was driven in some measure by healthy margin growth in Romania and the Czech Republic, but above all by Ukraine as a result of the positive development of corporate loans there.

(2) Dividend income

in € million	1/1-30/6/2018	1/1-30/6/2017
Non-trading financial assets - mandatorily fair value through profit/loss	1	0
Financial assets - fair value through other comprehensive income	13	13
Investments in subsidiaries, joint ventures and associates	43	10
Total	**57**	**23**

This increase is generated predominatly from dividend income from subsidiaries not fully consolidated (primarily real estate companies and insurance brokers).

(3) Net fee and commission income

in € million	1/1-30/6/2018	1/1-30/6/2017
Clearing, settlement and payment services	283	284
Loan and guarantee business	92	80
Securities	51	58
Asset management	128	126
Custody	60	53
Customer resources distributed but not managed	36	35
Other	220	207
Total	**869**	**843**
Fee and commission income	1,216	1,181
Fee and commission expenses	(346)	(338)

Net fee and commission income increased € 27 million to € 869 million despite significant depreciation among Eastern European currencies compared to the same period in the previous year. Net income from the loan and guarantee business went up € 13 million, above all at RBI AG. Other net fee and commission income increased € 13 million primarily in Romania due to the higher income from foreign exchange and notes and coins resulting from larger business volumes.

(4) Net trading income and fair value result

in € million	1/1-30/6/2018	1/1-30/6/2017
Net gains/losses on financial assets and liabilities - held for trading	**(297)**	**222**
Derivatives	(261)	221
Equity instruments	(12)	(24)
Debt securities	(25)	19
Loans and advances	3	4
Short positions	1	(1)
Deposits	(6)	1
Other financial liabilities	3	2
Net gains/losses on non-trading financial assets - mandatorily at fair value through profit or loss	**10**	**–**
Debt securities	(3)	–
Loans and advances	14	–
Financial assets and liabilities - designated fair value through profit/loss	**4**	**(32)**
Debt securities	(13)	(69)
Deposits	9	6
Debt securities issued	8	31
Exchange differences, net	**300**	**(163)**
Total	**16**	**27**

Net trading income was down € 11 million year-on-year. While net gains on derivatives of € 221 million were reported in the comparable period, net losses of € 261 million were booked in the first half of 2018. This was primarily based on valuation changes from foreign exchange derivatives at RBI AG and in Russia and Poland. In the first half of 2018, € 187 million in losses from derivatives were reported in connection with economic hedges (comparable period: gains of € 248 million).

The net gains from currency translation of € 300 million (comparable period: losses of € 163 million) were primarily attributable to exchange rate developments in Russia and Poland and positions in US dollars and Swiss francs held at RBI AG. These results are offset partly by opposite valuations of the foreign exchange derivatives that are held in the derivatives position for economic hedge purposes.

The change in net income from debt securities held for trading from € 19 million to minus € 25 million was mainly due to valuation losses at RBI AG and in Russia.

The changes of € 56 million in debt securities - designated fair value through profit/loss and minus € 23 million in debt securities issued – designated fair value profit/loss were primarily caused by interest-rate-induced valuation changes at RBI AG.

(5) Net gains/losses from hedge accounting

in € million	1/1-30/6/2018	1/1-30/6/2017
Fair value changes of the hedging instruments	(19)	(57)
Fair value changes of the hedged items attributable to the hedged risk	31	61
Ineffectiveness of cash flow hedge recognized in profit or loss	(13)	0
Total	**(2)**	**4**

Net gains/losses from hedge accounting decreased mainly due to the results in Poland and Russia.

The sale of the core banking business of Raiffeisen Bank Polska S.A. resulted in the termination of the existing portfolio cash flow hedges in the second quarter of 2018. These hedged the cash flow fluctuations from foreign currency loans and deposits in local currency by means of foreign currency interest rate swaps. The termination had a neutral effect on capital, but resulted in the reclassification through profit or loss of the cash flow hedge reserve of minus € 13 million recognized in other comprehensive income in previous periods.

The now terminated portfolio fair value hedge relationship in Russia showed fair value changes from hedged positions of minus € 6 million in the first half of 2017.

(6) Other net operating income

in € million	1/1-30/6/2018	1/1-30/6/2017
Gains/losses on derecognition of financial assets and liabilities - not measured at fair value through profit/loss	17	24
Gains/losses on derecognition of non-financial assets held for sale	4	(3)
Net income arising from non-banking activities	15	19
Net income from additional leasing services	1	2
Net income from insurance contracts	(1)	(1)
Net rental income from investment property incl. operating lease (real estate)	29	42
Net expense from allocation and release of other provisions	21	6
Other taxes	(31)	(32)
Sundry operating income/expenses	10	4
Total	**65**	**60**

Other net operating income increased 9 per cent or € 5 million year-on-year. Net expense from allocations and release of other provisions included a net release of € 21 million, mainly in connection with litigation involving RBI AG and in Russia. RBI AG reported a gain of € 25 million from the release of a provision in connection with the termination of protracted litigation with an Icelandic bank. However, small allocations were made to provisions in connection with other court cases. In contrast, rental income from investment property including operating lease fell €13 million to € 29 million. Of that amount, € 7 million related to Hungary due to the deconsolidation of a real estate fund and € 5 million to Croatia.

(7) General administrative expenses

in € million	1/1- 30/6/2018	1/1- 30/6/2017
Staff expenses	(780)	(780)
Other administrative expenses	(573)	(572)
Depreciation of tangible and intangible fixed assets	(141)	(151)
Total	**(1,494)**	**(1,503)**

In the reporting period, the Belarusian rouble, the Russian rouble and the Ukrainian hryvnia depreciated 13, 11 and 10 per cent respectively year-on-year on the basis of average exchange rates. In contrast, the Czech koruna appreciated 5 per cent. The currency movements led to a reduction of € 32 million in general administrative expenses.

Staff expenses

in € million	1/1-30/6/2018	1/1-30/6/2017
Wages and salaries	(613)	(598)
Social security costs and staff-related taxes	(134)	(143)
Other voluntary social expenses	(20)	(20)
Sundry staff expenses	(13)	(18)
Total	**(780)**	**(780)**

Staff expenses were largely unchanged. Currency effects and the decrease of 214 in the headcount reduced expenses. In contrast, salary adjustments and higher bonuses increased staff expenses, mainly in Russia, Ukraine and Slovakia. A change in the law in Romania also resulted in a neutral shift between the items wages and salaries and social security costs and staff-related taxes.

Other administrative expenses

in € million	1/1-30/6/2018	1/1-30/6/2017
Office space expenses	(107)	(118)
IT expenses	(162)	(148)
Legal, advisory and consulting expenses	(55)	(52)
Advertising, PR and promotional expenses	(56)	(61)
Communication expenses	(31)	(33)
Office supplies	(11)	(12)
Car expenses	(7)	(8)
Deposit insurance fees	(57)	(49)
Security expenses	(22)	(21)
Traveling expenses	(9)	(9)
Training expenses for staff	(8)	(7)
Sundry administrative expenses	(49)	(56)
Total	**(573)**	**(572)**

Other administrative expenses remained almost unchanged at € 573 million. They rose due to increased deposit insurance fees of € 8 million in Romania, Russia and in the Group Corporates & Markets segment and higher IT expenses (up € 14 million), primarily for acquired IT services in Group head office. In contrast, office space expenses fell € 11 million, mainly due to conversion of business outlets to a franchise model in Poland.

Depreciation of tangible and intangible fixed assets

in € million	1/1-30/6/2018	1/1-30/6/2017
Tangible fixed assets	(69)	(78)
Intangible fixed assets	(72)	(73)
Total	**(141)**	**(151)**

Depreciation of tangible and intangible fixed assets fell 7 per cent or € 10 million. The biggest decreases were reported in Russia in connection with an adjustment to the useful life of licenses in the same period of the previous year and in Croatia.

(8) Other result

in € million	1/1-30/6/2018	1/1-30/6/2017
Impairment or reversal of impairment on investments in subsidiaries, joint ventures and associates	**(1)**	**3**
Impairment on non-financial assets	**(11)**	**(6)**
Goodwill	(8)	0
Other	(3)	(6)
Current income from investments in subsidiaries, joint ventures and associates	**43**	**36**
Result from non-current assets and disposal groups classified as held for sale and deconsolidation	**(125)**	**1**
Net income from non-current assets and disposal groups classified as held for sale	(120)	1
Result of deconsolidations	(5)	0
Total	**(94)**	**32**

In the reporting period, the item net income from non-current assets and disposal groups classified as held for sale included an expected loss from the sale of the core banking operations of Raiffeisen Bank Polska S.A., Warsaw, in the amount of € 121 million. Impairments of € 84 million were recognized for non-current assets in the disposal group in accordance with IFRS 5. In addition, a provision of € 37 million was recognized for onerous contracts pursuant to IAS 37 as the contractual obligation already existed as at 30 June 2018. Details can be found under (23) Other assets.

During the initial consolidation of a Hungarian real estate company, the resulting goodwill of € 8 million was fully impaired.

The result of deconsolidations amounted to minus € 5 million and pertained to € 17 million in net assets. In the reporting period, 13 companies who mainly did leasing business were excluded from the consolidated group on the grounds of immateriality; one subsidiary was sold.

(9) Levies and special governmental measures

in € million	1/1-30/6/2018	1/1-30/6/2017
Bank levies	(87)	(88)
Profit/loss from banking business due to governmental measures	0	21
Resolution fund	(54)	(64)
Total	**(141)**	**(131)**

In accordance with the requirements of IFRIC 21, part of the expense for bank levies was already booked in the first quarter for the entire year. This affects RBI AG with a one-off payment of € 41 million and Hungary (€ 13 million).

No charges were incurred under the item profit/loss from banking business due to governmental measures while in the previous year provisions of € 22 million were released in Romania in connection with the so-called Walkaway Law.

The contributions to the resolution fund, which IFRIC 21 requires to be booked entirely at the beginning of the year, declined € 10 million to € 54 million due to lower contributions in Romania, at RBI AG, in Poland and in Slovakia, while the Czech Republic reported an increase here.

(10) Impairment losses on financial assets

in € million	1/1-30/6/2018	1/1-30/6/2017
Loans and advances	42	(107)
Debt securities	2	0
Loan commitments, financial guarantees and other commitments given	40	7
Total	**83**	**(100)**
hereof financial assets - fair value through other comprehensive income	1	1
hereof financial assets - amortized cost	43	(108)

In the same period of the previous year impairment losses on financial assets amounted to € 100 million while in the reporting period there was a net release of € 83 million. An improved macroeconomic environment led to releases of impairments at corporate customers also partly due to sales of non-performinmg loans.

The largest changes occurred at RBI AG (€ 114 million), in Croatia (€ 42 million), Romania (€ 31 million), Poland (€ 23 million), Russia (€ 16 million) and Hungary (minus € 29 million). At RBI AG, non-performing loans were sold at a considerable profit. In addition, exposures stated off the statement of the financial position were released in the amount of € 25 million due to a positive court ruling in connection with the insolvency of an Icelandic bank. In Croatia the situation improved after impairments were made in the same period in the previous year due to the default of a large corporate customer. In Romania there was a lower impairment need after impairments of € 46 million were necessary in the same period of the previous year mainly in connection with the voluntary conversion of loans in Swiss francs.

(11) Income taxes

in € million	1/1-30/6/2018	1/1-30/6/2017
Current income taxes	(200)	(139)
Austria	(8)	(19)
Foreign	(192)	(120)
Deferred taxes	(6)	(54)
Total	**(205)**	**(193)**

Higher profits are behind the increase in tax expenses. There was also a positive one-off effect in the previous year's period due to depreciation in Poland. This was countered by the effects of the rise in RBI Group taxation on non-consolidated Group members (increase of € 8 million) and an increase of € 5 million in withholding tax at RBI AG.

The effective tax rate improved 2.8 percentage points to 20.0 per cent. This was primarily the result of an improved contribution to earnings by RBI AG.

Notes to the statement of financial position

(12) Cash, cash balances at central banks and other demand deposits

in € million	30/6/2018	31/12/2017
Cash in hand	3,871	3,600
Balances at central banks	12,572	9,729
Other demand deposits at banks	5,222	3,576
Total	**21,665**	**16,905**

The increase in balances at central banks resulted mainly from the increase in deposits at Oesterreichische Nationalbank, while the growth in other demand deposits at banks was attributable to the increase in RBI AG's repo business.

(13) Financial assets - amortized cost

	30/6/2018			31/12/2017
in € million	Gross carrying amount	Accumulated impairment	Carrying amount	Carrying amount
Debt securities	**8,399**	**(2)**	**8,397**	**7,835**
Central banks	683	(1)	682	81
General governments	5,809	0	5,809	5,660
Banks	1,048	0	1,048	1,258
Other financial corporations	505	0	505	501
Non-financial corporations	354	0	354	336
Loans and advances	**90,172**	**(2,820)**	**87,352**	**88,473**
Central banks	5,198	0	5,198	5,345
General governments	876	(1)	875	863
Banks	4,597	(22)	4,575	5,396
Other financial corporations	7,284	(76)	7,208	4,379
Non-financial corporations	40,981	(1,498)	39,483	42,275
Households	31,237	(1,223)	30,013	30,215
Total	**98,571**	**(2,822)**	**95,749**	**96,307**

The carrying amount of financial assets – amortized cost decreased € 558 million compared to year-end 2017. The reduction compared to the value at year-end resulted from the reclassification of the disposal group of the core banking operations of Raiffeisen Bank Polska S.A., Warsaw, according to IFRS 5 in the amount of € 4,850 million to other assets. Details are shown under (23) Other assets.

Excluding that effect, the increase would have been € 4,292 million. The rise was mainly due to short-term loans and advances to customers and repurchase transactions in RBI AG. There was an increase of € 855 million in households, mostly in Slovakia and Russia. An increase of € 281 million in loans and advances to non-financial corporations was also reported, mainly in Slovakia and Romania.

(14) Financial assets - fair value through other comprehensive income

in € million	30/6/2018 Gross carrying amount	Accumulated impairment	Carrying amount	31/12/2017 Carrying amount
Equity instruments	**284**	**–**	**284**	**298**
Banks	23	–	23	22
Other financial corporations	155	–	155	191
Non-financial corporations	106	–	106	85
Debt securities	**4,313**	**(2)**	**4,311**	**6,292**
General governments	3,015	(2)	3,013	3,914
Banks	974	0	974	1,898
Other financial corporations	178	0	178	359
Non-financial corporations	145	0	145	120
Loans and advances	**43**	**(33)**	**10**	**0**
Non-financial corporations	43	(33)	10	0
Total	**4,640**	**(35)**	**4,605**	**6,589**

The carrying amount of financial assets – fair value through other comprehensive income – decreased € 1,984 million compared to year-end 2017. The change was mainly attributable to the reclassification of the disposal group of the core banking business of Raiffeisen Bank Polska S. A., Warsaw, according to IFRS 5 in the amount of € 2,101 million to other assets. Details are shown under (23) Other assets.

