RAIFFEISEN ZENTRALBANK ÖSTERREICH AKTIENGESELLSCHAFT

ANNUAL FINANCIAL STATEMENTS 2016

Content

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

In this report, RZB refers to the RZB Group and RZB AG is used where statements refer solely to Raiffeisen Zentralbank Österreich AG. RBI refers to the RBI Group and RBI AG is used where statements refer solely to Raiffeisen Bank International AG.

Annual financial statements

Statement of financial position

Assets

		31/12/2016 in €	31/12/2015 in € thousand
1.	Cash in hand and balances with central banks	4,503,461,768.98	4,051,914
2.	Treasury bills and other bills eligible for refinancing with central banks	4,263,950,286.13	4,293,045
3.	Loans and advances to credit institutions	1,117,469,520.84	2,523,150
	a) due at call	261,596,351.95	28,630
	b) Other loans and advances	855,873,168.89	2,494,521
4.	Loans and advances to customers	1,010,951,754.21	1,083,154
5.	Debt securities and other fixed-income securities	815,639,850.13	645,387
	a) issued by public bodies	0.00	0
	b) issued by other borrowers	815,639,850.13	645,387
	hereof: own debt securities	0.00	0
6.	Shares and other variable-yield securities	91,415,229.68	45,064
7.	Financial investments	41,911,132.89	41,498
	hereof: in credit institutions	27,815,879.86	27,816
8.	Interest in affiliated companies	5,126,534,625.27	5,411,788
	hereof: in credit institutions	0.00	0
9.	Intangible fixed assets	1,380,901.17	1,963
10.	Tangible fixed assets	4,588,356.99	4,552
11.	Other assets	819,306,467.55	261,318
12.	Accruals and deferred income	426,641.54	846
Total assets		**17,797,036,535.38**	**18,363,679**

Liabilities

		31/12/2016 in €	31/12/2015 in € thousand
1.	Deposits from banks	12,427,164,761.85	13,739,487
	a) Due at call	445,371,395.16	218
	b) With agreed maturity dates or periods of notice	11,981,793,366.69	13,739,269
2.	Liabilities to customers (non-banks)	680,529,605.22	271,999
	a) Savings deposits	0.00	0
	b) Other liabilities	680,529,605.22	271,999
	aa) Due at call	35,352,151.27	17,000
	bb) With agreed maturity dates or periods of notice	645,177,453.95	255,000
3.	Debt securities issued	170,075,816.87	35,004
	a) Debt securities issued	35,016,721.25	0
	b) Other securitised liabilities	135,059,095.62	35,004
4.	Other liabilities	132,960,895.67	70,358
5.	Accruals and deferred income	3,527,013.70	4,950
6.	Provisions	69,480,066.17	76,299
	a) Provisions for severance payments	7,111,528.11	4,938
	b) Provisions for pensions	46,497,754.21	53,022
	c) Provisions for taxation	1,626,274.00	4,392
	d) other	14,244,509.85	13,947
7.	Supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013	66,100,144.33	66,099
8.	Subscribed capital	492,466,422.50	492,466
9.	Capital reserves	1,862,164,089.07	1,862,143
	a) Committed	1,861,974,553.59	1,861,975
	b) Uncommitted	189,535.48	168
10.	Retained earnings[1]	1,368,201,545.28	1,219,433
	a) Legal reserve	38,612,000.00	38,612
	b) Other reserves	1,329,589,545.28	1,180,821
11.	Liability reserve pursuant to section 57 (5) BWG	524,366,174.72	524,366
12.	Net profit for the year	0.00	1,075
	a) Profit/loss	(1,074,702.41)	77,657
	b) profit/loss brought forward from previous years	1,074,702.41	(76,582)
Total liabilites		**17,797,036,535.38**	**18,363,679**

1 Transfer of untaxed reserves € 3.773 million to the retained earnings retrospectively as of 31/12/2015 according to § 906 Abs. 31 UGB

Items off the statement of financial position

	ASSETS	31/12/2016 in €	31/12/2015 in € thousand
1.	Foreign assets	3,472,966,969.27	3,411,204

	EQUITY AND LIABILITES	31/12/2016 in €	31/12/2015 in € thousand
1.	Contingent liabilities	7,708,060,916.30	8,744,921
	Guarantees and assets pledged as collateral security	7,708,060,916.30	8,744,921
2.	Commitments	3,047,383,000.00	2,168,017
	hereof: liabilities from sale and repurchase agreements	0.00	0
3.	Commitments arising from agengy services	0.00	24,010
4.	Eligible capital pursuant to Part 2 of Regulation (EU) No 575/2013	3,997,438,796.92	3,393,822
	hereof: supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013	29,125,172.40	0
5.	Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	7,458,932,097.06	8,103,178
	hereof: capital requirement pursuant to Article 92 (1) (a) to (c) of Regulation (EU) No 575/2013		
	a) hereof: capital requirements pursuant to Article 92 (1) (a)	53.20%	41.88%
	b) hereof: capital requirements pursuant to Article 92 (1) (b)	53.20%	41.88%
	c) hereof: capital requirement pursuant to Article 92 (1) (c)	53.60%	41.88%
6.	Foreign liabilities	67,831,475.92	140,009

Income statement

		2016 in €	2015 in € thousand
1.	Interest receivable and similar income	24,562,995.31	47,366
	hereof: from fixed-income securities	30,151,037.20	24,853
2.	Interest payable and similar expenses	(66,929,578.92)	(68,690)
I.	**NET INTEREST INCOME**	**(42,366,583.61)**	**(21,325)**
3.	Income from securities and participating interests	537,167,598.58	82,255
	a) Income from shares and other variable-yield securities	136,491.05	52
	b) Income from participating interests	6,135,107.53	6,307
	c) Income from shares in affiliated undertakings	530,896,000.00	75,896
4.	Commissions receivable	9,993,068.96	11,149
5.	Commissions payable	(798,669.76)	(575)
6.	Net profit or net loss on financial operations	(35,082.66)	(9,039)
7.	Other operating income	29,067,869.70	28,023
II.	**OPERATING INCOME**	**533,028,201.21**	**90,488**
8.	General administrative expenses		
	a) Staff costs	(31,265,454.51)	(30,219)
	hereof aa) Wages and salaries	(25,222,725.53)	(22,687)
	bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries	(5,151,608.59)	(4,574)
	cc) Other social expenses	(1,089,798.95)	(947)
	dd) Expenses für pensions and assistance	(3,854,872.17)	(4,617)
	ee) Release/Allocation to provision for pensions	6,492,697.98	3,678
	ff) Expenses for severance payments and contributions to severance funds	(2,439,147.25)	(1,071)
	b) Other administrative expenses	(51,275,576.09)	(48,383)
9.	Value adjustments in respect of asset items 9 and 10	(601,987.50)	(163)
10.	Other operating expenses	(748,069.86)	(8,291)
III.	**OPERATING EXPENSES**	**(83,891,087.96)**	**(87,056)**
IV.	**OPERATING RESULT**	**449,137,113.25**	**3,432**
11./ 12.	Net income/expenses from the disposal and valuation of loans and advances and securities classified as current assets	(14,376,196.05)	12,933
13./ 14.	Net income/expenses from the disposal and valuation of securities evaluated as financial investments and of shares in affiliated companies and participating interests	(284,441,339.27)	(192,678)
V.	**PROFIT ON ORDINARY ACTIVITIES**	**150,319,577.93**	**(176,313)**
15.	Tax on profit or loss	13,859,390.15	12,746
16.	Other taxes not reported under Item 15	(16,485,006.44)	(20,252)
VI.	**PROFIT/LOSS BEFORE TAX**	**147,693,961.64**	**(183,819)**
17.	Changes in reserves	(148,768,664.05)	261,475
	hereof: allocation to liability reserve	0.00	0
VII.	**LOSS/PROFIT AFTER TAX**	**(1,074,702.41)**	**77,657**
18.	Profit/Loss brought forward	1,074,702.41	(76,582)
VIII.	**NET PROFIT FOR THE YEAR**	**0.00**	**1,075**

Notes

Company

Raiffeisen Zentralbank Österreich AG is the lead and central institution of the Raiffeisen Banking Group (RBG) in Austria. It was founded in 1927 - at the time as "Girozentrale der österreichischen Genossenschaften" - as a central liquidity balancing provider for the Austrian agricultural cooperatives. RZB is the third-largest banking group in Austria and RBG as a whole is the largest and strongest domestic banking group. RZB AG is primarily owned by the Regional Raiffeisen Banks and is their central institution pursuant to the Austrian Banking Law applicable until 31 December 2016.

The core business area of RZB AG is its function as the lead institution of RBG and its role as the head of RZB. RZB AG also performs central services for RBG. RZB AG has a dense network of subsidiary banks, leasing companies and many other specialized financial service providers in Central and Eastern Europe (CEE) through its stock-exchange listed subsidiary, Raiffeisen Bank International AG (RBI AG).. All told, RZB employs around 50,000 people worldwide and has around € 135 billion in total assets.

Alongside the management of its principal equity participation, RBI AG, RZB AG's business predominantly relates to its role as lead institution of RBG and management of the broader portfolio of equity participations.

The main business areas of RZB AG encompass equity participation management, Raiffeisen sector business and liquidity management.

- Participation Management: RZB AG holds alongside RBI AG a number of equity participations which do not have a primary connection to the operational commercial customer business or companies which have an operational connection to the finance business, but are not categorized as sector business.

- Sector business: Business that RZB AG, as the central institution of the Austrian Raiffeisen bank sector, undertakes with affiliated banks from the Raiffeisen bank sector within the framework of minimum reserve and liquidity management. This includes in particular short-term money market transactions between banks from the Austrian Raiffeisen bank sector and RZB AG and between RZB AG and RBI AG, as well as investment of the required liquidity at the National Bank of Austria (Österreichische Nationalbank). Furthermore, RZB AG carries out advisory and service activities for the entire Austrian Raiffeisen bank sector, such as the organization and centralized management of Raiffeisen marketing.

- Liquidity Management: RZB AG is the central institution of RBG. Together with more than 400 banks in RBG, it forms the largest liquidity network in Austria. In this liquidity network, pursuant to the Austrian Banking Act (Section 27a) members are required to hold a liquidity reserve at the central parent company institution. RZB AG invests the liquidity reserve in highly liquid assets according to the CRR/CRD IV.

A further activity of RZB AG is risk management. RZB AG utilizes a system of risk principles and risk measurement and monitoring processes, which serve the purpose of control and management of the risks arising from all bank business and special business of the Group.

Service relationships between RZB AG and RBI AG

There are mutual service relationships between RZB AG and RBI AG that are covered by Service Level Agreements (SLAs). On the basis of a framework agreement and a SLA template, which regulate the rights and obligations of the contracting parties and the settlement modalities between them, there are a variety of SLAs on departmental level covering dealings between RZB AG and RBI AG. These are subject to an annual review process based on the services actually provided.

As of the reporting date, there were 27 SLAs regulating services provided by RBI AG. The material ones are:

- Accounting & Reporting
- Risk Controlling
- Information Technology (IT)
- Human Resources
- Tax Management
- Group Communications

In turn, RZB AG provides services - Group management instruments - that represent Group guidelines. These are also regulated by seven SLAs: Compliance, Corporate Responsibility, Executive Secretariat, Group Organizations & Internal Control System (integrated in Compliance as of 1 October 2016), Risk Controlling and Raiffeisen sector customers.

Service relationships between RZB AG and other companies

There are numerous service relationships between RZB AG as service recipient and other companies. The primary relationships in the banking business are with Raiffeisen Informatik GmbH, Raiffeisen Service Center GmbH and card complete Service Bank AG.

RZB AG in turn provides services to various affiliated companies and companies in the Raiffeisen Banking Groupin the areas of marketing, risk controlling, compliance, accounting & reporting and internal control system (IKS).

Shareholders

RZB AG is, as part of the Raiffeisen Banking Group, majority owned by the Regional Raiffeisen Banks (Raiffeisen-Landeszentralen) and is the ultimate parent company of the Group.

The consolidated financial statements of RZB AG are filed with the commercial register and published in the Wiener Zeitung, in accordance with Austrian disclosure regulations. The Austrian Regional Raiffeisen Banks hold in total approximately 90 per cent of the subscribed capital in RZB AG.

In September 2016, Raiffeisen-Landesbanken-Holding GmbH (which, until then, was the ultimate parent of the Group) first merged with its wholly owned subsidiary R-Landesbanken-Beteiligung GmbH and then with RZB AG as the acquiring company. This gave rise to a merger gain of € 21 thousand. RZB AG has been the ultimate parent since then.

Recognition and measurement principles

General principles

The annual financial statements for the year ending 31 December 2016 were prepared by the Management Board in accordance with the Austrian Commercial Code (UGB) as amended by the 2014 Austrian Financial Reporting Amendment Act (RÄG), taking into account the special provisions of the Austrian Banking Act. In accordance with the principles of proper accounting, and taking into account standard practice as described in Section 222 (2) of the Austrian Commercial Code (UGB), to the best of our knowledge the annual financial statements give a true and fair view of the company's net assets, financial position and earnings.

Since the 2014 Austrian Financial Reporting Amendment Act (RÄG) is being applied for the first time, amounts previously recognized as untaxed reserves (valuation reserves) had to be reclassified as other reserves. In addition, temporary differences in the form of deferred taxes attributable to different accounting and tax treatments have to be recognized on the asset and liability sides. There were no other effects from the application of the 2014 Austrian Financial Reporting Amendment Act (RÄG). The previous year figures were adjusted to conform to RÄG 2014.

The consolidated financial statements were prepared in compliance with the consistency principle.

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

RZB AG chose the internet as the medium for the disclosure under Section 431 ff Regulation (EU) No. 575/2013. The disclosure is reported on the homepage of RZB AG (www.rzb.at).

Foreign currencies

Assets and liabilities in foreign currencies are converted at the ECB's reference exchange rates as at 31 December 2016 pursuant to Section 58 (1) of the Austrian Banking Act (BWG).

Financial instruments

Stock market prices were used to determine the fair value of listed products. Where stock market prices were not available, prices for original financial instruments and forward transactions were determined based on the calculated present value. The prices for options were determined based on suitable options pricing models. The present value calculation is based on the zero coupon yield curve. Option pricing formulas as described by Black & Scholes 1972, Black 1976 and Garman-Kohlhagen were used together with other conventional market models for the valuation of structured options.

Financial instruments in the banking book

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

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

RZB AG uses interest rate swaps to hedge the interest rate risk from assets (bonds) on the statement of financial position. Fixed cash flows are exchanged for variable cash flows to minimize interest rate risk. These derivatives form parts of valuation units. Their

market value is therefore not reported in the annual financial statements, as they are offset by cash flows from the underlying transactions recognized through profit and loss.

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

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

Derivatives held in the bank book which do not form part of a hedging relationship are valued according to the imparity principle. In the case of negative market values a provision for impending loss is allocated.

Loans and advances

Loans and advances are generally recognized at cost according to the strict lower of cost or market value principle.

Risks in the lending business

When the loan portfolio is assessed, appropriate value adjustments or provisions respectively for guarantee loans are made for all identifiable risks, and the principle of prudence is observed. In addition, a general loan loss provision (portfolio-based provision) is recorded on the basis of the respective averages of the historical default rates in the last five years in each rating category. The single years are weighted on a linear basis.

In the financial year 2016, RZB AG allocated portfolio loan loss provisions and provisions for contingent liabilities.

Investments and shares in affiliated companies

Investments and shares in affiliated companies are measured at cost, provided sustained losses or reduced equity do not necessitate write-down to fair value. Write-ups to a maximum of acquisition cost are recognized if the reasons for the permanent impairment no longer apply.