(15) Non-trading financial assets - mandatorily fair value through profit/loss

in € million	30/6/2018	31/12/2017
Equity instruments	**125**	**–**
Banks	21	–
Other financial corporations	1	–
Non-financial corporations	103	–
Debt securities	**102**	**–**
General governments	86	–
Banks	5	–
Other financial corporations	12	–
Loans and advances	**307**	**–**
General governments	4	–
Banks	2	–
Other financial corporations	3	–
Non-financial corporations	162	–
Households	137	–
Total	**535**	**–**

Equity instruments recognized at fair value through profit and loss were reported under financial assets – designated fair value through profit/loss at year-end 2017. In the current financial year, these equity instruments are reported in the new IFRS 9 measurement category non-trading financial assets – mandatorily fair value through profit/loss.

(16) Financial assets - designated fair value through profit/loss

in € million	30/6/2018	31/12/2017
Equity instruments	**0**	**101**
Other financial corporations	0	101
Debt securities	**3,919**	**5,255**
Central banks	274	0
General governments	3,125	4,351
Banks	358	671
Other financial corporations	22	192
Non-financial corporations	140	41
Loans and advances	**0**	**14**
Non-financial corporations	0	14
Total	**3,919**	**5,370**

The steep decrease in financial assets - designated fair value through profit/loss was based on changed allocation decisions at RBI AG and on the maturity of several bonds in Romania.

(17) Financial assets - held for trading

in € million	30/6/2018	31/12/2017
Derivatives	**2,028**	**2,138**
Interest rate contracts	1,137	1,349
Equity contracts	142	124
Foreign exchange rate and gold contracts	744	661
Commodities	5	3
Other	1	1
Equity instruments	**226**	**246**
Banks	37	46
Other financial corporations	77	76
Non-financial corporations	112	123
Debt securities	**2,280**	**2,238**
Central banks	90	0
General governments	999	913
Banks	718	806
Other financial corporations	227	268
Non-financial corporations	246	251
Total	**4,534**	**4,622**

Securities under financial assets – held for trading provided as collateral, which the recipient is entitled to sell or pledge, amounted to € 357 million (31/12/2017: € 403 million).

Details to derivatives are shown under (39) Derivative financial instruments.

(18) Hedge accounting

in € million	30/6/2018	31/12/2017
Positive fair values of derivatives in micro fair value hedge	**386**	**374**
Interest rate contracts	376	373
Foreign exchange rate and gold contracts	9	1
Positive fair values of derivatives in micro cash flow hedge	**4**	**1**
Interest rate contracts	4	1
Positive fair values of derivatives in net investment hedge	**16**	**0**
Positive fair values of derivatives in portfolio hedge	**121**	**147**
Cash flow hedge	7	24
Fair value hedge	114	122
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**96**	**75**
Total	**623**	**597**

(19) Investments in subsidiaries, joint ventures and associates

in € million	30/6/2018	31/12/2017
Interest in affiliated companies	197	194
Investments in associates	750	729
Total	**946**	**923**

Investments in associates broke down as follows:

in € million	Share in % 30/6/2018	Carrying amount 30/6/2018	Carrying amount 31/12/2017
card complete Service Bank AG, Vienna (AT)	25.0%	13	19
EMCOM Beteiligungs GmbH, Vienna (AT)	33.6%	7	0
LEIPNIK-LUNDENBURGER INVEST Beteiligungs AG, Vienna (AT)	33.1%	202	205
NOTARTREUHANDBANK AG, Vienna (AT)	26.0%	8	8
Österreichische Hotel- und Tourismusbank Ges.m.b.H., Vienna (AT)	31.3%	10	10
Österreichische Kontrollbank AG, Vienna (AT)	8.1%	57	56
Prva stavebna sporitelna a.s., Bratislava (SK)	32.5%	64	65
Raiffeisen Informatik GmbH, Vienna (AT)	47.6%	40	34
Raiffeisen-Leasing Management GmbH, Vienna (AT)	50.0%	13	0
UNIQA Insurance Group AG, Vienna (AT)	10.9%	335	334
Posojilnica Bank eGen, Klagenfurt (AT)	60.1%	0	0
Total		**750**	**729**

(20) Tangible fixed assets

in € million	30/6/2018	31/12/2017
Land and buildings used by the group for own purpose	594	585
Other land and buildings (investment property)	326	373
Office furniture, equipment and other tangible fixed assets	241	254
Leased assets (operating lease)	268	328
Total	**1,429**	**1,540**

(21) Intangible fixed assets

in € million	30/6/2018	31/12/2017
Software	534	594
Goodwill	95	96
Brand	9	8
Customer relationships	9	13
Other intangible fixed assets	13	10
Total	**659**	**721**

In the reporting period, € 81 million was invested in software. The decline in intangible fixed assets was mainly attributable to the reclassification of the disposal group of the core banking business of Raiffeisen Bank Polska S.A, Warsaw, according to IFRS 5 in the amount of € 65 million to other assets. Details are shown under (23) Other assets.

(22) Tax assets

in € million	30/6/2018	31/12/2017
Current tax assets	166	189
Deferred tax assets	118	114
Temporary tax claims	107	107
Loss carry forwards	10	7
Total	**284**	**304**

(23) Other assets

in € million	30/6/2018	31/12/2017
Prepayments and other deferrals	250	233
Lease in progress	50	36
Merchandise inventory and suspense accounts for services rendered not yet charged out	207	119
Non-current assets and disposal groups classified as held for sale	7,707	123
Other assets	395	757
Total	**8,609**	**1,268**

Merchandise inventory and suspense accounts for services rendered not yet charged out included property under construction or not yet sold of Raiffeisen Leasing Group in Austria and Italy of € 143 million.

Application of IFRS 5

Non-current assets and disposal groups classified as held for sale mainly consisted of the disposal groups of the core banking business of Raiffeisen Bank Polska S.A., Warsaw, and of Raiffeisen Pension Insurance d.d., Zagreb.

On 10 April 2018, Raiffeisen Bank International AG (RBI) agreed on the sale of the core banking business of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGZ BNP Paribas S.A., subsidiary of BNP Paribas S.A. (BNP). As a result of procedural aspects regarding formal approval of the transaction by the financial market supervisory authority, the transaction is expected to close in the fourth quarter of 2018.

As a result of the fulfillment of the application criteria of IFRS 5, the core banking business of Raiffeisen Bank Polska S.A. was reported as a disposal group as of 30 June 2018 and reported in other assets or other liabilities. According to the disclosure requirements of IFRS 5, the statement of financial position items (assets and liabilities) of the above disposal group from previous periods are not reclassified. As the sale meets none of the criteria set out in IFRS 5.32, these were not classified as discontinued operations.

On a consolidated level, the disposal group was measured pursuant to IFRS 5 at the lower of carrying value and fair value less costs to sell. As the sale agreement was signed before the end of the second quarter, the agreed price was taken as the fair value of the disposal group. The agreed price is PLN 3,250 million, equivalent to about € 775 million, and is lower than the allocated net assets of the disposal group, which amounted to € 857 million as of 30 June 2018. The direct impact of the sale on consolidated profit is about € 121 million, excluding potential effects from deconsolidation. In addition, the final calculation is subject to contractual provisions (including review of the submitted financial figures).

As matters stand, total assets of approximately € 7.6 billion and risk-weighted assets totaling approximately € 5.0 billion are allocable to the core banking business. Up to the closing date, further liquid funds of € 1.3 billion will be built up. The core banking business covers all the banking operations of Raiffeisen Bank Polska except for all foreign currency retail loans. In addition, several loans to corporate customers will remain with Raiffeisen Bank Polska. The allocation of capital was defined in the sale agreement on the basis of a fixed amount of common equity assigned to the core banking business.

The resultant impairment loss was initially allocated to non-current assets in the disposal group under IFRS 5. In addition, a provision was formed for onerous contracts under IAS 37, since the contractual obligation existed as of 30 June 2018.

The impairment loss of non-financial assets and the formation of the provision were also recognized in the other result.

in € million	30/6/2018
Impairment losses on tangible fixed assets	(19)
Impairment losses on intangible fixed assets	(65)
Allocation to provisions for an onerous contract	(37)
Total	**(121)**

The carrying amounts of the assets and liabilities as of 30 June 2018 were as follows:

Non-current assets and disposal groups classified as held for sale in € million	RBPL core banking business	Other	Total
Cash, cash balances at central banks and other demand deposits	277	0	277
Financial assets - amortized cost	4,850	16	4,866
Financial assets - fair value through other comprehensive income	2,101	4	2,105
Non-trading financial assets - mandatorily fair value through profit/loss	6	0	6
Financial assets - designated fair value through profit/loss	0	45	45
Financial assets - held for trading	297	1	299
Hedge accounting	0	0	0
Investments in subsidiaries, joint ventures and associates	4	0	4
Tangible fixed assets	0	0	0
Intangible fixed assets	0	0	0
Current tax assets	0	0	0
Deferred tax assets	28	0	28
Other assets	56	21	77
Total	**7,619**	**87**	**7,707**

Liabilities included in disposal groups classified as held for sale in € million	RBPL core banking business	Other	Total
Financial liabilities - amortized cost	7,912	66	7,978
Financial liabilities - designated fair value through profit/loss	0	0	0
Financial liabilities - held for trading	30	0	30
Hedge accounting	0	0	0
Provisions for liabilities and charges	57	0	57
Current tax liabilities	0	0	0
Deferred tax liabilities	0	0	0
Other liabilities	62	0	62
Total	**8,061**	**66**	**8,128**

RBPL: Raiffeisen Bank Polska S. A.,Warsaw

(24) Financial liabilities - amortized cost

The following table provides a breakdown of deposits from banks and customers by product and a breakdown of debt securities issued:

in € million	30/6/2018	31/12/2017
Deposits from banks	**26,446**	**22,268**
Current accounts/overnight deposits	4,125	9,999
Deposits with agreed maturity	12,445	11,908
Deposits redeemable at notice	7,412	23
Repurchase agreements	2,465	338
Deposits from customers	**79,537**	**84,467**
Current accounts/overnight deposits	52,310	54,954
Deposits with agreed maturity	24,282	27,413
Deposits redeemable at notice	2,424	2,064
Repurchase agreements	521	35
Debt securities issued	**7,842**	**7,544**
Covered bonds	815	917
Hybrid contracts	4	4
Other debt securities issued	7,023	6,623
hereof convertible compound financial instruments	1,439	1,553
hereof non-convertible	5,584	5,070
Other financial liabilities	**617**	**515**
Total	**114,443**	**114,794**
hereof subordinated financial liabilities	2,765	3,016

This change was due to the reclassification of the disposal group of Raiffeisen Bank Polska S.A., Warsaw, according to IFRS 5 in the amount of € 7,912 million to other liabilities (details are shown under (23) Other assets) and to growth in deposits redeemable at notice and those of a short-term nature from banks and customers.

The following table provides a breakdown of deposits from banks and customers by assets classes:

in € million	30/6/2018	31/12/2017
Central banks	2,073	1,857
General governments	2,462	1,896
Banks	24,373	20,411
Other financial corporations	9,129	6,817
Non-financial corporations	26,027	31,151
Households	41,918	44,602
Total	**105,983**	**106,735**

In the Central Europe segment, surplus liquidity from the first quarter was used to eliminate expensive liabilities from the portfolio, which, besides the reclassification of the core banking business of Raiffeisen Bank Polska S. A., Warsaw, according to IFRS 5 accounted for some of the decrease in liabilities to non-financial corporations.

(25) Financial liabilities - designated fair value through profit/loss

in € million	30/6/2018	31/12/2017
Deposits from banks	**28**	**109**
Deposits with agreed maturity	28	109
Deposits from customers	**371**	**507**
Deposits with agreed maturity	371	507
Debt securities issued	**1,439**	**1,892**
Other debt securities issued	1,439	1,892
hereof convertible compound financial instruments	11	0
hereof non-convertible	1,428	1,892
Total	**1,838**	**2,509**
hereof subordinated financial liabilities	433	772

The reduction in financial liabilities – designated fair value through profit/loss compared to year-end 2017 was largely due to a decrease in debt securities issued. This was attributable to a reclassification necessitated by IFRS 9 from the measurement category designated at fair value through profit/loss (reduction) to the measurement category at amortized cost (addition) and related entirely to RBI AG.

(26) Financial liabilities - held for trading

in € million	30/6/2018	31/12/2017
Derivatives	**1,999**	**1,726**
Interest rate contracts	901	1,002
Equity contracts	173	119
Foreign exchange rate and gold contracts	833	495
Credit contracts	4	5
Commodities	2	4
Other	86	101
Short positions	**436**	**344**
Equity instruments	186	216
Debt securities	249	128
Debt securities issued	**2,633**	**2,345**
Certificates of deposits	2,633	2,345
Total	**5,068**	**4,414**

Details to derivatives are shown under (39) Derivative financial instruments.

(27) Hedge accounting

in € million	30/6/2018	31/12/2017
Negative fair values of derivatives in micro fair value hedge	**27**	**28**
Interest rate contracts	27	28
Negative fair values of derivatives in micro cash flow hedge	**12**	**0**
Interest rate contracts	12	0
Negative fair values of derivatives in net investment hedge	**2**	**10**
Negative fair values of derivatives in portfolio hedge	**127**	**166**
Cash flow hedge	7	62
Fair value hedge	120	105
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**64**	**60**
Total	**233**	**265**

(28) Provisions for liabilities and charges

in € million	30/6/2018	31/12/2017
Pensions and other post employment defined benefit obligations	161	165
Other long-term employee benefits	36	33
Restructuring	3	18
Pending legal issues and tax litigation	99	129
Commitments and guarantees given	98	119
Onerous contracts	105	66
Bonus payments	134	169
Termination benefits	1	3
Provisions for overdue vacations	54	52
Other provisions	115	119
Total	**805**	**872**

The decrease in provisions for pending legal issues resulted mainly from releases at RBI AG. Following a final court decision in RBI's favor against an Icelandic bank in March 2018, there was a positive effect totaling € 50 million (€ 25 million recognized in pending legal issues and tax litigation and € 25 million recognized under commitments and guarantees given). The case relates to a lawsuit brought against RBI by the insolvency administrator in 2012.

Onerous contracts include a provison for the expected loss from the sale of the core banking business of Raiffeisen Bank Polska, S.A., Warsaw, in the amount of € 37 million. Details are shown under (23) Other assets.

Other provisions mainly consist of provisions relating to the bank resolution fund and bank levies.

(29) Tax liabilities

in € million	30/6/2018	31/12/2017
Current tax liabilities	70	75
Deferred tax liabilities	68	63
Total	**138**	**138**

(30) Other liabilities

in € million	30/6/2018	31/12/2017
Deferred income and accrued expenses	269	267
Sundry liabilities	667	584
Liabilities included in disposal groups classified as held for sale	8,128	62
Total	**9,064**	**913**

The increase in liabilities included in disposal groups classified as held for sale was mainly due to the IFRS 5 presentation of the core banking business of Raiffeisen Bank Polska S. A., Warsaw. Details are shown under (23) Other assets.