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

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

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

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

Tangible and intangible fixed assets

Intangible fixed assets and tangible fixed assets are valued at acquisition or production cost less amortization or depreciation. Amortization or depreciation is on a straight-line basis. An impairment loss is recognized if an asset becomes permanently impaired.

Amortization or depreciation is based on the following periods of use as defined by commercial law (in years):

Useful life	Years	Useful life	Years
Buildings	50	Software	4 to 10
Office equipment	3 to 5	Hardware	3
Office fixtures and fittings	5 to 10	Tenancy rights	10
Vehicles	5	Business equipment	5 to10

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

Deferred taxes

No deferred tax assets were recognized based on asset-side temporary differences or tax loss carryforwards because it currently appears unlikely that they will be used within a reasonable time period. There were no liability-side temporary differences during the financial year.

Capital expenses

Issuance and management fees and premiums or discounts for bonds issued are distributed over the given term. Other issuance costs are directly expensed.

Pension and severance payment obligations

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

The actuarial calculation of pension obligations for active employees is based on an interest rate of 1.6 per cent (31/12/2015: 2.0 per cent) per annum and an effective salary increase of 2.7 per cent (31/12/2015: 3.0 per cent) per annum. The parameters for retired employees are a capitalization rate of 1.6 per cent (31/12/2015: 2.0 per cent) per annum and an expected increase in retirement benefits of 1.2 per cent (31/12/2015: 2.0 per cent); in the case of retirement benefit commitments with existing reinsurance policies 1.0 per cent (31/12/2015: 1.0 per cent), per annum. The calculations are based on an assumed retirement age of 60 for women and 65 for men, subject to transitional statutory requirements and special arrangements contained in individual contracts.

The actuarial calculation of severance payment and long-service bonus obligations is also based on an interest rate of 1.6 per cent (31/12/2015: 2.0 per cent) per annum and an average salary increase of 2.7 per cent (31/12/2015: 3.0 per cent) per annum.

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

Other provisions

Other provisions are recorded at the level at which they are likely to be required. They take into account all identifiable risks and liabilities, the level of which is not yet known.

Other provisions include provisions for bonuses for identified staff (pursuant to European Banking Authority CP 42, 46). RZB AG fulfills the obligations set forth in the Annex to Section 39b of the Austrian Banking Act (BWG) as follows:

- 60 per cent, or 40 per cent for particularly high amounts, of the annual bonus is paid out as an upfront cash payment;
- 40 per cent, or 60 per cent for particularly high amounts, of the annual bonus is deferred for a period of five years (deferral period) and is paid out in cash.

In conformity with the 2014 Austrian Financial Reporting Amendment Act (RÄG), long-term provisions have to be discounted at prevailing market interest rates in the reporting period. The only provisions recognized by RZB AG in the financial year were short-term provisions and provisions for bonus payments.

Liabilities

These are recognized at the higher of the nominal value or the repayment amount.

Notes on individual items of the statement of financial position

Breakdown of maturities

Loans and advances to credit institutions and *Loans and advances to customers* that are not due on a daily basis break down by their residual terms as follows:

in € million	31/12/2016	31/12/2015
Loans and advances to credit institutions	**1,117.5**	**2,523.1**
Repayable on demand	261.6	28.6
Up to 3 months	395.6	1,860.6
More than 3 months, up to 1 year	179.3	163.6
More than 1 year, up to 5 years	115.6	270.2
More than 5 years	165.4	200.2
Loans and advances to customers	**1,011.0**	**1,083.2**
Repayable on demand	43.4	0.0
Up to 3 months	49.3	43.3
More than 3 months, up to 1 year	52.8	191.8
More than 1 year, up to 5 years	102.8	114.6
More than 5 years	762.7	733.5
Other assets	**819.3**	**261.4**
Up to 3 months	165.2	118.4
More than 3 months, up to 1 year	531.2	76.2
More than 1 year, up to 5 years	0.0	0.0
More than 5 years	122.9	66.8

The item Loans and advances to customers contains an amount of € 19.3 million (31/12/2015: € 32.2 million) which constitutes a cover pool for covered bonds of RBI AG.

In the next financial year, € 4.6 million in debt securities and other fixed-income securities will become due (31/12/2015: € 0.0 million).

Deposits from banks and *Liabilities to customers (non-banks)* that are not due on a daily basis break down by their residual terms as follows:

in € million	31/12/2016	31/12/2015
Deposits from banks	**12,427.2**	**13,739.3**
Repayable on demand	445.4	0.0
Up to 3 months	8,452.0	8,819.4
More than 3 months, up to 1 year	872.3	1,655.2
More than 1 year, up to 5 years	2,249.8	2,398.9
More than 5 years	407.7	865.7
Liabilities to customers (non-banks)	**680.5**	**272.0**
Repayable on demand	35.3	17.0
Up to 3 months	527.0	95.4
More than 3 months, up to 1 year	76.3	159.6
More than 1 year, up to 5 years	30.0	0.0
More than 5 years	11.9	0.0
Debt securities issued	**170.1**	**35.0**
Up to 3 months	0.0	0.0
More than 3 months, up to 1 year	35.1	0.0
More than 1 year, up to 5 years	135.0	35.0
More than 5 years	0.0	0.0
Other liabilities	**133.0**	**70.4**
Up to 3 months	133.0	70.4
More than 3 months, up to 1 year	0.0	0.0
More than 1 year, up to 5 years	0.0	0.0
More than 5 years	0.0	0.0

In the next financial year, no issues of RZB AG will become due (31/12/2015: € 0.0 million).

Securities

RZB AG has no trading book pursuant to Chapter 3 of Title I of Part 3 of Regulation (EU) No. 575/2013.

The table below lists securities admitted to stock exchange trading (asset side), broken down into listed and unlisted securities pursuant to Section 64 (1) Z10 of the Austrian Banking Act (BWG) (amounts incl. interest accrued):

in € million	31/12/2016 Listed	31/12/2016 not listed	31/12/2015 Listed	31/12/2015 not listed
Debt securities and other fixed-income securities	815.6	0.0	645.4	0.0
Shares and other variable-yield securities	0.0	0.0	0.0	0.0

The table below lists securities admitted to stock exchange trading (asset side) measured as fixed assets or current assets pursuant to Section 64 (1) Z10 of the Austrian Banking Act (BWG) (amounts incl. interest accrued):

in € million	31/12/2016 Fixed assets	31/12/2016 Current assets	31/12/2015 Fixed assets	31/12/2015 Current assets
Debt securities and other fixed-income securities	815.6	0.0	645.4	0.0
Shares and other variable-yield securities	0.0	0.0	0.0	0.0

In relation to the difference between the acquisition cost and the repayment amount for securities (excluding zero coupon bonds) held in the investment portfolio (banking book). The difference between the amortized costs and the repayment amounts of € 150.3 million as of 31 December 2016 is made up of € 153.2 million (31/12/2015: € 180.7 million) to be recognized as expenditure in the future, and € 2.9 million (31/12/2015: € 2.7 million) to be recognized as income.

In the case of securities admitted to stock exchange trading that do not have the characteristics of financial investments, the difference between the acquisition cost and the higher fair value pursuant to Section 56 (4) of the Austrian Banking Act (BWG) is € 0.3 million (31/12/2015: € 0.6 million).

The item *Loans and advances to credit institutions* contains no bonds that are not admitted to trading on an exchange as of the reporting date.

Investments and shares in affiliated companies

The list of investments is shown separately in the notes, annex 2. There are cross-shareholdings in respect to Raiffeisenlandesbank Kärnten - Rechenzentrum und Revisionsverband, registrierte Genossenschaft mbH, UNIQA Insurance Group AG, Vienna, and Posojilnica Bank eGen (formerly ZVEZA Bank).