(31) Equity

in € million	30/6/2018	31/12/2017
Consolidated equity	10,197	9,937
Subscribed capital	1,002	1,002
Capital reserves	4,992	4,992
Retained earnings	6,818	6,496
hereof consolidated profit/loss	756	587
Cumulative other comprehensive income	(2,615)	(2,553)
Non-controlling interests	638	660
Additional tier 1	1,134	645
Total	**11,968**	**11,241**

As at 30 June 2018, subscribed capital of RBI AG as defined by the articles of incorporation amounted to € 1,003 million. After deduction of 394,942 own shares, the stated subscribed capital totaled € 1,002 million.

With 24 January 2018 as the settlement date, RBI placed € 500 million of perpetual additional tier 1 capital (AT1). The issue has a discretionary coupon of 4.5 per cent p.a. until mid-June 2025, which will be reset thereafter. The additional tier 1 capital is classified as equity under IFRS 32 on the basis of the issuance terms and conditions. Equity increased € 497 million after deduction of issuance costs and the discount. The total additional tier 1 capital amounted to € 1,134 million as at 30 June 2018 after deduction of own shares of € 8 million.

Notes to financial instruments

(32) Fair value of financial instruments

Fair value of financial instruments reported at fair value

Assets	2018			2017		
in € million	Level I	Level II	Level III	Level I	Level II	Level III
Financial assets - held for trading	**2,259**	**2,271**	**4**	**2,047**	**1,870**	**25**
Derivatives	35	1,992	1	128	1,595	1
Equity instruments	222	4	0	243	0	0
Debt securities	2,002	274	3	1,676	275	24
Non-trading financial assets - mandatorily fair value through profit/loss	**154**	**47**	**334**	**-**	**-**	**-**
Equity instruments	103	0	22	-	-	-
Debt securities	50	47	5	-	-	-
Loans and advances	0	0	307	-	-	-
Financial assets - designated fair value through profit/loss	**3,817**	**60**	**41**	**5,290**	**324**	**11**
Equity instruments	0	0	0	102	0	1
Debt securities	3,817	60	41	5,188	324	10
Financial assets - fair value through other comprehensive income	**3,762**	**575**	**268**	**4,938**	**1,307**	**238**
Equity instruments	90	27	167	92	41	62
Debt securities	3,672	548	91	4,846	1,266	176
Loans and advances	0	0	10	0	0	0
Hedge accounting	**0**	**527**	**0**	**0**	**522**	**0**
Banking book derivatives - without hedge accounting	**0**	**0**	**0**	**0**	**415**	**0**

Liabilities	2018			2017		
in € million	Level I	Level II	Level III	Level I	Level II	Level III
Financial liabilities - held for trading	**449**	**4,618**	**1**	**413**	**3,843**	**1**
Derivatives	38	1,960	0	114	1,454	0
Short positions	410	25	0	298	45	0
Debt securities issued	0	2,632	1	0	2,344	1
Financial liabilities - designated fair value through profit/loss	**0**	**1,838**	**0**	**0**	**2,522**	**0**
Deposits	0	399	0	0	772	0
Debt securities issued	0	1,439	0	0	1,133	0
Other financial liabilities	0	0	0	0	617	0
Hedge accounting	**0**	**168**	**0**	**0**	**205**	**0**
Banking book derivatives - without hedge accounting	**0**	**0**	**0**	**0**	**157**	**0**

Fair value hierarchy

Level I

Level I measurement parameters are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access on the valuation date (IFRS 13.76).

Level II

Level II financial instruments are financial instruments determined using valuation techniques based on observable market data, the fair value of which can be determined from similar financial instruments traded on active markets or valuation techniques whose input parameters are directly or indirectly observable (IFRS 13.81 ff).

The share of financial assets classified both as Level I and as Level II decreased compared to year-end 2017, mainly due to the IFRS 5 reclassification of the disposal group of the core banking business of Raiffeisen Bank Polska S.A, Warsaw. Details are shown under (23) Other assets.

Level III

Level III inputs are input factors which are unobservable for the asset or liability (IFRS 13.86). The fair value is calculated using the valuation method.

Movements between Level I and Level II

Since for the current financial year the information is provided based on IFRS 9, but for 2017 still in accordance with IAS 39, the movements between the periods are only indirectly comparable.

The remaining decrease resulted largely from disposals from the individual categories. Moreover, there was a slight shift from Level II to Level I in the category financial assets – held for trading. This was due to the fact that directly quoted market prices for these financial instruments were available at the reporting date.

Movements in Level III of financial instruments at fair value

The following tables show the changes in the fair value of financial instruments whose fair value cannot be calculated on the basis of observable market data and are therefore subject to other measurement models. Financial instruments in this category have a value component which is unobservable directly or indirectly on the market and which has a material impact on the fair value. Due to the move to IFRS 9, substantial additions were shown in various categories in the opening balance as at 1 January 2018. The reductions shown in the column changes in consolidated group and IFRS 5 mainly relate to the reclassification of the disposal group of the core banking business of Raiffeisen Bank Polska S.A., Warsaw, in accordance with IFRS 5. For details, refer to (23) Other assets.

Assets in € million	As at 1/1/2018	Change in consolidated group and IFRS 5	Exchange differences	Additions	Disposals
Financial assets - held for trading	125	(122)	0	1	0
Non-trading financial assets - mandatorily fair value through profit/loss	329	0	(1)	6	(2)
Financial assets - designated fair value through profit/loss	8	(36)	0	77	(8)
Financial assets - fair value through other comprehensive income	276	(35)	(2)	54	(7)

in € million	Gains/loss in P/L	Gain/loss in other comprehensive income	Transfer to Level III	Transfer from Level III	As at 30/6/2018
Financial assets - held for trading	0	0	0	0	4
Non-trading financial assets - mandatorily fair value through profit/loss	2	0	0	0	334
Financial assets - designated fair value through profit/loss	0	0	0	0	41
Financial assets - fair value through other comprehensive income	(19)	1	0	0	268

Liabilities in € million	As at 1/1/2018	Change in consolidated group and IFRS 5	Exchange differences	Additions	Disposals
Financial liabilities - held for trading	1	0	0	0	0

in € million	Gains/loss in P/L	Gain/loss in other comprehensive income	Transfer to Level III	Transfer from Level III	As at 30/6/2018
Financial liabilities - held for trading	0	0	0	0	1

Qualitative information for the valuation of financial instruments in Level III

Financial assets	Type	Fair value in € million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Shares and other variable-yield securities	Closed end real estate fund	0	Net asset value	Haircuts	40-90%
Shares and other variable-yield securities	Shares, floating rate notes	189	Cost of aquisition, DCF method	Realization rate Credit spread	10-35% 0.5-50%
Bonds, notes and other fixed-interest securities	Fixed coupon bonds	140	Discounted cash flow method	Credit spread	0.5-50%
Bonds, notes and other fixed-interest securities	Asset-backed securities	1	Discounted cash flow method	Realization rate Credit spread	10-25% 0.5-50%
Positive fair values of banking book derivatives without hedge accounting	Forward foreign exchange contracts	0	Net present value method Internal model	Interest rate PD LGD	10-30% 0.25-100% 35-65%
Loans and advances	Credit	307	Retail: Discounted cash flows (incl. prepayment option, withdrawal option etc.) Non Retail: Discounted cash flows/Financial option pricing : Black pricing, Hull-White one factor model	Discount spread Prepayment rates Withdrawal rates Funding curves (for liquidity costs) Credit spread range (CDS curves)	1.5-3.45% (over all currencies) (0.000205)-1.36% over all funding costs (expressed in all currencies) 0.02-26.6%
Loans and advances	Syndicated loan	10	Discounted cash flows, Financial option pricing (Floor option): Black-Scholes (shifted)	Funding curves (for liquidity costs) Credit spread range (CDS curve for BBB rating Industry client)	(0.101462)-0.572891% for EUR funding costs 0.184586-1.089443%
Total		**648**			

Financial liabilities	Type	Fair value in € million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs
Negative fair values of banking book derivatives without hedge accounting	OTC options	0	Option model Net present value method	Closing period Currency risk LT volatility Index category Net interest rate	2-5% 0-5% 0-3% 0-5% 6-30%
Issued certificates for trading purposes	Certificates	1	Option model (Curran)	Closing period Bid-Ask spread LT volatility Index category	0-3% 0-3% 0-3% 0-2.5%
Total		**1**			

Fair value of financial instruments not reported at fair value

The financial instruments in the following table are not managed on a fair value basis and are therefore not measured at fair value in the statement of financial position. For these instruments the fair value is calculated only for the purposes of providing information in the notes, and has no impact on the consolidated statement of financial position or on the consolidated income statement.

30/6/2018 in € million	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Cash and cash equivalents	0	21,665	0	21,665	21,665	0
Debt securities	5,847	1,324	1,307	8,478	8,397	81
Loans and advances	0	0	89,822	89,822	87,334	2,474
Investment securities - amortized cost	0	0	165	165	165	0
Liabilities						
Deposits	0	0	104,260	104,260	105,983	(1,724)
Debt securities issued	0	7,598	542	8,140	7,842	298
Other financial liabilities	0	32	469	501	368	132

With the introduction of IFRS 9, the calculation of the fair value of receivables and liabilities not reported at fair value was reclassified and among other things, input factors are also used in the models which are not observable on the market, but which have a significant influence on the calculated value.

31/12/2017 in € million	Level I	Level II	Level III	Fair value	Carrying amount	Difference
Assets						
Cash and cash equivalents	0	13,330	0	13,330	13,330	0
Loans to banks	0	8,306	6,125	14,431	14,347	84
Loans to customers	0	16,938	59,768	76,706	78,141	(1,435)
Financial investments	5,589	1,829	884	8,302	8,254	47
Liabilities						
Deposits from banks	0	19,494	2,220	21,714	21,675	39
Deposits from customers	0	27,860	57,013	84,873	84,831	42
Debt securities issued	113	3,747	1,042	4,902	4,752	150
Subordinated capital	0	3,007	96	3,102	3,016	86

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

(33) Collateral and maximum exposure to credit risk

RBI employs a range of policies to mitigate credit risk, the most common of which is the acceptance of collateral for loans and advances provided. The eligibility of collateral is defined on a RBI Group basis to ensure uniform standards of collateral evaluation. A valuation of collateral is performed during the credit approval process. This is then reviewed periodically using various validation processes. The main types of collateral which are accepted in RBI Group are residential and commercial real estate collateral, financial collateral, guarantees and moveable goods. Long-term financing is generally secured and revolving credit facilities are generally unsecured. Debt securities are mainly unsecured, and derivatives can be secured by cash or master netting agreements.

RBI Group's policies regarding obtaining collateral have not been significantly changed during the reporting period; however, they are updated on a yearly basis.

The proportion of loans at fair value or instruments valued at amortized cost with no expected credit losses due to high collateral values is insignificant.

The reclassification of the disposal group of the core banking business of Raiffeisen Bank Polska S.A., Warsaw, resulted in changes of minus € 4,622 million for the maximum credit risk volume (only on-balance) and minus € 2,082 million for the fair values of the collateral.

It should be noted that the collateral values shown in the tables are capped at the maximum value of the gross carrying amount of the financial asset. The following table shows financial assets at amortized cost and at fair value through other comprehensive income (debt securities) subject to impairment:

30/6/2018 in € million	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Banks and sovereigns	10,705	2,162	8,543
Other financial corporations	7,280	2,622	4,658
Non-financial corporations	41,184	19,886	21,298
Households	31,374	19,912	11,462
Commitments/guarantees issued	44,063	7,980	36,084
Total	**134,606**	**52,561**	**82,045**

31/12/2017 in € million	Maximum exposure to credit risk	Fair value of collateral	Credit risk exposure net of collateral
Banks and sovereigns	11,561	3,552	8,009
Other financial corporations	4,324	1,758	2,566
Non-financial corporations	44,305	20,457	23,848
Households	31,350	19,621	11,729
Commitments/guarantees issued	41,209	6,485	34,724
Total	**132,749**	**51,874**	**80,875**

(34) Expected credit losses

The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of the money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and payment behaviour. Significant judgements are required in applying the accounting requirements for measuring expected credit losses, inter alia:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of expected credit losses
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses
- Establishing groups of similar financial assets for the purposes of measuring expected credit losses.

For RBI, credit risk comes from the risk of suffering financial loss should any of RBI's customers, clients or market counterparties fail to fulfil their contractual obligations. Credit risk arises mainly from interbank, commercial and consumer loans, and loan commitments arising from such lending activities, but can also arise from financial guarantees given, such as, credit guarantees, letters of credit, and acceptances.

RBI is also exposed to other credit risks arising from investments in debt securities and from its trading activities (trading credit risks) including trade in non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

The estimation of the credit risk for risk management purposes is complex and requires the use of models, as the risk varies with changes in market conditions, expected cash flows and the passage of time. The assessment of the credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated default ratios and the default correlations between counterparties. RBI measures credit risks using the probability of default (PD), exposure at default (EAD) and loss given default (LGD). This is the predominant approach used for the purposes of measuring expected credit losses under IFRS 9.

IFRS 9 prescribes a three-stage model for impairment based on changes in credit quality from the point of initial recognition. Under this model, a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is deemed credit-impaired, it is then moved to Stage 3.

Financial instruments in Stage 1 have their expected credit loss measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next twelve months. Instruments in Stages 2 or 3 have their expected credit losses measured based on expected credit losses on a lifetime basis. According to IFRS 9, when measuring expected credit losses it is necessary to consider forward-looking information. Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit-impaired on initial recognition. Their expected credit loss is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk

RBI Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

RBI uses quantitative criteria as the primary indicators of a significant increase in credit risk for all material portfolios. For quantitative staging, RBI Group compares the lifetime PD curve at the valuation date with the forward lifetime PD curve at the date of initial recognition. For the estimation of the lifetime PD curve at the date of initial recognition, assumptions are made about the structure of the PD curve. In the case of highly rated financial instruments, it is assumed that the PD curve will deteriorate over time. Conversely, for low-rated financial instruments, it is assumed that the PD curve will improve over time. The degree of improvement or deterioration will depend on the level of the initial rating. In order to make the two curves comparable the PDs are scaled down to annualized PDs. In general, a significant increase in credit risk is considered to have occurred with a relative increase in the PD of up to 250 per cent, although this amount can be lower due to several limiting factors such as closeness to maturity and portfolios of products.

With regard to the threshold at which a financial instrument must be transferred to Stage 2, RBI has decided on the aforementioned threshold because no accepted market standard currently exists. However, it is not possible to rule out the possibility that a market practice will become established which provides for a lower threshold for certain markets.

RBI uses qualitative criteria as a secondary indicator of a significant increase in credit risk for all material portfolios. A movement to Stage 2 takes place when the criteria below are met.

For sovereign, bank, corporate and project finance portfolios, if the borrower meets one or more of the following criteria:

- External market indicators
- Changes in contract terms
- Changes to management approach
- Expert judgement.

The assessment of a significant increase in credit risk incorporates forward-looking information and is performed on a quarterly basis at an individual transaction level for all non-retail portfolios – corporates, credit institutions and public sector – held by RBI.

For private individual portfolios, if the borrower meets one or more of the following criteria:

- Forbearance, which the lender permits the borrower for economic or contractual reasons when the borrower is experiencing economic difficulties, but would not otherwise grant,
- Expert judgement.

The assessment of significant increase in credit risk incorporates forward-looking information and is performed on a monthly basis at an individual transaction level for all retail portfolios held by RBI.

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days overdue on its contractual payments. In a few limited cases, the presumption that financial assets which are more than 30 days overdue should be moved to Stage 2 is rebutted.

RBI has not used the low credit risk exemption for any lending business; however, it selectively uses the low credit risk exemption for debt securities.

Forward looking information

The assessment of significant increase in credit risk and the calculation of expected credit losses both incorporate forward-looking information. RBI Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the probability of default, loss given default and exposure at default vary by category type. Expert judgment has also been applied in this process. Forecasts of these economic variables (the base economic scenario) are provided by Raiffeisen Research on a quarterly basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long-term average rate or a long-term average growth rate until maturity.

The impact of these economic variables on the probability of default, loss given default and exposure at default has been determined by performing statistical regression to understand the impact changes in these variables have had historically on default rates and on the components of loss given default and exposure at default.

In addition to the base economic scenario, Raiffeisen Research also provides a best-case and worst-case scenario along with scenario weightings to ensure non-linearities are captured. RBI Group has concluded that three or fewer scenarios appropriately captured non-linearity. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighted expected credit losses are determined by running each scenario through the relevant expected credit loss (ECL) model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. RBI Group considers these forecasts to represent its best estimate of the future outcomes and cover any potential non-linearities and asymmetries within RBI Group's different portfolios.

The most significant assumptions used for the expected credit loss estimates at quarter end are shown below:

Real GDP	**Scenario**	**2018**	**2019**	**2020**
	Optimistic	3.3%	2.6%	2.2%
Austria	Base	2.8%	1.9%	1.2%
	Pessimistic	2.3%	1.2%	0.2%
	Optimistic	2.1%	2.4%	2.8%
Russia	Base	1.5%	1.5%	1.5%
	Pessimistic	0.2%	(0.2)%	(1.1)%
	Optimistic	5.1%	4.5%	4.1%
Poland	Base	4.6%	3.9%	3.1%
	Pessimistic	4.1%	3.3%	2.1%
	Optimistic	6.1%	5.0%	5.2%
Romania	Base	5.0%	3.5%	3.0%
	Pessimistic	3.9%	2.0%	0.8%
	Optimistic	5.0%	5.3%	5.0%
Slovakia	Base	4.0%	4.0%	3.0%
	Pessimistic	3.0%	2.7%	1.0%
	Optimistic	4.3%	4.3%	4.5%
Czech Republic	Base	3.5%	3.2%	2.8%
	Pessimistic	2.6%	2.1%	1.1%

Unemployment	Scenario	2018	2019	2020
Austria	Optimistic	5.1%	5.0%	5.0%
	Base	5.3%	5.2%	5.4%
	Pessimistic	5.6%	5.6%	5.9%
Russia	Optimistic	4.5%	4.4%	4.1%
	Base	5.0%	5.0%	5.0%
	Pessimistic	5.7%	5.9%	6.4%
Poland	Optimistic	4.9%	3.4%	2.0%
	Base	6.0%	4.9%	4.3%
	Pessimistic	7.7%	7.2%	7.7%
Romania	Optimistic	4.5%	4.4%	4.2%
	Base	4.7%	4.7%	4.7%
	Pessimistic	5.1%	5.2%	5.4%
Slovakia	Optimistic	6.0%	4.9%	4.0%
	Base	7.0%	6.2%	6.0%
	Pessimistic	8.5%	8.2%	9.0%
Czech Republic	Optimistic	3.2%	3.1%	3.2%
	Base	3.6%	3.7%	4.0%
	Pessimistic	4.2%	4.5%	5.3%

Lifetime Bond Rate	Scenario	2018	2019	2020
Austria	Optimistic	0.5%	0.9%	1.0%
	Base	1.0%	1.6%	2.0%
	Pessimistic	1.5%	2.2%	2.9%
Russia	Optimistic	7.2%	6.9%	6.7%
	Base	7.4%	7.2%	7.1%
	Pessimistic	8.0%	8.0%	8.3%
Poland	Optimistic	3.2%	3.5%	3.5%
	Base	3.4%	3.8%	3.9%
	Pessimistic	3.8%	4.3%	4.7%
Romania	Optimistic	4.3%	4.7%	4.4%
	Base	4.7%	5.2%	5.1%
	Pessimistic	5.4%	6.1%	6.4%
Slovakia	Optimistic	0.6%	1.1%	1.2%
	Base	1.2%	1.8%	2.2%
	Pessimistic	1.7%	2.5%	3.2%
Czech Republic	Optimistic	1.9%	2.1%	2.2%
	Base	2.2%	2.5%	2.8%
	Pessimistic	2.7%	3.2%	3.9%

The weightings assigned to each scenario at quarter end are as follows: 25 per cent optimistic, 50 per cent base and 25 per cent pessimistic scenarios.

Gross exposure by three-stage impairment model

The following table shows the gross exposure according to the relevant stages for expected credit losses and asset classes:

in € million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Central banks	5,880	0	0	5,880
General governments	9,378	322	0	9,701
Banks	6,525	82	12	6,619
Other financial corporations	7,648	190	130	7,967
Non-financial corporations	36,042	3,137	2,344	41,523
Households	25,682	4,274	1,281	31,237
Total	**91,154**	**8,005**	**3,767**	**102,926**

Development of impairment on loans, bonds and loan commitments, financial guarantees and other commitments given

in € million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1/1/2018	**188**	**370**	**2,911**	**3,470**
Increases due to origination and acquisition	60	19	74	153
Decreases due to derecognition	(28)	(25)	(182)	(236)
Changes due to change in credit risk (net)	(31)	24	60	54
Decrease in allowance account due to write-offs	(2)	(1)	(164)	(168)
Changes due to model/risk parameters	0	0	(1)	0
Non-current assets and disposal groups classified as held for sale	(19)	(46)	(206)	(271)
Foreign exchange and other	1	(20)	(29)	(48)
As at 30/6/2018	**168**	**322**	**2,463**	**2,953**

The situation at 1 January 2018 already takes into account the reconciliation effect due to the introduction of IFRS 9 amounting to € 269 million. The change in the reporting period totalled € 516 million, largely made up of the reclassification of loan loss provisions of the disposal group of the core banking business of Raiffeisen Bank Polska S.A., Warsaw, in the amount of € 271 million in other asssets. In addition, recoveries and sales of non-performing loans in the amount of € 361 particularly at RBI AG as well as in Croatia, Russia and Ukraine contributed to the positive development.

Impairment losses are mainly to be assigned to Stage 3 and result from loans to non-financial companies and households mainly in Central and Southeastern Europe.

The following table shows the breakdown according to counterparties of impairment losses in accordance with IFRS 9 stages of impairment:

30/6/2018 in € million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans and advances	**141**	**309**	**2,403**	**2,853**
General governments	0	0	0	1
Banks	11	1	11	22
Other financial corporations	3	3	70	76
Non-financial corporations	59	65	1,407	1,531
Households	67	240	916	1,223
Debt securities	**4**	**0**	**0**	**4**
Central banks	1	0	0	1
General governments	2	0	0	2
Loan commitments, financial guarantees and other commitments given	**24**	**13**	**60**	**97**
Total	**168**	**322**	**2,463**	**2,953**

Due to the implementation of IFRS 9 it is not possible to make a direct comparison with the previous year. The following table shows the development of impairment losses on loans and provisions for liabilities off the statement of financial position in the comparable period:

in € million	As at 1/1/2017	Change in consolidated group	Allocation[1]	Release	Usage[2]	Transfers, exchange differences	30/6/2017
Individual loan loss provisions	4,697	257	515	(410)	(1,016)	(117)	3,926
Portfolio-based loan loss provisions	381	23	124	(136)	0	(10)	383
Total	**5,078**	**279**	**639**	**(546)**	**(1,016)**	**(126)**	**4,309**

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

The following table shows the breakdown of loan loss provisions according to counterparties as at the reporting date of the previous year:

in € million	31/12/2017
Individual loan loss provisions	**2,865**
Banks	45
Other financial corporations	73
Non-financial corporations	1,774
Households	973
Portfolio-based loan loss provisions	**356**
Banks	1
Other financial corporations	6
Non-financial corporations	152
Households	196
Total	**3,221**

(35) Past due status

RBI uses the 30 days overdue status and other qualitative indicators as criteria to determine a significant increase in credit risk for less than one fifth of loans to households.

30/6/2018	Carrying amount								
	Assets without significant increase in credit risk since initial recognition (Stage 1)			Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Credit-impaired assets (Stage 3)		
in € million	≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days	≤ 30 days	> 30 days	> 90 days
Loans and advances to households	679	5	0	462	142	1	44	35	189

(36) Transferred assets

The following table shows the carrying amounts of financial assets which have been transferred but not derecognized:

30/6/2018	Transferred assets			Associated liabilities		
in € million	Carrying amount	hereof securitizations	hereof repurchase agreements	Carrying amount	hereof securitizations	hereof repurchase agreements
Financial assets - held for trading	376	0	376	376	0	376
Financial assets - designated fair value through profit/loss	1,254	0	1,254	1,254	0	1,254
Financial assets - fair value through other comprehensive income	111	0	111	111	0	111
Financial assets - amortized cost	767	0	767	759	0	759
Total	**2,509**	**0**	**2,509**	**2,501**	**0**	**2,501**

31/12/2017	Transferred assets			Associated liabilities		
in € million	Carrying amount	hereof securitizations	hereof repurchase agreements	Carrying amount	hereof securitizations	hereof repurchase agreements
Financial assets - held for trading	252	0	252	252	0	252
Financial assets - fair value through other comprehensive income	24	0	24	21	0	21
Financial assets - amortized cost	63	0	63	55	0	55
Total	**338**	**0**	**338**	**328**	**0**	**328**

(37) Assets pledged as collateral and received financial assets

Significant restrictions regarding the access or use of assets:

in € million	30/6/2018		31/12/2017	
	Pledged	Otherwise restricted with liabilities	Pledged	Otherwise restricted with liabilities
Financial assets - held for trading	357	0	704	0
Non-trading financial assets - mandatorily fair value through profit/loss	2	0	-	-
Financial assets - designated fair value through profit/loss	1,266	0	0	0
Financial assets - fair value through other comprehensive income	230	0	255	55
Financial assets - amortized cost	9,431	856	7,479	876
Total	**11,287**	**856**	**8,438**	**932**

The Group received collaterals which can be sold or repledged if no default occurs within the framework of reverse repurchase agreements, securities lending business, derivative and other transactions.

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

in € million	30/6/2018	31/12/2017
Securities and other financial assets accepted as collateral which can be sold or repledged	10,749	9,931
hereof which have been sold or repledged	1,624	1,463

(38) Offsetting of financial assets and liabilities

The table below shows the gross and net amounts of financial assets that are offset in the Group's statement of financial position and are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the statement of financial position or not.

In general, master netting arrangements or similar agreements in which several transactions are involved do not meet the criterion to be offset in the statement of financial position. This is because the right of set off is enforceable only in the event of a default or similar event. In addition, the Group and its counterparties do not intend to settle on a net basis.

The Group receives and gives collaterals in the form of cash and other financial instruments for repurchase and reverse repurchase agreements, and securities borrowing and lending agreements.

30/6/2018	Gross amount		Net amount	Amounts from global netting agreements		Net amount
in € million	recognized financial assets	recognized financial liabilities set-off	recognized financial assets	Financial instruments	Cash collateral received	
Derivatives (enforceable)	3,091	965	2,126	1,281	71	774
Repurchase, securities lending & similar agreements (legally enforceable)	9,417	0	9,417	9,285	0	132
Total	**12,508**	**965**	**11,543**	**10,566**	**71**	**906**

30/6/2018	Gross amount		Net amount	Amounts from global netting agreements		Net amount
in € million	recognized financial liabilities	recognized financial assets set-off	recognized financial liabilities	Financial instruments	Cash collateral received	
Derivatives (enforceable)	2,647	965	1,681	727	67	887
Reverse repurchase, securities lending & similar agreements (legally enforceable)	2,928	0	2,928	2,888	0	39
Total	**5,574**	**965**	**4,609**	**3,615**	**67**	**927**

31/12/2017	Gross amount		Net amount	Amounts from global netting agreements		Net amount
in € million	recognized financial assets	recognized financial liabilities set-off	recognized financial assets	Financial instruments	Cash collateral received	
Derivatives (enforceable)	3,528	915	2,613	1,923	57	633
Repurchase, securities lending & similar agreements (legally enforceable)	8,164	0	8,164	7,816	0	348
Total	**11,691**	**915**	**10,776**	**9,739**	**57**	**980**

31/12/2017	Gross amount		Net amount	Amounts from global netting agreements		Net amount
in € million	recognized financial liabilities	recognized financial assets set-off	recognized financial liabilities	Financial instruments	Cash collateral received	
Derivatives (enforceable)	2,776	915	1,861	592	43	1,226
Reverse repurchase, securities lending & similar agreements (legally enforceable)	298	0	298	291	0	6
Total	**3,074**	**915**	**2,159**	**883**	**43**	**1,233**

(39) Derivative financial instruments

The following table shows an analysis of the counterparty credit exposures arising from derivative transactions which are mostly OTC. Counterparty credit risk can be minimized by the use of settlement houses and the use of collateral in most cases.