During the financial year - as in the previous year - the carrying amount of the holding in R.B.T Beteiligungs GmbH was written down. Furthermore, the holding in RZB-BLS Holding GmbH was subject to an impairment charge and a distribution-related write-down. In contrast, the carrying amounts of the holdings in Raiffeisen International Beteiligungs GmbH, RALT Raiffeisen-Leasing GmbH, RALT Raiffeisen-Leasing GmbH & Co KG and EMCOM Beteiligungs GmbH were written up.

In December 2016, RZB sold around 17.6 percent of its stake in UNIQA Insurance Group AG, Vienna, through a subsidiary and at the same time acquired 2.2 per cent of the shares from the regional Raiffeisen banks. As a result, it now holds around 10.9 per cent of UNIQA. The net proceeds from the sale were then distributed to RZB AG as a dividend in the same period and the stake in RZB-BLS Holding GmbH was written down to the remaining equity.

As a member of the federal IPS, RZB subscribed for additional shares in Posojilnica Bank eGen, Klagenfurt, by way of direct assistance and utilized part of the provision recognized for this purpose as of 31 December 2015. The value of the newly subscribed shares was written down in full at year-end.

As of the 2016 and 2015 reporting dates, there were no profit and loss transfer agreements.

Loans and advances and liabilities to affiliated companies and companies linked by virtue of a participating interest break down as follows:

in € million	31/12/2016	31/12/2015
Loans and advances to credit institutions		
to affiliated companies	771.5	771.4
to companies linked by virtue of a participating interest	28.7	35.3
Loans and advances to customers		
to affiliated companies	930.2	915.7
to companies linked by virtue of a participating interest	39.0	175.7
Debt securities and other fixed-income securities		
to affiliated companies	0.0	0.0
to companies linked by virtue of a participating interest	0.0	0.0
Deposits from banks		
from affiliated companies	1,341.0	2,375.8
from companies linked by virtue of a participating interest	908.0	945.7
Liabilities to customers (non-banks)		
from affiliated companies	550.1	65.4
from companies linked by virtue of a participating interest	0.3	2.9

Fixed assets

The statement of fixed assets is shown separately in the notes, annex 1.

The land value of developed land was € 0.1 million (31/12/2015: € 0.1 million).

RZB AG was not engaged in the leasing business as a lessor in the financial years 2016 and 2015.

Obligations from the use of tangible fixed assets not reported in the statement of financial position amount to € 4.3 million for the following financial year (31/12/2015: € 3.6 million), of which € 3.3 million (31/12/2015: € 3.3 million) are to affiliated companies. The total amount of obligations for the following five years is € 22.3 million (31/12/2015: € 18.3 million), of which € 17.0 million (31/12/2015: € 17.1 million) is to affiliated companies.

The *Intangible fixed assets* item contains intangible fixed assets acquired from affiliated companies, which amount to € 1.4 million (31/12/2015: € 2.0 million).

Other assets

As of 31 December 2016, *Other assets* totaled € 819.3 million (31/12/2015: € 261.3 million). At the reporting date, receivables due from the tax authorities amounted to € 108.6 million (31/12/2015: 72.6 million), receivables from Group members resulting from tax transfers in an amount of € 37.9 million (31/12/2015: € 34.3 million) as well as receivables (special reserve) in relation to the federal IPS contribution due from Österreichische Raiffeisen-Einlagensicherung eGen (ÖRE) in the amount of € 122.9 million (31/12/2015: € 66.8 million). Receivables from the capitalization of income from equity participations in the same period amount to € 530.5 million (31/12/2015: € 75.5 million).

Income effectively due after the reporting date:

in € million	31/12/2016	31/12/2015
Participation income	531.2	76.2

Deferred tax assets

No deferred tax assets were recognized based on temporary differences of € 90.6 million or tax loss carryforwards of € 1,274.1 million because it currently appears unlikely that they will be used within a reasonable time period.

Other liabilities

The item *Other liabilities* totaling € 133.0 million as of 31 December 2016 (31/12/2015: € 70.4 million) contains liabilities from tax transfers (corporate income tax) and chargeable capital gains as well as withholding tax due to Group members of € 99.8 million in total (31/12/2015: € 37.6 million) payable after the reporting date. Furthermore, this item contains accrued interest on interest rate swaps used for hedging in the amount of € 24.9 million (31/12/2015: € 21.0 million).

Provisions

Provisions recognized by RZB AG are valued at € 69.5 million (31/12/2015: € 76.3 million), of which € 53.6 million (31/12/2015: € 58.0 million) are for pensions and severance payment obligations, € 1.6 million (31/12/2015: € 4.4 million) are taxation provisions, € 1.4 million (31/12/2015: € 1.6 million) are provisions for performance related bonuses, € 2.0 million (31/12/2015: € 1.0 million) are provisions for unbilled services, € 1.8 million (31/12/2015: € 1.7 million) are provisions for overdue vacation and € 1.8 million (31/12/2015: € 1.6 million) are provisions for anniversary payments. In addition, a provision in the amount of € 6.3 million (31/12/2015: € 0.0 million) was recognized in the 2016 financial year for contingent liabilities. Provisions for participations amounting to € 6.9 million were recognized in the previous year and used in the reporting year.

Debt Issuance Programme

RZB AG has utilized medium- to long-term funding instruments since the 2015 financial year, including the EUR 5,000,000,000 Debt Issuance Programme, which facilitates bond issuance in different currencies and with various structures. The aggregate volume of bonds outstanding under the program may not exceed € 5,000 million.

As of the reporting date, Czech koruna denominated 10 year bonds amounting to € 14.1 million (31/12/2015: € 14.1 million) had been placed under the Debt Issuance Programme.

Equity

Subscribed capital

As of 31 December 2016, the subscribed capital of RZB AG as defined by the articles of incorporation remained unchanged at € 492.5 million. The subscribed capital consists of 6,776,750 ordinary registered shares.

Supplementary capital pursuant to Chapter 4 of Title I of Part 2 of Regulation (EU) No 575/2013

As of 31 December 2016, *Supplementary capital* amounted to € 66.1 million (31/12/2015: € 66.1 million).

One euro denominated 10 year subordinated bond in the amount of € 52.0 million and two Czech koruna denominated 10 year subordinated bonds in the amount of € 14.1 million were issued by way of long-term refinancing. They are shown in the statement of financial position pursuant to Regulation (EU) No. 575/2013 under
Supplementary capital in accordance with Chapter 4 of Title I of Part 2 of Regulation (EU) No. 575/2013.

Expenses for supplementary capital

Expenses for supplementary capital for the financial year 2016 amounted to € 3.3 million (31/12/2015: € 3.0 million).

Total capital according to CCR

in € million	31/12/2016	31/12/2015
Paid-in capital	492	492
Capital reserves and premium to CET1 instruments	1,862	1,862
Retained earnings and other reserves[1]	1,763	1,680
Common equity tier 1 (before deductions)	**4,117**	**4,034**
Net loss for the year	0	0
Intangible fixed assets	-1	-2
Provision shortage for IRB positions	-9	-11
Deductions exceeding common equity tier 1	-37	-288
Deduction insurance and other investments	-176	-694
Transitional adaptions for common equity tier 1	74	355
Common equity tier 1 (after deductions)	**3,968**	**3,394**
Additional tier 1	0	0
Tier 1	**3,968**	**3,394**
Supplementary capital	66	66
Transitional adaptions for supplementary capital	-37	-66
Tier 2 (after deductions)	**29**	**0**
Total capital	**3,997**	**3,394**
Total risk exposure amount (assessment basis)	**7,459**	**8,103**
Common equity tier 1 capital ratio	53.20%	41.88%
Tier 1 capital ratio	53.20%	41.88%
Total capital ratio (transitional)	53.60%	41.88%
Common equity tier 1 capital ratio (fully loaded)	53.20%	41.88%
Total capital ratio (fully loaded)	53.60%	41.88%

1 Less reserves relating to the federal IPS of € 129.8 million (31.12.2015: € 63.6 million)

in € million	31/12/2016	31/12/2015
Total risk exposure amount (assessment basis)	**7,459**	**8,103**
Total capital requirement for credit risk	575	616
Internal rating approach	103	123
Standardized approach	424	400
CVA risk	1	0
Basel I – Floor	47	93
Total capital requirement for operational risk	21	32
Total capital requirement	**596**	**648**

in € million	31/12/2016	31/12/2015
Risk-weighted assets according to standardized approach	**424**	**400**
Equity exposures	413	394
Other positions	11	6
Risk-weighted assets according to internal rating approach	**103**	**123**
Banks	4	4
Corporate customers	60	81
Equity exposures	39	38
CVA risk	**1**	
Basel I - Floor	**47**	**93**
Total capital requirement for credit risk	**575**	**616**

Per cent	31/12/2016	31/12/2015
Leverage ratio (fully loaded)	15.31%	12.16%
Risk-weighted assets in per cent of total assets	41.91%	44.13%

Retained earnings

Other reserves

Other reserves consist solely of unappropriated retained earnings of which € 129.8 million (31/12/2015: € 63.6 million) are allocated to the federal IPS. Due to the agreement on the establishment of an Institutional Protection Scheme (IPS) and a corresponding resolution passed by the federal IPS Risk Council, a reserve in the amount of € 71.9 million (2015: € 60.5 million) for the federal IPS was added to other reserves in the financial year 2016. This amount is not eligible for the calculation of capital pursuant to CCR.

An amount of € 6.3 million (2015: release of € 21.9 million) was released from other reserves in relation to the recognition of provisions for contingent liabilities for the benefit of Posojilnica Bank (formerly ZVEZA Bank).

In addition, € 82,642,702.06 of the annual profit was allocated to other reserves.

Additional notes

Institutional Protection Scheme

The regulatory changes arising from Basel III resulted in some material adjustments with respect to the regulations for a decentralized banking group, organized according to cooperative principles, which to date have been covered by the Austrian Banking Act (BWG). Pursuant to the EU Regulation, when calculating total capital, credit institutions outside of their credit institution group must principally deduct positions held in capital instruments issued by other credit institutions, provided that no exemption exists due to an Institutional Protection Scheme (IPS). An IPS was therefore established in RBG and contractual or statutory liability arrangements were concluded which protect the participating institutions and in particular ensure their liquidity and solvency when required, in the event that it is necessary to avoid a failure of a bank. Based on the organizational structure of RBG, the IPS was designed with two levels and the corresponding applications were filed with the competent supervisory authorities. The financial market supervisory authority approved the applications in October and November 2014.

As the central institution of RBG, RZB AG is a member of the federal IPS, in which - as well as the Raiffeisen regional banks - Raiffeisen-Holding Niederosterreich-Wien, Vienna, Posojilnica Bank eGen, Klagenfurt, Raiffeisen Wohnbaubank AG, Vienna, and Raiffeisen Bausparkasse GmbH, Vienna, also participate. In addition, a provincial IPS was formed in most of the provinces.

The respective Raiffeisen regional banks and the locally active Raiffeisen banks are members of the provincial IPS.

The federal IPS is based on uniform, joint risk monitoring in the framework of the early identification system of the ORE. The IPS therefore adds a further element to the reciprocal support within RBG, in case a member institution finds itself in financial difficulties. In 2015, one case arose (Posojilnica Bank) and capital from the special reserve previously formed was immediately made available to the institution concerned by way of subscribed shares and a subordinated loan. In 2016, additional shares in Posojilnica Bank were subscribed for and two additional subordinated loans were granted. In addition, a guarantee agreement for around € 6.3 million was signed with Posojilnica Bank regarding a loan portfolio. The guarantee can be called in until 30 June 2017. A provision was recognized for the full guarantee amount.

Notes to the contingent liabilities

RZB AG is a member of the *Deposit Guarantee Association of Austria (Raiffeisen-Kundengarantiegemeinschaft Österreich)*. Members of the Association assume contractual liability under which they jointly guarantee the timely honoring of all customer deposits and securities issues of an insolvent member of the Association up to an amount equaling the sum of the individual financial strength of the other member institutions. The individual financial strength of a member institution is determined based on its available reserves, taking into account the relevant provisions of the Austrian Banking Act (BWG). The liability was met by inserting a noted item of one euro off the statement of financial position, as it is not possible to determine the exact amount of RZB AG potential liability in connection with the cross-guarantee system.

As of the 2016 reporting date, contingent liabilities amounted to € 7.7 billion (31/12/2015: € 8.7 billion). Of that amount, € 0.3 billion of the liabilities arising from guarantees (31/12/2015: € 0.4 billion) relate to the "RZB Euro Medium Term Note Programme" (EMTN Programme). In the course of the demerger, all economic rights and obligations from or in connection with the EMTN bonds were transferred to RBI. Accordingly, the bonds issued out of the EMTN program are booked by RBI under securitized liabilities. However, under civil law the position of RZB AG remains unchanged, i.e. it continues to act as the issuer in relation to the bondholders and bondholder claims can only be addressed to RZB AG. There is an agreement in place whereby RBI has instructed RZB AG, and RZB AG has undertaken, to meet all economic and other obligations from or in connection with the EMTN bonds in its own name, but for the account of RBI. This risk is reflected in the financial statements of Raiffeisen Zentralbank through the recognition of a contingent liability.

The remaining guarantees predominantly relate to guarantees for other liabilities of companies within the Group; these are mostly commitments in respect to other liabilities of RBI to third parties arising from the securities, derivatives and cash management businesses, as well as commitments for liabilities of RBI resulting from the Public Finance Program in favor of the EIB. RZB issued these guarantees in its function as head of the Group, whereby the beneficiaries are the banks in the Raiffeisen sector.

Furthermore, Raiffeisen Zentralbank has issued an "over-guarantee" in favor of Raiffeisen-Leasing Bank AG in the amount of € 152.1 million (31/12/2015: € 211.8 million).

Subordinated assets included under assets

in € million	31/12/2016	31/12/2015
Loans and advances to credit institutions	**81.8**	**69.9**
hereof to affiliated companies	68.4	66.1
hereof to companies linked by virtue of a participating interest	13.4	3.8
Loans and advances to customers	**6.5**	**0.2**
hereof to affiliated companies	6.5	0.2
hereof to companies linked by virtue of a participating interest	0.0	0.0

Open forward transactions as the reporting date are shown separately in the notes, annex 3.

For the following financial instruments within financial assets, the fair value in 2016 was lower than the book value:

Financial investments in € million		Carrying amount 31/12/2016	Fair value 31/12/2016	Carrying amount 31/12/2015	Fair value 31/12/2015
1.	Treasury bills and other bills eligible for refinancing with central banks	82.1	81.8	262.8	261.7
2.	Loans and advances to credit institutions	0.0	0.0	0.0	0.0
3.	Loans and advances to customers	0.0	0.0	0.0	0.0
4.	Debt securities and other fixed-income securities	53.1	52.8	119.5	119.0
	a) issued by public bodies	0.0	0.0	0.0	0.0
	b) issued by other borrowers	53.1	52.8	119.5	119.0
5.	Shares and other variable-yield securities	0.0	0.0	0.0	0.0
Total		**135.2**	**134.6**	**382.3**	**380.7**

Commitments arising from agency services

In addition to its own holding, RZB AG held € 24.0 million in shares in UNIQA Insurance Group AG in trust until the end of December 2016 (31/12/2015: € 24.0 million). The trust agreement was canceled on 12 December 2016.

Notes to the income statement

As RZB AG only had one place of business in Austria in 2016, there is no regional allocation by segment according to the respective registered office; a breakdown of income by geographic market is not applicable.