30/6/2018	Nominal amount	Fair values	
in € million		Positive	Negative
Trading book	**118,820**	**1,846**	**(1,753)**
Interest rate contracts	69,470	1,134	(872)
Equity contracts	3,794	141	(173)
Foreign exchange rate and gold contracts	44,010	565	(621)
Credit contracts	82	0	0
Commodities	145	5	(2)
Other	1,319	1	(86)
Banking book	**75,737**	**182**	**(246)**
Interest rate contracts	69,012	3	(29)
Foreign exchange rate and gold contracts	6,592	179	(213)
Credit contracts	134	0	(4)
Hedging instruments	**21,821**	**527**	**(168)**
Interest rate contracts	20,906	501	(166)
Foreign exchange rate and gold contracts	915	25	(2)
Total	**216,378**	**2,555**	**(2,168)**
OTC products	207,686	2,506	(2,028)
Products traded on stock exchange	7,012	43	(48)

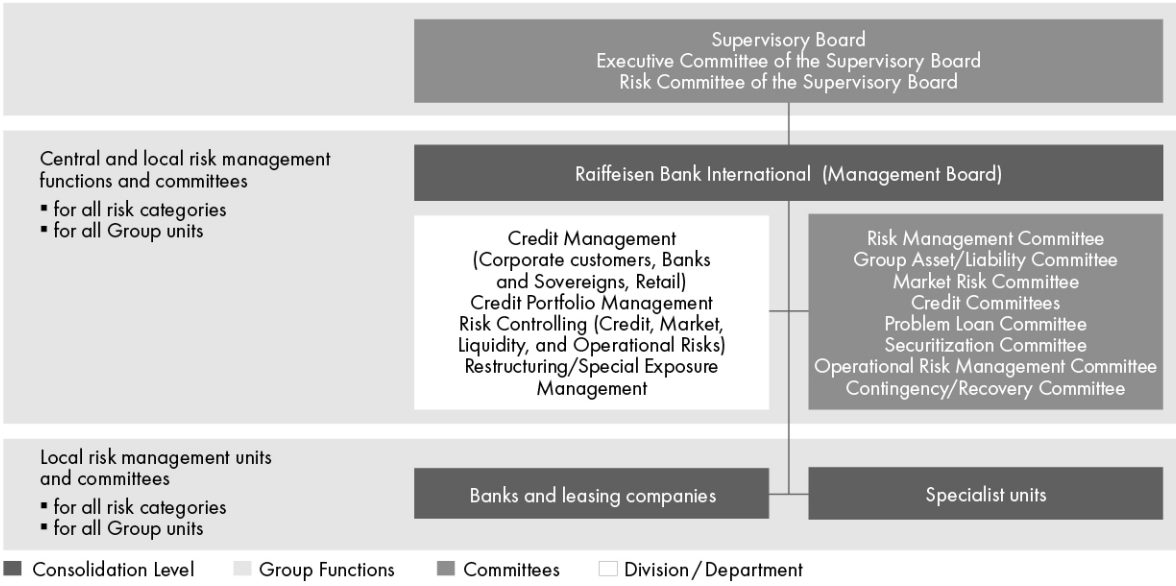
31/12/2017	Nominal amount	Fair values	
in € million		Positive	Negative
Interest rate contracts	145,042	1,846	(1,237)
Foreign exchange rate and gold contracts	46,185	687	(566)
Equity/index contracts	3,439	124	(119)
Commodities	160	3	(4)
Credit derivatives	232	0	(5)
Precious metals contracts	23	0	0
Total	**195,081**	**2,660**	**(1,931)**
OTC products	192,141	2,637	(1,893)
Products traded on stock exchange	2,525	20	(29)

Risk report

(40) Risks arising from financial instruments

Active risk management is a core competency of the Group. In order to effectively identify, measure, and manage risks the Group continues to develop its comprehensive risk management system. Risk management is an integral part of overall bank management. In particular, in addition to legal and regulatory requirements, it takes into account the nature, scale and complexity of the business activities and the resulting risks. The principles and organization of risk management are disclosed in the relevant sections of the 2017 Annual Report, pages 146 ff.

Organization of risk management



Economic capital

Economic capital constitutes a fundamental aspect of overall bank risk management. It defines the internal capital requirement for all material risk categories based on comparable models and thereby facilitates an aggregated view of the Group's risk profile. Economic capital is therefore an important instrument in Group risk management and is used for making risk-adjusted business decisions and in performance measurement. For this purpose, a business unit's profit is set in relation to the economic capital attributed to the unit (return on risk-adjusted capital, RORAC).

Risk contribution of individual risk types to economic capital:

in € million	30/6/2018	Share	31/12/2017	Share
Credit risk corporate customers	1,525	25.4%	1,452	24.5%
Credit risk retail customers	1,449	24.1%	1,436	24.2%
Macroeconomic risk	607	10.1%	487	8.2%
Operational risk	486	8.1%	529	8.9%
Credit risk sovereigns	406	6.8%	387	6.5%
Market risk	355	5.9%	440	7.4%
Participation risk	313	5.2%	310	5.2%
Risk buffer	287	4.8%	282	4.8%
Other tangible fixed assets	249	4.1%	222	3.8%
FX risk capital position	169	2.8%	209	3.5%
Credit risk banks	154	2.6%	153	2.6%
CVA risk	18	0.3%	20	0.3%
Liquidity risk	0	0.0%	2	0.0%
Total	**6,017**	**100.0%**	**5,928**	**100.0%**

Regional allocation of economic capital according to Group unit domicile:

in € million	30/6/2018	Share	31/12/2017	Share
Central Europe	1,932	32.1%	1,930	32.6%
Austria	1,697	28.2%	1,647	27.8%
Southeastern Europe	1,199	19.9%	1,228	20.7%
Eastern Europe	1,184	19.7%	1,123	18.9%
Rest of World	5	0.1%	1	0.0%
Total	**6,017**	**100.0%**	**5,928**	**100.0%**

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

Credit risk

Credit risk is the largest risk for the Group's business. Credit risk is the risk of suffering financial loss, should any of the Group's customers and counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loans and advances to banks, loans and advances to customers, commitments and financial guarantees given. The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from trading activities, derivatives, settlement and reverse repo agreements.

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

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

in € million	30/6/2018	31/12/2017
Cash, cash balances at central banks and other demand deposits	17,794	13,305
Financial assets - amortised cost	98,571	99,410
Financial assets - fair value through other comprehensive income	4,356	6,589
Non-trading financial assets - mandatorily at fair value through profit/loss	535	0
Financial assets - designated fair value through profit/loss	3,919	5,370
Financial assets - held for trading	4,534	4,622
Hedge accounting	623	597
Current tax assets	166	189
Deferred tax assets	118	114
Other assets	8,352	1,113
Contingent liabilities	10,793	9,917
Commitments	13,079	10,898
Revocable credit lines	19,501	19,800
Disclosure differences	(2,966)	(2,007)
Credit exposure[1]	**179,373**	**169,917**

1 Items on the statement of financial position contain only credit risk amounts

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

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

The following table shows total credit exposure by asset classes:

in € million	30/6/2018	31/12/2017
Corporate customers	76,469	72,025
Project finance	7,989	8,327
Retail customers	39,435	37,868
Banks	19,301	18,645
Sovereigns	36,178	33,052
Total	**179,373**	**169,917**

Credit portfolio – Corporates

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

in € million		30/6/2018	Share	31/12/2017	Share
1	Minimal risk	5,032	6.6%	5,035	7.0%
2	Excellent credit standing	11,073	14.5%	8,970	12.5%
3	Very good credit standing	9,992	13.1%	8,447	11.7%
4	Good credit standing	10,976	14.4%	12,205	16.9%
5	Sound credit standing	16,469	21.5%	15,205	21.1%
6	Acceptable credit standing	13,803	18.0%	12,895	17.9%
7	Marginal credit standing	4,981	6.5%	4,699	6.5%
8	Weak credit standing/sub-standard	1,452	1.9%	1,300	1.8%
9	Very weak credit standing/doubtful	456	0.6%	579	0.8%
10	Default	2,104	2.8%	2,581	3.6%
NR	Not rated	132	0.2%	109	0.2%
Total		**76,469**	**100.0%**	**72,025**	**100.0%**

The total credit exposure to corporate customers rose € 4,444 million compared to year-end 2017 to € 76,469 million.

The credit exposure rated as good credit standing through to minimal risk increased € 2,416 million, corresponding to a share of 48.6 per cent (31/12/2017: 48.1 per cent).

The € 2,103 million increase in rating grade 2 to € 11,073 million was primarily due to growth in the repo business and facility financing at RBI AG and to guarantees issued. Rating grade 3 rose € 1,545 million to € 9,992 million, which was attributable to facility and credit financing and also to money market business and documentary credits in Great Britain, the Czech Republic, Austria and Switzerland. The € 1,229 million decrease in rating grade 4 to € 10,976 million was firstly due to deterioration of a customer rating in Singapore to rating grade 5 and also to a decline in the portfolio of bonds, facility financing and guarantees issued. Rating grade 5 posted an additional increase driven by credit and facility financing. The € 908 million increase in rating grade 6 to € 13,803 million mainly resulted from credit financing.

The rating model for project finance has five grades and takes both individual probability of default and available collateral into account. The breakdown of the project finance exposure is shown in the table below:

in € million		30/6/2018	Share	31/12/2017	Share
6.1	Excellent project risk profile – very low risk	5,241	65.6%	4,922	59.1%
6.2	Good project risk profile – low risk	1,729	21.6%	1,948	23.4%
6.3	Acceptable project risk profile – average risk	220	2.8%	517	6.2%
6.4	Poor project risk profile – high risk	199	2.5%	219	2.6%
6.5	Default	555	6.9%	605	7.3%
NR	Not rated	45	0.6%	115	1.4%
Total		**7,989**	**100.0%**	**8,327**	**100.0%**

Credit exposure to project finance declined € 338 million to € 7,989 million as of 30 June 2018. The € 319 million increase in rating grade 6.1 to € 5,241 million was primarily due to a rating reclassification of an Austrian customer that was previously not rated, to an increase in securitizations in the Czech Republic and Slovakia, and to project financing in Luxembourg and Romania. The increase was however partially offset by the depreciation of the Czech koruna and the Hungarian forint. The 6.2 rating grade declined € 219 million to € 1,729 million, mainly due to expired project financing in Poland and Slovakia and to the depreciation of the Czech koruna and the Hungarian forint. Expired project financing in Russia resulted in a € 297 million decline in rating grade 3 to € 220 million.

At 87.2 per cent, the rating grades excellent project risk profile – very low risk and good project risk profile – low risk accounted for the majority of the portfolio. This mainly reflected the high level of collateralization in specialized lending transactions.

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

in € million	30/6/2018	Share	31/12/2017[1]	Share
Central Europe	23,019	27.3%	22,579	28.1%
Austria	17,481	20.7%	16,709	20.8%
Western Europe	15,842	18.8%	14,163	17.6%
Eastern Europe	12,549	14.9%	12,445	15.5%
Southeastern Europe	12,451	14.7%	11,675	14.5%
Asia	1,658	2.0%	1,302	1.6%
Other	1,458	1.7%	1,478	1.8%
Total	**84,459**	**100.0%**	**80,352**	**100.0%**

1 Adaptation of previous year figures

Credit exposure stood at € 84,459 million, € 4,107 million higher than at year-end 2017. The € 440 million increase in Central Europe to € 23,019 million resulted from credit and facility financing, and from an increase in overdraft facilities in the Czech Republic and Slovakia. The increase was partially offset by a decline in overdraft facilities in Poland. Austria recorded a € 772 million increase to € 17,481 million due to repo and money market business. The increase was partially offset by a reduction in facility financing and guarantees issued. The € 1,679 million increase in Western Europe to €15,842 million was due to facility and credit financing, documentary credits and overdraft facilities. The € 776 million rise in Southeastern Europe to € 12,451 million was due to facility and credit financing.

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

in € million	30/6/2018	Share	31/12/2017	Share
Manufacturing	16,650	19.7%	16,677	20.8%
Wholesale and retail trade	18,663	22.1%	16,829	20.9%
Financial intermediation	12,226	14.5%	10,268	12.8%
Real estate	9,219	10.9%	9,918	12.3%
Construction	5,725	6.8%	5,540	6.9%
Freelance/technical services	5,417	6.4%	5,590	7.0%
Transport, storage and communication	3,478	4.1%	3,365	4.2%
Electricity, gas, steam and hot water supply	3,208	3.8%	2,907	3.6%
Other industries	9,872	11.7%	9,258	11.5%
Total	**84,459**	**100.0%**	**80,352**	**100.0%**

Credit portfolio – Retail customers

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

in € million	30/6/2018	Share	31/12/2017	Share
Retail customers – private individuals	36,225	91.9%	34,827	92.0%
Retail customers – small and medium-sized entities	3,210	8.1%	3,041	8.0%
Total	**39,435**	**100.0%**	**37,868**	**100.0%**
hereof non-performing loans[1]	1,682	4.3%	1,641	4.3%

1 including non-current assets and disposal groups classified as held for sale of Raiffeisen Bank Polska, Warsaw, in the amount of € 166 million

The following table shows the total credit exposure to retail customers according to internal ratings:

in € million		30/6/2018	Share	31/12/2017	Share
0.5	Minimal risk	10,328	26.2%	10,250	27.1%
1.0	Excellent credit standing	9,074	23.0%	4,973	13.1%
1.5	Very good credit standing	5,684	14.4%	4,101	10.8%
2.0	Good credit standing	3,813	9.7%	3,231	8.5%
2.5	Sound credit standing	2,714	6.9%	2,384	6.3%
3.0	Acceptable credit standing	1,443	3.7%	1,436	3.8%
3.5	Marginal credit standing	764	1.9%	816	2.2%
4.0	Weak credit standing/sub-standard	379	1.0%	368	1.0%
4.5	Very weak credit standing/doubtful	356	0.9%	321	0.8%
5.0	Default	1,679	4.3%	1,555	4.1%
NR	Not rated	3,201	8.1%	8,434	22.3%
Total		**39,435**	**100.0%**	**37,868**	**100.0%**

The credit exposure to retail customers increased € 1,567 million compared to year-end 2017, to € 39,435 million. The increase in rating grades 1.0, 1.5, 2.0, 2.5 was mainly due to building society business in Austria and the Czech Republic. The decline in not rated resulted from rating reclassificaitons of Raiffeisen Bausparkasse Gesellschaft m.b.H., Vienna, and Raiffeisen stavebni sporitelna a.s., Prague. The rating of Raiffeisen Leasing Bulgaria EOOD, Sofia, was also reclassified, from NR to rating grade 2.0 and 2.5.

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

30/6/2018 in € million	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates & Markets
Retail customers – private individuals	18,357	8,346	4,584	4,938
Retail customers – small and medium-sized entities	1,627	740	406	438
Total	**19,984**	**9,086**	**4,990**	**5,375**
hereof non-performing loans	823	467	368	23

31/12/2017 in € million	Central Europe	Southeastern Europe	Eastern Europe	Group Corporates & Markets
Retail customers – private individuals	17,868	7,909	4,096	4,953
Retail customers – small and medium-sized entities	1,560	691	358	433
Total	**19,429**	**8,600**	**4,454**	**5,385**
hereof non-performing loans	859	478	281	22

The increase resulted from Central Europe, Southeastern Europe and Eastern Europe. Central Europe reported a rise of € 555 million to € 19,984 million in the Czech Republic and Slovakia, due to personal and mortgage loans. The total increase in Central Europe was however partially offset by a reduction in Poland due to mortgage loans, overdrafts and a depreciation of the Polish zloty. Southeastern Europe reported a € 486 million increase to € 9,086 million, mainly in Bulgaria and Romania. Mortgage and personal loans and SME financing resulted in an increase in Bulgaria. In Romania, personal loans, credit cards, overdrafts and SME financing increased. The € 536 million increase in Eastern Europe to € 4,990 million resulted from mortgage loans and personal loans in Russia, despite the depreciation of the Russian rouble, as well as an increase driven by appreciation of the Ukrainian Hryvnia.

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

in € million	30/6/2018	Share	31/12/2017	Share
Mortgage loans	22,970	58.2%	22,228	58.7%
Personal loans	8,862	22.5%	8,317	22.0%
Credit cards	3,328	8.4%	3,273	8.6%
SME financing	2,040	5.2%	1,866	4.9%
Overdraft	1,782	4.5%	1,751	4.6%
Car loans	453	1.1%	433	1.1%
Total	**39,435**	**100.0%**	**37,868**	**100.0%**

The € 742 million increase in mortgage loans and the € 545 million increase in personal loans resulted primarily from the Czech Republic, Russia and Slovakia.

Credit portfolio – Banks

The following table shows the total credit exposure by internal rating for banks (excluding central banks). Due to the small number of customers (or observable defaults), the default probabilities of individual rating grades in this asset class are calculated based on a combination of internal and external data.

in € million		30/6/2018	Share	31/12/2017	Share
1	Minimal risk	3,318	17.2%	3,455	18.5%
2	Excellent credit standing	3,157	16.4%	2,602	14.0%
3	Very good credit standing	9,964	51.6%	9,975	53.5%
4	Good credit standing	1,643	8.5%	1,221	6.5%
5	Sound credit standing	781	4.0%	676	3.6%
6	Acceptable credit standing	155	0.8%	243	1.3%
7	Marginal credit standing	109	0.6%	201	1.1%
8	Weak credit standing/sub-standard	159	0.8%	245	1.3%
9	Very weak credit standing/doubtful	2	0.0%	4	0.0%
10	Default	11	0.1%	11	0.1%
NR	Not rated	3	0.0%	11	0.1%
Total		**19,301**	**100.0%**	**18,645**	**100.0%**

The total credit exposure amounted to € 19,301 million. Compared to year-end 2017, this was an increase of € 656 million.

Rating grade 2 reported an increase of € 555 million to € 3,157 million, which was attributable to facility and credit financing in Austria and Great Britain, repo business in France and Great Britain and money market business in Austria. The € 422 million increase in rating grade 4 to € 1,643 million resulted from repo business in Great Britain and Italy.

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

in € million	30/6/2018	Share	31/12/2017	Share
Repo	4,866	25.2%	4,373	23.5%
Loans and advances	4,047	21.0%	3,920	21.0%
Bonds	3,784	19.6%	3,812	20.4%
Money market	2,513	13.0%	2,192	11.8%
Derivatives	2,472	12.8%	2,735	14.7%
Other	1,618	8.4%	1,612	8.6%
Total	**19,301**	**100.0%**	**18,645**	**100.0%**

The increase resulted primarily from repo business in Great Britain and France, which was, however, partially offset by the depreciation of the Russian rouble. In addition, money market business in Austria and Germany increased.

Credit portfolio – Sovereigns

Another asset class is formed by central governments, central banks, and regional municipalities as well as other public sector entities. The table below provides a breakdown of the total credit exposure to sovereigns (including central banks) by internal rating:

in € million		30/6/2018	Share	31/12/2017	Share
A1	Excellent credit standing	566	1.6%	1,383	4.2%
A2	Very good credit standing	12,577	34.8%	7,966	24.1%
A3	Good credit standing	7,301	20.2%	7,910	23.9%
B1	Sound credit standing	3,662	10.1%	4,242	12.8%
B2	Average credit standing	2,844	7.9%	3,147	9.5%
B3	Mediocre credit standing	6,172	17.1%	5,383	16.3%
B4	Weak credit standing	1,581	4.4%	1,592	4.8%
B5	Very weak credit standing	714	2.0%	779	2.4%
C	Doubtful/high default risk	760	2.1%	646	2.0%
D	Default	0	0.0%	0	0.0%
NR	Not rated	0	0.0%	3	0.0%
Total		**36,178**	**100.0%**	**33,052**	**100.0%**

Compared to year-end 2017, the credit exposure to sovereigns increased € 3,126 million to € 36,178 million. The largest increase, of € 4,611 million to € 12,577 million, was in rating grade A2 and was attributable to deposits at the Austrian National Bank. The € 817 million decrease in the A1 rating grade to € 566 million resulted from a reduction in the portfolio of bonds issued by the Federal Republic of Germany, the Netherlands and the US. There was a decline of € 609 million in rating grade A3 to € 7,301 million, driven by a reduction in the minimum reserve at the National Bank of Slovakia and by the depreciation of the Czech koruna. This was partially offset by an increase in the portfolio of bonds issued by the Czech Republic and the Republic of Slovakia and improvements in the ratings of individual German federal states. In rating grade B1 there was a € 580 million reduction to € 3,662 million, due to a decline in the portfolio of National Bank of Poland bonds. The € 303 million reduction in rating grade B2 to € 2,844 million was due to a reduction in the bond portfolio in Romania and to the minimum reserve at the Romanian National Bank. The € 789 million increase in rating grade B3 to € 6,172 million resulted from an increase in the bond portfolio and from money market business with the Russian Central Bank, partially offset by a reduction in the minimum reserve. In Bulgaria, a reduction in the minimum reserve at the Bulgarian National Bank was also recorded.

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

in € million	30/6/2018	Share	31/12/2017	Share
Bonds	17,015	47.0%	16,743	50.7%
Loans and advances	13,789	38.1%	10,787	32.6%
Repo	3,715	10.3%	4,323	13.1%
Money market	1,591	4.4%	1,166	3.5%
Derivatives	67	0.2%	28	0.1%
Other	0	0.0%	5	0.0%
Total	**36,178**	**100.0%**	**33,052**	**100.0%**

The € 3,002 million increase in loans and advances to € 13,789 million was mainly driven by deposits at the Austrian National Bank. This was partially offset by a reduction in the minimum reserve in Bulgaria, Romania, and Slovakia, and by the depreciation of the Czech koruna and the Russian rouble. Money market increased € 425 million to € 1,591 million due to business at the Russian Central Bank. The € 608 million reduction in repo to € 3,715 million was due to reduced business with the Czech National Bank.

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

in € million	30/6/2018	Share	31/12/2017	Share
Hungary	2,154	23.3%	2,297	27.3%
Russia	2,055	22.3%	751	8.9%
Croatia	1,168	12.7%	1,229	14.6%
Albania	693	7.5%	734	8.7%
Bulgaria	686	7.4%	945	11.2%
Serbia	662	7.2%	619	7.4%
Ukraine	442	4.8%	405	4.8%
Bosnia and Herzegovina	404	4.4%	460	5.5%
Belarus	282	3.1%	216	2.6%
Vietnam	145	1.6%	151	1.8%
Other	538	5.8%	595	7.1%
Total	**9,227**	**100.0%**	**8,403**	**100.0%**

The credit exposure to sovereigns in non-investment grade was mainly based on deposits of Group units at local central banks in Central, Eastern and Southeastern Europe, which serve to fulfil the respective minimum reserve requirements and the short-term investment of excess liquidity and which are therefore inextricably linked with business activity in these countries.

Compared to year-end 2017, the credit exposure to sovereigns in non-investment grade increased € 824 million to € 9,227 million. Russia reported an increase of € 1,304 million to € 2,055 million, which was mainly attributable to Russian Central Bank bonds and to money market business with the Russian Central Bank. Hungary reported a decrease of € 143 million to € 2,154 million, mainly due to money market business, credit financing, a reduction in the portfolio of bonds of the Republic of Hungary and the Hungarian Development Bank, as well as to the depreciation of the forint. The decrease of € 259 million to € 686 million in Bulgaria resulted from a decline in the minimum reserve at the Bulgarian national bank.

Non-performing exposure (NPE)

The following table shows the non-performing exposure pursuant to the applicable definition contained in the EBA document Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures). It includes non-defaulted and defaulted exposure.

	NPE		NPE ratio		NPE coverage ratio	
in € million	30/6/2018	31/12/2017	30/6/2018	31/12/2017	30/6/2018	31/12/2017
General governments	0	0	0.0%	0.0%	-	-
Banks	10	10	0.1%	0.1%	100.0%	100.0%
Other financial corporations	38	40	0.4%	0.6%	100.0%	86.7%
Non-financial corporations	2,338	2,992	5.9%	7.1%	60.2%	59.2%
Households	1,643	1,877	5.2%	6.0%	55.7%	50.7%
Loans and advances	**4,029**	**4,920**	**3.7%**	**4.7%**	**59.6%**	**56.3%**
Bonds	**12**	**13**	**0.1%**	**0.2%**	-	-
Total	**4,041**	**4,933**	**3.2%**	**4.0%**	**59.5%**	**56.1%**
Held for sale	341	-	4.7%	-	59.5%	-

Based on the change, related to IFRS 9, to the definition contained in the EBA standards (FINREP ANNEX III REV1/FINREP ANNEX V), deposits at central banks and demand deposits must be included in the NPE ratio calculation. Previous year was adapted accordingly.

Forborne exposure

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

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

In the retail business under IFRS 9, forborne exposures not in default are automatically transferred to Stage 2 and hence lifetime ECL is applied for them. Transfer back to Stage 1 is possible only after all the criteria for exit of forborne status are met (including minimum probation period).

The following table shows the forborne exposure according to asset classes:

	Refinancing		Instruments with modified time and modified conditions		NPE total	
in € million	**30/6/2018**	**31/12/2017**	**30/6/2018**	**31/12/2017**	**30/6/2018**	**31/12/2017**
Non-financial corporations	6	11	22	51	28	62
Households	11	14	129	222	140	237
Loans and advances	**17**	**25**	**151**	**274**	**168**	**299**
Total	**17**	**25**	**151**	**274**	**168**	**299**
Held for sale	0	-	13	-	13	-

The following tables show the forborne exposure according to segments:

in € million	**30/6/2018**	**Share**	**31/12/2017**	**Share**
Central Europe	65	38.8%	157	52.6%
Southeastern Europe	83	49.3%	116	38.9%
Eastern Europe	10	5.8%	9	3.1%
Group Corporates & Markets	10	6.1%	17	5.5%
Total	**168**	**100.0%**	**299**	**100.0%**
hereof non-banks	168	100.0%	299	100.0%

In the corporate customer business, financial difficulties are measured by means of an internal early warning system which is based on numerous representative and accepted input factors for customer risk classification (e.g. overdue days, rating downgrade, etc.). IFRS 9 requires that impairment losses for Stage 1, 2 and 3 must be derived from an expected loss event. Defaults pursuant to Article 178 CRR continue to be main indicators for Stage 3. The transfer of forborne exposures to the living portfolio is not automatically carried out after the determined monitoring period. Additionally, an expert opinion has to be obtained confirming that the circumstances of the customer concerned have improved.

Non-performing loans (NPL)

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

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

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

The following table shows the share of non-performing loans (NPL) in the defined asset classes (excluding items off the statement of financial position):

	NPL		NPL ratio		NPL coverage ratio	
in € million	**30/6/2018**	**31/12/2017**	**30/6/2018**	**31/12/2017**	**30/6/2018**	**31/12/2017**
General governments	0	0	0.0%	0.0%	-	-
Other financial corporations	38	40	0.4%	0.6%	100.0%	100.0%
Non-financial corporations	2,309	2,930	5.9%	6.9%	66.3%	63.1%
Households	1,503	1,641	4.8%	5.2%	81.4%	80.6%
Total non-banks	**3,851**	**4,611**	**4.8%**	**5.7%**	**73.5%**	**67.0%**
Banks	10	10	0.1%	0.0%	100.0%	100.0%
Total	**3,861**	**4,621**	**3.5%**	**4.4%**	**73.9%**	**67.1%**
Held for sale	328	-	7.3%	-	79.3%	-

The following table shows the development of non-performing loans in the defined asset classes (excluding items off the statement of financial position):

in € million	As at 1/1/2018	Change in consolidated group and IFRS 5	Exchange rate	Additions	Disposals	As at 30/6/2018
General governments	0	0	0	0	0	0
Other financial corporations	40	(9)	(2)	12	(3)	38
Non-financial corporations	2,930	(129)	31	238	(761)	2,309
Households	1,641	(180)	(23)	238	(173)	1,503
Total non-banks	**4,611**	**(318)**	**7**	**488**	**(937)**	**3,851**
Banks	10	0	0	0	0	10
Total	**4,621**	**(318)**	**7**	**488**	**(937)**	**3,861**

The volume of non-performing loans to non-banks fell € 761 million. The organic decrease of € 790 million was primarily attributable to the sale of the core banking business of Raiffeisen Bank Polska S.A., sales and recoveries of non-performing loans and the derecognition of commercially uncollectible loans at RBI AG, in Ukraine, Croatia and Russia. In contrast, exchange rate movements caused an increase of € 29 million. The non-performing loans (NPL) ratio based on total exposure decreased 0.9 percentage points to 3.5 per cent and the NPL coverage ratio increased 6.8 percentage points to 73.9 per cent.

Since the start of the year, non-financial corporations decreased € 621 million to € 2,309 million, mainly due to the sale of the core banking business of Raiffeisen Bank Polska S.A. and derecognition. The ratio of non-performing loans to credit exposure decreased 1.0 percentage points to 5.9 per cent and the NPL coverage ratio increased 3.2 percentage points to 66.3 per cent. In the households portfolio, non-performing loans declined 8.4 per cent, or € 138 million, to € 1,503 million, mainly due to the sale of the core banking business of Raiffeisen Bank Polska S.A.; in contrast, interest accruals on existing non-performing loans increase non-performing household loans, however, for the most part impairment losses are also booked against the interest accruals. The ratio of non-performing loans to credit exposure decreased 0.4 percentage point to 4.8 per cent and the NPL coverage ratio increased 0.8 percentage point to 81.4 per cent. For banks, non-performing loans at the end of the first quarter were unchanged compared to year-end 2017 at € 10 million and the NPL coverage ratio stood at over 100 per cent.

The following tables show the share of non-performing loans (NPL) by segments (excluding items off the statement of financial position):

30/6/2018 in € million	NPL	NPL ratio	NPL coverage ratio
Central Europe	1,111	3.3%	74.3%
Southeastern Europe	964	5.0%	85.5%
Eastern Europe	730	5.3%	79.2%
Group Corporates & Markets	1,019	2.6%	57.4%
Corporate Center	38	0.3%	83.2%
Total	**3,861**	**3.5%**	**73.9%**
hereof non-banks	3,851	4.8%	73.5%

31/12/2017 in € million	NPL	NPL ratio	NPL coverage ratio
Central Europe	1,559	3.8%	67.7%
Southeastern Europe	1,048	4.7%	81.0%
Eastern Europe	667	4.6%	78.7%
Group Corporates & Markets	1,311	3.4%	48.5%
Corporate Center	36	0.3%	100.0%
Total	**4,621**	**4.4%**	**67.1%**
hereof non-banks	4,611	5.7%	67.0%

Based on the change, related to IFRS 9, to the definition contained in the EBA standards (FINREP ANNEX III REV1/FINREP ANNEX V), deposits at central banks and demand deposits must be included in the NPE ratio calculation. The previous year was adapted accordingly.

In Central Europe, non-performing loans declined € 449 million to € 1,111 million. In Poland they declined € 328 million due to the sale of the core banking business, in the Czech Republic they declined € 49 million and in Hungary € 32 million, due to sales, recoveries and derecognition. The NPL ratio decreased 0.5 percentage points to 3.3 per cent and the NPL coverage ratio increased 6.5 percentage points to 74.3 per cent.

In Southeastern Europe, non-performing loans decreased € 84 million compared to the start of the year to € 964 million, driven by factors including declines in Romania, Croatia, Bulgaria and Serbia amounting to €72 million in total. The NPL ratio rose 0.3 percentage points to 5.0 per cent, the NPL coverage ratio rose 4.5 percentage points to 85.5 per cent.