Net interest income in the 2016 financial year was negative and amounted to minus € 42.4 million (2015: minus € 21.3 million). This was primarily due to the funding of the participating interests. Interest income includes negative interest of € 13.2 million (2015: € 3.0 million) as an expense, including € 10.7 million (2015: € 1.4 million) of negative interest on balances held with OeNB. Interest expenses include negative interest of € 2.0 million (2015: € 0.9 million) as income.

The net profit or loss on financial operations includes a result from forward foreign exchange business in the amount of minus € 0.04 million (2015: minus € 9.1 million).

Other operating income includes staff and administrative expenses passed on for other non-banking services and service fees of € 17.5 million (2015: € 16.7 million); of that amount, € 6.6 million (2015: € 6.6 million) represents payments from RBI for marketing, advertising and license fees (the latter in connection with the Raiffeisen brand) and marketing expenses of € 6.8 million (2015: € 6.1 million) that were passed on to affiliated companies. In addition, RZB AG, in its function as lead institution, received income under service level agreements from RBI in the amount of € 5.7 million (2015: € 5.3 million) and from companies in the Raiffeisen sector in the amount of € 3.5 million (2015: € 3.0 million).

Expenses for severance payments and benefits for occupational employee pension funds include € 0.7 million (2015: € 0.8 million) in allocations to the provision for severance payments and € 1.4 million (2015: € 0.0 million) in allocations to the provision for voluntary severance payments.

The release of € 6.5 million (2015: € 3.7 million) from the item release/allocation to provision for pensions is particularly due to the elimination of pension obligations, while the change in the discount rate from 2.0 per cent to 1.6 per cent resulted in an increase.

Other administrative expenses include legal, advisory and audit costs of € 17.4 million (2015: € 15.5 million), advertising and rental expenses of € 15.6 million (2015: € 13.7 million) and expenses for service level agreements of € 10.6 million (2015: € 9.7 million).

Net income/expenses from the disposal and valuation of loans and advances and securities held as current assets contains individual loan loss provisions of € 1.0 million (2015: € 1.0 million), releases from portfolio loan loss provisions for on-balance and off-balance sheet transactions of € 0.3 million (2015: allocation of € 0.4 million) and allocations to provisions for contingent liabilities of € 1.4 million (2015: € 0.00 million). Furthermore, the item contains the valuation result of securities treated as current assets, which amounted to minus € 7.4 million (2015: minus € 1.4 million).

Net income/expenses from the disposal and valuation of shares in affiliated companies and participating interests mainly includes write-ups to acquisition cost of € 272.4 million (2015: write-down of € 125.5 million) for Raiffeisen International Beteiligungs GmbH and € 8.5 million for RALT Raiffeisen-Leasing GmbH & Co KG as well as an impairment of € 138.9 million (2015: € 46.8 million) and a distribution-related write-down of € 418.2 million for RZB-BLS Holding GmbH. Furthermore, the value of the holdings in R.B.T. Beteiligungs GmbH was written down € 10.1 million (2015: € 22.2 million).

Changes in reserves include a net allocation to retained earnings for the federal IPS special reserve in the amount of € 66.1 million (2015: € 38.7 million). An additional amount of € 82.6 million was allocated to other reserves.

Since the financial year 2005, RZB AG, has been the parent company of a group of companies according to Section 9 of the Corporation Tax Act (KStG). The group of companies pursuant to Section 9 KStG has 54 (31/12/2015: 49) companies as group members. In the reporting year, the existing tax compensation agreement was extended by way of a supplementary agreement with RBI AG. If RBI AG records a negative result for tax purposes and if these tax losses cannot be utilized within the group, the group parent does not have to pay any negative tax compensation to RBI AG immediately. A final settlement takes place only/at the latest when the company leaves the tax group. The group parent must still pay a negative tax contribution to RBI AG for usable shares in losses of RBI AG.

Tax on profit or loss includes income from the existing tax group allocation correspondent to Group taxation in the amount of € 12.8 million (2015: € 10.7 million) and income from the previous period's tax group allocation correspondent to Group taxation of € 1.1 million (2015: tax income of € 2.2 million).

The overall return on assets (net profit or loss after tax divided by average total assets as for the last financial year) is 0.8 per cent for the 2016 financial year. It was negative in the 2015 financial year.

Recommendation for the appropriation of profit

No dividend will be paid on shares for the 2016 financial year.

Events after the reporting date

Extraordinary General Meeting approves merger with RBI

On 23 January, and respectively on 24 January 2017, Extraordinary General Meetings of RZB AG as well as RBI AG took place passing a resolution on the merger of the two institutes. For passing the resolution a three-fourths majority of the capital represented was required and was approved by a clear majority in both cases. The shareholders also approved the capital increase related to the merger. RBI's share capital will be increased by € 109,679,778.15, from € 893,586,065.90 to € 1,003,265,844.05, through the issuance of 35,960,583 new no par value common bearer shares. The regional Raiffeisen banks, who are the core shareholders of RZB, hold around 58,8 per cent of the combined institute.

The merged company will operate under the name of Raiffeisen Bank International AG, as previously the case for RBI, and RBI shares will continue to be listed on the Vienna Stock Exchange. The number of shares issued will increase to 328,939,621.

Other

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

In the financial year. the company had an average of 297 (2015: 232) employees.

Expenses for severance payments and pensions for members of the Management Board and senior staff amounted to € 0.3 million in the financial year (2015: € 1.1 million) and € 0.3 million for other employees (2015: € 0.9 million).

Members of the Supervisory Board received remuneration of € 0.4 million (2015: € 0.4 million).

Remuneration of the Management Board

The following remuneration was paid to the Management Board of RZB AG:

in € thousand	2016	2015
Fixed remunerations	1,478	1,772
Bonus (performance-based)	0	344
Payments to pension funds and reinsurances	271	977
Other remunerations	1,335	1,514
Total	**3,084**	**4,607**

The table lists the fixed, performance-related and other remuneration and also includes remuneration for functions on boards of affiliated companies and benefits in kind. The total remuneration of Management Board members includes € 0.3 million (2015: € 1.3 million) in remuneration from affiliated companies for functions performed for such companies. Total remuneration paid to former members of the Management Board and their surviving dependents was € 0.7 million (2015: € 0.6 million).

Management Board

- Walter Rothensteiner, since 1 January 1995, Chairman and CEO; Chairman of the Austrian Raiffeisen Association
- Michael Höllerer, since 1 July 2015
- Johannes Schuster, since 10 October 2010

Supervisory Board

Executive Committee

- Erwin Hameseder, since 23 May 2012, President, PersA, PrüfA, AA, VergA, NA, RA, Chairman of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.
- Martin Schaller, since 10 October 2013, first Vice President, PersA, PrüfA, AA, VergA, NA, RA, General Director of Raiffeisen-Landesbank Steiermark AG
- Heinrich Schaller, since 23 May 2012, second Vice President, PersA, PrüfA, AA, VergA, NA, RA, General Director of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft
- Wilfried Hopfner, since 18 June 2009 member, since 22 January 2016 third Vice President, PersA, PrüfA, AA, VergA, NA, RA, Spokesman of the Management Board of Raiffeisen-landesbank Vorarlberg Waren- und Revisionsverband reg. Gen.m.b.H.

Members

- Klaus Buchleitner, since 25 June 2003, General Director of Raiffeisenlandesbank Niederösterreich-Wien AG and Raiffeisen-Holding NÖ Wien
- Peter Gauper, since 24 June 2008, Spokesman of the Management Board of Raiffeisenlandesbank Kärnten – Rechenzentrum und Revisionsverband, reg. Gen.m.b.H.
- Johannes Ortner, since 15 June 2016, Chairman of the Management Board of Raiffeisen-Landesbank Tirol AG
- Günther Reibersdorfer, since 23 June 2005, General Director of Raiffeisenverband Salzburg reg. Gen.m.b.H.
- Rudolf Könighofer, since 1 August 2013, General Director of Raiffeisenlandesbank Burgenland und Revisionsverband reg. Gen.m.b.H.
- Reinhard Wolf, since 23 May 2012, Director of the Management Board of RWA Raiffeisen Ware Austria AG

All of the above members of the Supervisory Board have been appointed until the Annual General Meeting relating to the 2018 financial year.