The Eastern Europe segment reported a rise in non-performing loans of 9.5 per cent, or € 63 million, to € 730 million, taking into account the gross carrying amount including interest accruals on existing non-performing loans to households in Ukraine in the amount of € 45 million and the appreciation of the Ukrainian hryvnia. The interest accruals on the non-performing loans have impairment losses in corresponding size booked against them. The ratio of non-performing loans to credit exposure rose 0.7 percentage point to 5.3 per cent and the NPL coverage ratio increased 0.4 percentage points to 79.2 per cent.

Non-performing loans in the Group Corporates & Markets segment fell € 292 million in the first half year to € 1,019 million. Non-performing loans decreased € 261 million at RBI AG in the period under review, but increased € 4 million at Raiffeisen Leasing Group due to a defaulted loan. The NPL ratio declined 0.7 percentage point to 2.6 per cent and the NPL coverage ratio increased 8.8 percentage point since the start of the year to 57.4 per cent.

Concentration risk

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

As part of the strategic realignment, the limit structures related to concentration risk for each customer segment were also reviewed. The regional breakdown of loans reflects the broad diversification of credit business in the European markets of the Group.

The following table shows the regional distribution of the credit exposure of all asset classes by the borrower's home country:

in € million	30/6/2018	Share	31/12/2017	Share
Central Europe	**56,155**	**31.3%**	**56,472**	**33.2%**
Czech Republic	19,684	11.0%	19,803	11.7%
Slovakia	15,319	8.5%	14,903	8.8%
Poland	13,779	7.7%	14,493	8.5%
Hungary	6,892	3.8%	6,818	4.0%
Other	481	0.3%	455	0.3%
Austria	**38,652**	**21.5%**	**33,739**	**19.9%**
Southeastern Europe	**28,018**	**15.6%**	**27,221**	**16.0%**
Romania	10,823	6.0%	10,343	6.1%
Croatia	5,044	2.8%	5,024	3.0%
Bulgaria	4,314	2.4%	4,242	2.5%
Serbia	3,042	1.7%	2,930	1.7%
Bosnia and Herzegovina	2,190	1.2%	2,197	1.3%
Albania	1,712	1.0%	1,705	1.0%
Other	892	0.5%	779	0.5%
Other European Union	**25,182**	**14.0%**	**23,669**	**13.9%**
Germany	8,511	4.7%	8,455	5.0%
Great Britain	5,852	3.3%	5,162	3.0%
France	3,103	1.7%	2,634	1.5%
Luxembourg	1,435	0.8%	1,220	0.7%
Netherlands	1,337	0.7%	1,552	0.9%
Spain	1,024	0.6%	725	0.4%
Italy	957	0.5%	793	0.5%
Other	2,962	1.7%	3,128	1.8%

in € million	30/6/2018	Share	31/12/2017	Share
Eastern Europe	**21,912**	**12.2%**	**20,457**	**12.0%**
Russia	16,677	9.3%	15,838	9.3%
Ukraine	2,988	1.7%	2,504	1.5%
Belarus	1,847	1.0%	1,685	1.0%
Other	401	0.2%	431	0.3%
Asia	**3,065**	**1.7%**	**2,669**	**1.6%**
North America	**2,296**	**1.3%**	**2,417**	**1.4%**
Switzerland	**2,990**	**1.7%**	**2,196**	**1.3%**
Rest of World	**1,103**	**0.6%**	**1,077**	**0.6%**
Total	**179,373**	**100.0%**	**169,917**	**100.0%**

The credit exposure of all asset classes increased € 9,456 million compared to year-end 2017 to € 179,373 million. The largest increase of € 4,913 million to € 38,652 million in Austria was mainly due to deposits at the Austrian National Bank and repo business, but was partially offset by a reduction in facility financing. Southeastern Europe reported a € 797 million increase to € 28,018 million. This was due to an increase in credit financing in Romania. The € 1,513 million increase in other European Union to € 25,182 million was due to credit financing and repo business in Great Britain, France and Spain. An increase in the portfolio of bonds, credit financing, money market and repo business as well as the appreciation of the Ukrainian hryvnia resulted in a € 1,455 million increase in Eastern Europe to € 21,912 million.

The following table shows the credit exposure of all asset classes by currency:

in € million	30/6/2018	Share	31/12/2017	Share
EUR	93,717	52.2%	88,334	52.0%
USD	17,852	10.0%	15,524	9.1%
CZK	17,751	9.9%	18,157	10.7%
RUB	12,644	7.0%	10,733	6.3%
PLN	8,927	5.0%	9,442	5.6%
RON	6,572	3.7%	6,497	3.8%
HUF	5,506	3.1%	5,465	3.2%
CHF	3,142	1.8%	3,175	1.9%
HRK	2,584	1.4%	2,629	1.5%
BGN	2,489	1.4%	2,494	1.5%
UAH	2,167	1.2%	1,794	1.1%
BAM	1,989	1.1%	1,991	1.2%
RSD	1,262	0.7%	1,213	0.7%
ALL	1,116	0.6%	1,015	0.6%
Other foreign currencies	1,655	0.9%	1,456	0.9%
Total	**179,373**	**100.0%**	**169,917**	**100.0%**

The following table shows the Group's total credit exposure based on customer industry classification:

in € million	30/6/2018	Share	31/12/2017	Share
Banking and insurance	50,638	28.2%	44,982	26.5%
Private households	36,375	20.3%	34,997	20.6%
Public administration and defence and social insurance institutions	16,586	9.2%	16,594	9.8%
Wholesale trade and commission trade (except car trading)	14,309	8.0%	12,639	7.4%
Other manufacturing	11,432	6.4%	11,616	6.8%
Real estate activities	9,525	5.3%	10,096	5.9%
Construction	5,959	3.3%	5,748	3.4%
Other business activities	5,695	3.2%	5,859	3.4%
Retail trade except repair of motor vehicles	4,011	2.2%	3,866	2.3%
Electricity, gas, steam and hot water supply	3,216	1.8%	2,915	1.7%
Manufacture of basic metals	1,943	1.1%	1,742	1.0%
Other transport	1,747	1.0%	1,910	1.1%
Land transport, transport via pipelines	2,229	1.2%	1,955	1.2%
Manufacture of food products and beverages	1,879	1.0%	1,898	1.1%
Manufacture of machinery and equipment	1,691	0.9%	1,695	1.0%
Sale of motor vehicles	1,132	0.6%	1,049	0.6%
Extraction of crude petroleum and natural gas	655	0.4%	594	0.3%
Other industries	10,350	5.8%	9,763	5.7%
Total	**179,373**	**100.0%**	**169,917**	**100.0%**

Market risk

Market risk management is based on figures from an internal model that calculates value-at-risk (VaR) for changes in the following risk factors: foreign exchange, interest rate changes, credit spreads, implied volatility and equity indices. At the end of the third quarter of 2017, the VaR calculation was supplemented to include interest rate basis risk factors. The Austrian Financial Market Authority approved this model so that it can be used for calculating total capital requirements for market risks.

The following table shows the VaR for overall market risk in the trading and banking book for each risk type. The main drivers of the VaR result are risks arising from equity positions held in foreign currencies, structural interest rate risks and credit spread risks in the bond books (frequently held as a liquidity reserve).

Total VaR 99% 1d in € million	VaR as at 30/6/2018	Average VaR	Minimum VaR	Maximum VaR	VaR as at 31/12/2017
Currency risk	13	15	10	27	13
Interest rate risk	8	11	5	23	12
Credit spread risk	24	24	17	41	31
Share price risk	1	1	1	1	1
Vega risk	1	1	1	2	1
Basis risk	4	4	3	7	6
Total	33	37	26	53	41

The overall currency risk includes equity of subsidiaries denominated in foreign currencies. The structural exchange rate risk resulting from equity capital is managed independently from the mainly short-term trading positions.

Liquidity management

Funding structure

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

in € million				
Cash reserve	21,665			
Short-term assets	20,879		32,250	Short-term refinancing
Long-term assets	18,672		21,134	Long-term refinancing
Loans and advances	73,940	98.3%	75,191	Deposits
Non-financial corporations	43,807	Loan/Deposit	33,273	Non-financial corporations
Households	30,133	Ratio	41,918	Households
Other assets	8,400		3,012	Other liabilities
			11,968	Equity
Total assets	**143,556**		**143,556**	**Total equity and liabilities**

Liquidity position

The Going Concern report shows the structural liquidity position. It covers all material risk drivers which might affect the Group in a business as usual scenario. The results of the going concern scenario are shown in the following table. It illustrates excess liquidity and the ratio of expected cash inflows plus counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis. The cash flows are based on assumptions according to expert opinions, statistical analyses and country specifics. This calculation also incorporates estimates of the stability of customer deposits, outflows from positions off the statement of financial position and the effects of a market downturn relating to positions that affect the counterbalancing capacity.

in € million	30/6/2018		31/12/2017	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	21,294	26,588	20,675	24,397
Liquidity ratio	141%	126%	152%	129%

Liquidity coverage ratio

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

The calculation of expected inflows and outflows of funds and the HQLAs is based on regulatory specifications. In 2017 a regulatory minimum ratio for the LCR of 80 per cent was applicable; from 2018 the minimum is 100 per cent.

in € million	30/6/2018	31/12/2017[1]
Average liquid assets	**28,047**	**23,050**
Net outflows	**20,306**	**16,642**
Inflows	11,627	10,186
Outflows	31,933	26,828
Liquidity Coverage Ratio	**138%**	**139%**

1 Adaptation of previous year figures

Net Stable Funding Ratio

The NSFR is defined as the ratio of available stable funding to required stable funding. It is expected that the regulatory limit will be set at 100 per cent and will become applicable for the first time in 2020. Available stable funding is defined as the portion of equity and liabilities which is expected to be a reliable source of funds over the time horizon of one year applicable for the NSFR. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its exposures off the statement of financial position. RBI Group targets a balanced funding position. The regulatory provisions are currently undergoing review by the authorities.

in € million	30/6/2018	31/12/2017
Required stable funding	103,487	101,658
Available stable funding	116,822	114,464
Net Stable Funding Ratio	**113%**	**113%**

Other disclosures

(41) Contingent liabilities and commitments

in € million	30/6/2018	31/12/2017
Contingent liabilities	**10,793**	**9,917**
Credit guarantees	5,919	5,733
Other guarantees	3,207	2,828
Letters of credit (documentary business)	1,668	1,329
Other contingent liabilities	0	27
Commitments	**13,079**	**10,898**
Irrevocable credit lines and stand-by facilities	13,079	10,898
Up to 1 year	4,731	2,507
More than 1 year	8,348	8,391
Other commitments	**690**	**594**
Total	**24,562**	**21,409**

The increase in contingent liabilities and other liabilities off the statement of financial position was mainly attributable to an increase in loan commitments issued in Russia, where business relations with major Russian and international business customers were expanded. In Austria, RBI AG also contributed to the rise in this item. The position contingent liabilities contains an amount of € 507 million from Raiffeisen Bank Polska S.A., Warsaw. In irrevocable and revocable credit lines € 1,512 million are attributable to Raiffeisen Bank Polska S.A., Warsaw.

The following table contains revocable credit lines:

in € million	30/6/2018	31/12/2017
Revocable credit lines	**19,501**	**19,800**
Up to 1 year	10,223	10,811
More than 1 year	6,229	5,954
Without maturity	3,049	3,035
Total	**19,501**	**19,800**

(42) Related parties

Transactions with related parties are limited to banking business transactions that are carried out at fair market conditions. Moreover, members of the Management Board hold shares of Raiffeisen Bank International AG. Detailed information regarding this is published on the homepage of Raiffeisen Bank International.

The main companies exercising a significant influence are Raiffeisenlandesbank Niederösterreich-Wien AG, Vienna, the largest single shareholder, and its parent company, Raiffeisen-Holding Niederösterreich-Wien registrierte Genossenschaft mit beschränkter Haftung, Vienna. Under affiliated companies, affiliated companies that are not consolidated due to immateriality are shown.

30/6/2018 in € million	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Selected financial assets	**184**	**332**	**2,122**	**499**
Equity instruments	0	166	787	123
Debt securities	13	0	8	22
Loans and advances	172	166	1,327	354
Selected financial liabilities	**2,460**	**124**	**4,870**	**469**
Deposits	2,460	124	4,870	469
Debt securities issued	0	0	0	0
Other items				
Loan commitments, financial guarantees and other commitments given	207	16	391	65
Loan commitments, financial guarantees and other commitments received	18	0	43	24

31/12/2017 in € million	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Selected financial assets	**423**	**462**	**1,010**	**472**
Equity instruments	1	194	729	230
Debt securities	29	23	20	0
Loans and advances	393	245	261	242
Selected financial liabilities	**2,517**	**141**	**3,326**	**468**
Deposits	2,517	140	3,326	468
Debt securities issued	0	1	0	0
Other items				
Loan commitments, financial guarantees and other commitments given	25	86	275	23
Loan commitments, financial guarantees and other commitments received	11	0	33	52

30/6/2018 in € million	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Interest income	(1)	2	7	9
Interest expenses	(7)	0	(15)	0
Dividend income	0	8	1	4
Fee and commission income	1	2	3	3
Fee and commission expenses	0	(11)	(1)	(1)

31/12/2017 in € million	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Interest income	2	1	2	2
Interest expenses	(7)	0	(8)	0
Dividend income	0	1	28	4
Fee and commission income	1	6	2	2
Fee and commission expenses	0	(4)	(2)	(1)

(43) Average number of staff

Full-time equivalents	1/1-30/6/2018	1/1-30/6/2017
Salaried employees	49,520	49,486
Wage earners	596	844
Total	**50,116**	**50,330**

Regulatory information

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

Based on an annually undertaken Supervisory Review and Evaluation Process (SREP), the ECB currently instructs RBI by way of an official notification to hold additional common equity tier 1 capital to cover risks which are not or not adequately covered under Pillar I.

The so-called Pillar 2 requirement is calculated based on the business model, risk management or capital situation, for example. In addition, the RBI Group is subject to the minimum requirements of the CRR and the combined buffer requirement. The combined buffer requirement for the RBI Group currently contains a capital conservation buffer, a systemic risk buffer and a countercyclical buffer. As at 30 June 2018, the CET1 ratio requirement (including the combined buffer requirement) is 9.7 per cent for the RBI Group. A breach of the combined buffer requirement would induce constraints, for example in relation to dividend distributions and coupon payments on certain capital instruments. The capital requirements applicable during the year were complied with, including an adequate buffer, on both a consolidated and individual basis.

National supervisors can principally determine systemic risk buffers (up to 5 per cent) as well as additional capital add-ons for systemic banks (up to 3.5 per cent). In the event that systemic risk buffers as well as add-ons for systemic banks are determined for an institution, only the higher of the two values is applicable. In September 2015, the responsible Financial Market Stability Board (FMSB) of the FMA recommended the requirement of a systemic risk buffer (SRB) for certain banks, including RBI. This came into force as of the beginning of 2016 through the FMA via the Capital Buffer Regulation. The SRB for RBI was set at 0.25 per cent in the year 2016, was raised to 0.50 per cent from 1 January 2017 on and this progressively increases to 2 per cent by 2019.

The establishment of a countercyclical buffer is also the responsibility of the national supervisors and results in a weighted average at the level of the RBI Group in order to curb excessive lending growth. This buffer was set at 0 per cent in Austria for the present time due to restrained lending growth and the stable macroeconomic environment. The buffer rates defined in other member states apply at the level of the RBI Group (based on a weighted calculation of averages).

Further expected regulatory changes and developments are monitored, and included and analyzed in scenario calculations undertaken by Group Regulatory Affairs on an ongoing basis. Potential effects are taken into account in planning and governance, insofar as the extent and implementation are foreseeable

Total capital

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) of the European Banking Authority (EBA).

As at 30 June 2018, RBI's common equity tier (CET1) after deductions amounted to € 9,486 million, representing a € 220 million increase compared to the 2017 year-end figure. The improvement was mainly attributable to the recognition of interim profit in the regulatory capital. CET1 was negatively affected by the switch to the new accounting standard IFRS 9 as at 1 January 2018, and foreign exchange effects. Tier 1 after deductions increased € 870 million to € 10,709 million, notably due to the placement of perpetual additional tier 1 with a volume of € 500 million in January 2018. In contrast, tier 2 declined € 587 million to € 2,466 million due to early loan repayments and matured capital instruments. RBI's total equity amounted to € 13,176 million, representing a € 284 million increase compared to the 2017 year-end figure.

The total capital requirement as at 30 June 2018 amounted to € 5,948 million, an increase of € 196 million compared to year-end 2017. The increase was largely attributable to the total capital requirement for credit risk, which rose € 208 million to € 5,021 million, mainly due to new business and/or the development of business in Russia, Romania, the Czech Republic and Slovakia. The total capital requirement for position risk in bonds, equities, commodities and currencies amounted to € 295 million, and the total capital requirement for operational risk stood at € 632 million. Overall, these two values showed only minor changes compared to year-end 2017.

Based on total risk, the common equity tier 1 ratio was 12.8 per cent, the tier 1 ratio was 14.4 per cent and the total capital ratio was 17.7 per cent. Taking into account the expiry of the transitional provisions, the common equity tier 1 ratio was 12.8 per cent (no effects), the tier 1 ratio was 14.3 per cent and the total capital ratio was 17.6 per cent (caused by tier 1, which is no longer eligible for regulatory purposes).

in € million	30/6/2018	31/12/2017
Paid-in capital	5,974	5,994
Earned capital	3,829	3,540
Non-controlling interests	423	421
Common equity tier 1 (before deductions)	**10,226**	**9,955**
Deduction intangible fixed assets/goodwill	(667)	(584)
Deduction provision shortage for IRB positions	(35)	(61)
Deduction securitizations	(29)	(37)
Deduction loss carry forwards	(9)	(7)
Common equity tier 1 (after deductions)	**9,486**	**9,266**
Additional tier 1	1,214	716
Non-controlling interests	9	10
Deduction intangible fixed assets/goodwill	0	(146)
Deduction provision shortage for IRB positions	0	(8)
Tier 1	**10,709**	**9,839**
Long-term subordinated capital	2,225	2,841
Non-controlling interests	27	27
Provision excess of internal rating approach positions	215	184
Tier 2 (after deductions)	**2,466**	**3,053**
Total capital	**13,176**	**12,892**
Total capital requirement	**5,948**	**5,752**
Common equity tier 1 ratio (transitional)	12.8%	12.9%
Common equity tier 1 ratio (fully loaded)	12.8%	12.7%
Tier 1 ratio (transitional)	14.4%	13.7%
Tier 1 ratio (fully loaded)	14.3%	13.6%
Total capital ratio (transitional)	17.7%	17.9%
Total capital ratio (fully loaded)	17.6%	17.8%

The transitional ratios are the currently applicable ratios according to CRR requirements under consideration of the applicable transitional provisions for the current calendar year set out in Part 10 of the CRR. The CRR Supplementary Regulation (CRR-BV) published by the FMA were also used as a basis.

The fully loaded ratios are for information purposes only and are calculated assuming full implementation without taking the transitional provisions into account.

As at 30 June 2018, direct transitional provisions were no longer applied for RBI. Consequently, there were no effects for the common equity tier 1 ratio. Only the tier 1 ratio and the total capital ratio showed differences due to capital instruments which are no longer eligible.

Total capital requirement and risk-weighted assets

in € million	30/6/2018	31/12/2017
Total capital requirement for credit risk	5,021	4,812
Internal rating approach	2,861	2,555
Standardized approach	2,142	2,236
CVA risk	18	20
Total capital requirement for position risk in bonds, equities, commodities and open currency positions	295	276
Total capital requirement for operational risk	632	664
Total capital requirement	**5,948**	**5,752**
Risk-weighted assets (total RWA)	**74,346**	**71,902**

Risk-weighted assets for credit risk according to asset classes broke down as follows:

in € million	30/6/2018	31/12/2017
Risk-weighted assets according to standardized approach	**26,774**	**27,950**
Central governments and central banks	625	1,105
Regional governments	111	103
Public administration and non-profit organizations	30	44
Banks	245	309
Corporate customers	9,091	9,456
Retail customers	12,208	12,149
Equity exposures	1,823	2,038
Covered bonds	10	15
Mutual funds	56	38
Securitization position	0	4
Other positions	2,575	2,689
Risk-weighted assets according to internal rating approach	**35,758**	**31,944**
Central governments and central banks	1,936	1,019
Banks	1,735	1,164
Corporate customers	25,578	24,026
Retail customers	5,913	5,324
Equity exposures	351	178
Securitization position	245	233
CVA risk	**228**	**254**
Basel 1 floor	**0**	**0**
Risk-weighted assets (credit risk)	**62,760**	**60,148**
Total capital requirement (credit risk)	**5,021**	**4,812**

Leverage ratio

The leverage ratio is defined in Part 7 of the CRR and as at 30 June 2018 was not yet a mandatory quantitative requirement. Until then it serves only information purposes.

in € million	30/6/2018	31/12/2017
Leverage exposure	170,962	160,828
Tier 1	10,709	9,839
Leverage ratio (transitional)	**6.3%**	**6.1%**
Leverage ratio (fully loaded)	6.2%	6.1%

Events after the reporting date

There were no significant events after the reporting date.

Report on the Review of the condensed Interim Consolidated Financial Statements

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Raiffeisen Bank International AG, Vienna, for the period from 1 January 2018 to 30 June 2018. These condensed interim consolidated financial statements comprise the consolidated statement of financial position as of 30 June 2018 and the condensed consolidated statement of comprehensive income, consolidated statement of changes in equity and the condensed consolidated statements of cash flows for the period from 1 January 2018 to 30 June 2018 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management is responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Our responsibility is to express a conclusion on these condensed interim consolidated financial statements. Our liability towards the Company and towards third parties is limited in accordance with § 125 par 3 Austrian Stock Exchange Act in connection with § 275 par 2 of the Austrian Commerical Code (UGB).

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements", and with the International Standard on Review Engagements (ISRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements is limited primarily to making inquiries, primarily of Company personnel, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Austrian Standards on Auditing and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Statement on the consolidated interim management report for the 6 month period ended 30 June 2017 and on management's statement in accordance with § 125 Austrian Stock Exchange Act (BörseG)

We have read the consolidated interim management report and evaluated whether it does not contain any apparent inconsistencies with the condensed interim consolidated financial statements. Based on our evaluation, the consolidated interim management report does not contain any apparent inconsistencies with the condensed interim consolidated financial statements.

The interim financial information contains the statement by management in accordance with § 125 par. 1 subpar. 3 Austrian Stock Exchange Act.

Vienna, 3 August 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Wilhelm Kovsca

Wirtschaftsprüfer
(Austrian Chartered Accountant)

Note: The condensed interim consolidated financial statements together with our review report may be published or transmitted only as agreed by us.

Statement of legal representatives

We confirm to the best of our knowledge that the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the semi-annual group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions.

Vienna, 3 August 2018

The Management Board

Johann Strobl

Chief Executive Officer responsible for Chairman's Office, Group Communications, Group Compliance, Group Digital Banking, Group Executive Office, Group Governmental & Public Affairs, Group Human Resources, Group Internal Audit, Group Marketing, Group Participations, Group Regulatory Affairs, Group Strategy, Group Sustainability Management, International Banking Units and Legal Services

Martin Grüll

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

Andreas Gschwenter

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

Łukasz Januszewski

Member of the Management Board responsible for Group Asset Management, Group Business Management & Development, Group Capital Markets, Group Investment Banking, Institutional Clients and Raiffeisen Research

Peter Lennkh

Member of the Management Board responsible for Corporate Customers, Corporate Finance, Group Corporate Business Strategy & Steering, International Business Support, International Leasing Steering & Product Management and Trade Finance & Transaction Banking

Hannes Mösenbacher

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

Andrii Stepanenko

Member of the Management Board responsible for International Consumer & Small Business Banking, International Premium & Private Banking and International Retail Strategy & Products

Glossary

Common equity tier 1 ratio (fully loaded) – Common equity tier 1 as a percentage of risk-weighted assets (total RWA) according to CRR/CRD IV, without application of the transitional provisions set out in Part Ten of CRR and the accompanying CRR regulation of the FMA, respectively (425th regulation issued on 11 December 2013).

Common equity tier 1 ratio (transitional) – Common equity tier 1 as a percentage of risk-weighted assets (total RWA) according to CRR/CRD IV methodology.

Earnings per share - Consolidated profit divided by the average number of ordinary shares outstanding in the reporting period.

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

Leverage ratio – The ratio of tier 1 capital to specific exposures on and off the statement of financial position calculated in accordance with the methodology set out in CRD IV.

NSFR – Net Stable Funding Ratio. Relation of available stable funding to required stable funding.

Risk-weighted assets (RWA credit risk) – The sum of the weighted accounts receivable including receivables in the form of items on and off the statement of financial position and CVA (Credit Value Adjustment) risk.

Risk-weighted assets (total RWA) – Risk-weighted assets (credit risk, CVA risk) including market risk and operational risk.

Tier 1 ratio (transitional) – Tier 1 capital to risk-weighted assets (total RWA).

Total capital ratio – Total capital as a percentage of risk-weighted assets (total RWA).

Alternative Performance Measures (APM)

The Group uses alternative performance measures in its financial reporting, not defined by IFRS or CRR regulations, to describe RBI Group's financial position and performance. These should not be viewed in isolation, but treated as supplementary information.

For the purpose of the analysis and description of the performance and the financial position these ratios are commonly used within the financial industry. The special items used below to calculate some alternative performance measures arise from the nature of Group’s business, i.e. that of a universal banking group. However it is to mention that the definitions mostly vary between companies. Please find the definitions of these ratios below.

Consolidated return on equity – consolidated profit in relation to average consolidated equity, i.e. the equity attributable to the shareholders of RBI. Average equity is based on month-end figures excluding non-controlling interests and does not include current year profit.

Cost/income ratio is an economic metric and shows the company’s costs in relation to its income. The ratio gives a clear view of operational efficiency. Banks use the cost/income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions. General administrative expenses in relation to operating income are calculated for the cost/income ratio. General administrative expenses comprise staff expenses, other administrative expenses and depreciation/amortization of intangible and tangible fixed assets. Operating income comprises net interest income, dividend income, net fee and commission income, net trading income and fair value result, net gains/losses from hedge accounting and other net operating income.

Effective tax rate (ETR) gives a good understanding of the tax rate the company faces and simplifies comparison among companies. It will often differ from the company´s jurisdictional tax rate due to many accounting factors. The effective tax rate of a company is the average rate at which its pre-tax profits are taxed. It is calculated by dividing total tax expense (income taxes) by profit before tax. Total tax expense includes current income taxes and deferred taxes.

Loan/deposit ratio indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households.

Net interest margin is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is caulcauted with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries, joint ventures and associates, intangible fixed assets, tangible fixed assets, tax assets and other assets).

NPE – Non-performing exposure. It contains all non-performing loans and bonds according to the applicable definition of the EBA document "Implementing Technical Standards (ITS) on Supervisory Reporting (Forbearance and non-performing exposures)" and comprises all defaulted non-performing loans and bonds and non-defaulted non-performing loans and bonds (loans and bonds without grounds for default pursuant to Article 178 CRR).

NPL – Defaulted, non-performing loans. A default and thus a non-performing loan pursuant to Article 178 CRR applies if it can be assumed that a customer is unlikely to fulfill all of its credit obligations to the bank, or if the debtor is overdue at least 90 days on any material credit obligation to the bank (RBI has defined twelve default indicators).

NPE ratio is an economic ratio to demonstrate the proportion of non-defaulted and defaulted non-performing loans and bonds according to the applicable EBA definition in relation to the entire loan portfolio of customers and banks. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management.

NPL ratio is an economic ratio to demonstrate the proportion of loans that have been classified as defaulted non-performing in relation to the entire customer loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collaterals is expected and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management.

NPE coverage ratio describes to which extent, non-defaulted and defaulted non-performing loans and bonds have been covered by impairments (Individual loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses on loans and advances to customers and banks and on bonds set in relation to non-defaulted and defaulted non-performing loans to customers and banks and bonds.

NPL coverage ratio describes to which extent defaulted non-performing loans have been covered by impairments (individual and portfolio-based loan loss provisions) thus expressing also the ability of a bank to absorb losses from its NPL. It is calculated with impairment losses on loans and advances to customers set in relation to defaulted non-performing loans to customers.

Operating result is used to describe the operative performance of a bank for the reporting period. It consists of operating income less general administrative expenses.

Operating income – It comprises net interest income, dividend income, net fee and commission income, net trading income and fair value result, net gains/losses from hedge accounting and other net operating income.

Other result – Consists of impairment on investments in subsidiaries, joint ventures and associates, impairment on non-financial assets, negative goodwill recognized in profit or loss, current income from investments in subsidiaries, joint ventures and associates, result from non-current assets and disposal groups classified as held for sale and deconsolidation.

Provisioning ratio is an indicator for development of risk costs and provisioning policy of an enterprise. It is computed by dividing impairment or reversal on financial assets (customers loans) by average loans to customers (categories: financial assets measured at amortized cost and financial assets at fair value through other comprehensive income).

Return on assets (ROA before/after tax) is a profitability ratio and measures how efficiently a company can manage its assets to produce profits during a period. It is computed by dividing profit before tax/after tax by average assets (based on total assets, average means the average of year-end figure and the relevant month´s figures).

Return on equity (ROE before/after tax) provides a profitability measure for both management and investors by expressing the net profit for the period as presented in the income statement as a percentage of the respective underlying (either equity related or asset related). Return on equity demonstrates the profitability of the bank on the capital invested by its shareholders and thus the success of their investment. Return on equity is a useful measure to easily compare the profitability of a bank with other financial institutions. Return on the total equity including non-controlling interests, i.e. profit before tax respectively after tax in relation to average equity on the statement of financial position. Average equity is calculated on month-end figures including non-controlling interests and does not include current year profit.

Return on risk-adjusted capital (RORAC) is a ratio of a risk-adjusted performance management and shows the yield on the risk-adjusted capital (economic capital). The return on risk-adjusted capital is computed by dividing consolidated profit by the risk-adjusted capital (i.e. average economic capital). This capital requirement is calculated within the economic capital model for credit, market and operational risk.

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Disclaimer

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