Delegated by the Works Council:

- Gebhard Muster, since 20 November 2008, since 14 June 2011 Chairman of the Works Council, PrüfA, AA, VergA, NA, RA
- Désirée Preining, since 14 June 2011 Deputy Chairwoman of the Works Council, PrüfA, AA, VergA, NA, RA
- Walter Demel, since 28 November 2013
- Doris Reinsperger, since 14 June 2011
- Tanja Daumann, since 27 March 2015

State Commissioner

- Ministerialrat Alfred Lejsek, since 1 September 1996, State Commissioner
- Sektionschef Gerhard Popp, since 1 December 2009, Deputy State Commissioner

Federal Advisory Board

- Walter Hörburger, since 22 June 2010, until 8 June 2016[1] Chairman, Chairman of the Supervisory Board of Raiffeisenlandesbank Vorarlberg Waren- und Revisionsverband reg. Gen.m.b.H.
- Sebastian Schönbuchner, since 20 June 2002, since 8 June 2016 Chairman until 8 June 2016[1] Deputy Chairman, Chairman of Raiffeisenverband Salzburg reg. Gen.m.b.H.
- Jakob Auer, since 13 June 2000, President of the Supervisory Board of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft
- Robert Lutschounig, since 12 June 2009, Chairman until 23 May 2012, Chairman of the Supervisory Board of Raiffeisenlandesbank Kärnten-Rechenzentrum und Revisionsverband, reg. Gen.m.b.H.
- Michael Misslinger, since 3 June 2014, Chairman of the Supervisory Board of Raiffeisen-Landesbank Tirol AG
- Helmut Tacho, since 3 June 2014, since 8 June 2016[1] Deputy Chairman, Chairman of the Supervisory Board of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.
- Wilfried Thoma, since 25 June 2003, President of the Supervisory Board of Raiffeisen Landesbank Steiermark AG
- Erwin Tinhof, since 20 June 2007, President of the Supervisory Board of Raiffeisenlandesbank Burgenland und Revisionsverband reg. Gen.m.b.H.

PersA	Member of the Personnel Committee
PrüfA	Member of the Audit Committee
AA	Member of the Working Committee
VergA	Member of the Remuneration Committee
NA	Member of the Nomination Committee
RA	Member of the Risk Committee
1	A new Chairman and his/her Deputy are appointed each year.

Vienna, 1 March 2017

The Management Board

Walter Rothensteiner

Michael Höllerer

Johannes Schuster

Annex 1: Statement of fixed assets

Item	Description of fixed assets (in € thousand)	Cost of acquisition or conversion: As at 1/1/2016 (1)	Exchange differences (2)	Additions (3)	Disposals (4)	Reclassification (5)	As at 31/12/2016 (6)
1.	Treasury bills and other bills eligible for refinancing with central banks	2,914,459	0	1,092,209	(115,349)	0	3,891,319
2.	Loans and advances to credit institutions	0	0	0	0	0	0
3.	Loans and advances to customers	0	0	0	0	0	0
4.	Debt securities and other fixed-income securities	645,311	0	171,049	0	0	816,360
a)	issued by public bodies	0	0	0	0	0	0
b)	own debt securities	0	0	0	0	0	0
c)	issued by other borrowers	645,311	0	171,049	0	0	816,360
5.	Shares and other variable-yield securities	25,000	0	0	(25,000)	0	0
6.	Financial investments	59,928	0	6,572	(4)	372	66,868
7.	Interest in affiliated companies	5,833,810	0	413	0	(372)	5,833,851
8.	Intangible fixed assets	2,062	0	(127)	(90)	0	1,845
9.	Tangible fixed assets	7,280	0	188	(22)	0	7,446
10.	Other assets	117	0	0	0	0	117
	Total	**9,487,967**	**0**	**1,270,304**	**(140,465)**	**0**	**10,617,806**

Item	Writing-ups/depreciation: Cumulative depreciation 1/1/2016 (7)	Exchange differences (8)	Cumulative depreciation disposal (9)	Write-ups (10)	Depreciation (11)	Reclassification (12)	Cumulative depreciation 31/12/2016 (13)	Carrying amount: As at 31/12/2016 (14)	As at 31/12/2015 (15)
1.	(27,355)	0	2,849	347	(33,444)	0	(57,603)	3,833,716	2,887,104
2.	0	0	0	0	0	0	0	0	0
3.	0	0	0	0	0	0	0	0	0
4.	(1,247)	0	33	223	(1,225)	0	(2,216)	814,144	644,064
a)	0	0	0	0	0	0	0	0	0
b)	0	0	0	0	0	0	0	0	0
c)	(1,247)	0	33	223	(1,225)	0	(2,216)	814,144	644,064
5.	0	0	0	0	0	0	0	0	25,000
6.	(18,430)	0	0	45	(6,572)	0	(24,957)	41,911	41,498
7.	(422,021)	0	0	281,868	(567,163)	0	(707,316)	5,126,535	5,411,788
8.	(99)	0	90	0	(455)	0	(464)	1,381	1,963
9.	(2,728)	0	18	0	(148)	0	(2,858)	4,588	4,552
10.	0	0	0	0	0	0	0	117	117
	(471,880)	**0**	**2,990**	**282,483**	**(609,007)**	**0**	**(795,414)**	**9,822,392**	**9,016,086**

Annex 2: List of investments

Affiliated companies

Company, registered office (country)	Total nominal value in currency		RZB-direct share	Equity in € thousand	Result[1] in € thousand	From annual financial statements	
Angaga Handels- und Beteiligungs GmbH, Vienna	35,000.00	EUR	100%	24.00	(4.00)	31/12/2015	
KAURI Handels und Beteiligungs GmbH, Vienna	50,000.00	EUR	88%	7,399.00	455.00	30/9/2016	
Raiffeisen International Beteiligungs GmbH, Vienna	1,000,000.00	EUR	100%	3,310,284.00	280,427.00	31/12/2016	2
RALT Raiffeisen-Leasing Gesellschaft m.b.H. & Co. KG, Vienna	20,348,393.57	EUR	97%	45,346.00	2,144.00	31/12/2015	
RALT Raiffeisen-Leasing Gesellschaft m.b.H., Vienna	218,500.00	EUR	100%	33,103.00	3,435.00	31/12/2015	
R.B.T. Beteiligungsgesellschaft m.b.H, Vienna	36,336.42	EUR	100%	39,289.00	(10,012.00)	31/10/2016	2
R.P.I. Handels- und Beteiligungsgesellschaft m.b.H., Vienna	36,336.42	EUR	100%	271.00	(3.00)	31/10/2016	2
RZB - BLS Holding GmbH, Vienna	500,000.00	EUR	100%	899,817.00	(45,954.00)	31/12/2016	2
RZB Invest Holding GmbH, Vienna	500,000.0 0	EUR	100%	854,082.00	32,595.00	31/12/2016	2
SALVELINUS Handels- und Beteiligungsgesellschaft m.b.H, Vienna	40,000.00	EUR	100%	381,547.00	24,091.00	31/12/2016	2
Raiffeisen Verbundunternehmen-IT GmbH, Vienna	100,000.0 0	EUR	100%	104.00	3.00	31/12/2015	

1 The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) (a) HGB including untaxed reserves (lit b).
2 The equity and annual result figures shown are taken from the preliminary annual financial statements for the financial year ending 31 October and 31 December 2016, respectively.

Other equity participations

Company, registered office (country)	Total nominal value in currency		RZB-direct share	Equity in € thousand	Result[1] in € thousand	From annual financial statements	
EMCOM Beteiligungs GmbH, Vienna	37,000.00	EUR	34%	21,034.00	987.00	31/10/2016	2
NOTARTREUHANDBANK AG, Vienna	8,030,000.00	EUR	26%	27,768.00	7,754.00	31/12/2015	
Österreichische Wertpapierdaten Service GmbH, Vienna	36,336.41	EUR	25%	72.00	7.00	31/12/2015	
Raiffeisen e-force Gesellschaft m.b.H, Vienna	145,346.00	EUR	19%	1,382.00	8.00	31/12/2015	
RSC Raiffeisen Service Center GmbH, Vienna	2,000,000.00	EUR	17%	2,459.00	113.00	31/12/2015	
Austrian Reporting Services GmbH, Vienna	41,176.48	EUR	15%	42.00	1.00	31/12/2015	
Raiffeisen Software GmbH, Vienna	150,000.00	EUR	1%	5,264.00	1,264.00	31/12/2015	

1 The result (in part from the consolidated financial statements) in € thousand corresponds to the annual profit/loss; equity is reported in accordance with Section 224 (3) (a) HGB including untaxed reserves (lit b).
2 The equity and annual result figures shown are taken from the preliminary annual financial statements for the financial year ending 31 October and 31 December 2016, respectively.

Annex 3: Open forward transactions

31/12/2016	Nominal amount by maturity in € thousand					Market value in € thousand	
Name	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**80,000**	**1,322,418**	**2,821,505**	**4,223,923**	**0**	**7,267**	**(146,662)**
a) Interest rate contracts	**80,000**	**1,322,418**	**2,821,505**	**4,223,923**	**0**	**7,267**	**(146,662)**
OTC products							
Interest rate swaps	80,000	1,322,418	2,821,505	4,223,923	0	7,267	(146,662)
Floating Interest rate swaps	0	0	0	0	0	0	0
Interest rate futures	0	0	0	0	0	0	0
Interest rate options - buy	0	0	0	0	0	0	0
Interest rate options - sell	0	0	0	0	0	0	0
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Interest rate futures	0	0	0	0	0	0	0
Interest rate options	0	0	0	0	0	0	0
b) Foreign exchange rate contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Cross-currency interest rate swaps	0	0	0	0	0	0	0
Forward foreign exchange contracts	0	0	0	0	0	0	0
Currency options – purchased	0	0	0	0	0	0	0
Currency options – sold	0	0	0	0	0	0	0
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options -buy	0	0	0	0	0	0	0
Equity/Index options -sell	0	0	0	0	0	0	0
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Commodity forward transactions	0	0	0	0	0	0	0
Exchange-traded products							
Commodity futures	0	0	0	0	0	0	0
e) Credit derivative contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Credit default swaps	0	0	0	0	0	0	0

31/12/2015	Nominal amount by maturity in € thousand				Market value in € thousand		
Name	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	hereof trading book	positive	negative
Total	**0**	**680,000**	**1,622,635**	**2,302,635**	**0**	**362**	**(80,441)**
a) Interest rate contracts	**0**	**680,000**	**1,622,635**	**2,302,635**	**0**	**362**	**(80,441)**
OTC products							
Interest rate swaps	0	680,000	1,622,635	2,302,635	0	362	(80,441)
Floating Interest rate swaps	0	0	0	0	0	0	0
Interest rate futures	0	0	0	0	0	0	0
Interest rate options - buy	0	0	0	0	0	0	0
Interest rate options - sell	0	0	0	0	0	0	0
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Interest rate futures	0	0	0	0	0	0	0
Interest rate options	0	0	0	0	0	0	0
b) Foreign exchange rate contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Cross-currency interest rate swaps	0	0	0	0	0	0	0
Forward foreign exchange contracts	0	0	0	0	0	0	0
Currency options – purchased	0	0	0	0	0	0	0
Currency options – sold	0	0	0	0	0	0	0
Other similar interest rate contracts	0	0	0	0	0	0	0
Exchange-traded products							
Currency contracts (futures)	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
c) Securities-related transactions	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Securities-related forward transactions	0	0	0	0	0	0	0
Equity/Index options -buy	0	0	0	0	0	0	0
Equity/Index options -sell	0	0	0	0	0	0	0
Exchange-traded products							
Equity/Index futures	0	0	0	0	0	0	0
Equity/Index options	0	0	0	0	0	0	0
d) Commodity contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Commodity forward transactions	0	0	0	0	0	0	0
Exchange-traded products							
Commodity futures	0	0	0	0	0	0	0
e) Credit derivative contracts	**0**	**0**	**0**	**0**	**0**	**0**	**0**
OTC products							
Credit default swaps	0	0	0	0	0	0	0

Management report

Market development

Markets swayed by monetary policy

Developments in the money and capital markets continued to be dominated last year by international central bank policies. In the spring of 2016, for example, the European Central Bank (ECB) decided among other things to expand its bond-buying program from € 60 billion per month to € 80 billion, to offer banks funding through long-term refinancing operations, as well as to cut key interest rates. The central bank made adjustments to its policy mix at its last meeting in 2016. The minimum remaining period for its bond purchases was extended to the end of 2017, with the monthly volume to return to € 60 billion as of April 2017. Money market rates fluctuated between the central bank's deposit rate and main refinancing rate over the course of last year, and were in negative territory across all maturities since mid-January 2016. The yield on two-year German government bonds was already negative in 2015, with yields at the short end continuing to fall in 2016. The yield on ten-year German government bonds came down in the first half of 2016, due to falling inflation expectations and the increase in ECB bond purchases; however, started increasing as of last autumn. In the US, the Fed raised its key rate range by 25 basis points to 0.50-0.75 per cent in December after a one-year pause.

According to preliminary data, real GDP in the euro area grew 1.7 per cent in 2016. Consequently, the upswing in the monetary union continued, despite the fact that economic growth concerns repeatedly surfaced last year. Economic growth was driven primarily by private consumption and to a lesser extent by government consumption and gross fixed capital formation. At the country level, economic development continued to be highly varied. Whereas Spain's GDP expanded by 3.3 per cent, Italy posted GDP growth of a mere 1.0 per cent. The average price level of consumer goods remained virtually unchanged in the euro area during most of the year. The lack of general inflationary pressure on consumer goods was attributable to falling prices for energy and imported goods. Only when energy prices increased towards the end of 2016 – compared to prior year levels – did the inflation rate pull away appreciably from the zero per cent mark.

Austria's economy experienced a moderate upturn in 2016, with real GDP growing 1.5 per cent. Domestic demand was the main pillar of economic growth. Private consumption benefited from the tax reform that went into effect at the beginning of 2016, and equipment investment was comparatively dynamic. Construction investment expanded for the first time in a number of years. In contrast, net exports did not support real GDP growth.

The US economy had a weak start to 2016. This was primarily the result of unusually low inventory investment, as well as declining investment in mining and oil and gas exploration due to sharply lower commodity prices. These negative effects subsequently subsided in the second half of the year, and the economy resumed its dynamic growth. In particular, private consumption grew at an encouraging pace. Nevertheless, real gross domestic product increased only 1.6 per cent in 2016, due to the weak start to the year.

China's economic growth stabilized and is estimated to be 6.7 per cent for 2016. Although the government's economic support initiatives are likely to have kicked in, these primarily benefited large state enterprises through infrastructure investment. Growth impetus continued to come from the real estate sector.

Solid growth in CE and SEE, recession flattening out in Russia

The low and in some cases negative inflation rates in Central and Southeastern Europe (CE and SEE) and the ECB's low interest rate policy enabled key rates in the region to be kept at a low level last year. In a number of countries further monetary policy easing measures were even taken or continued to be implemented. In Poland and Romania, moreover, fiscal growth stimuli supported private consumption.

The CE region registered somewhat weaker economic trend in 2016, with GDP growth at 2.7 per cent. Although CE continued to benefit from solid economic growth in Germany, as well as from the recovery in the euro area and from expansionary monetary policies in some CE countries, economic growth in CE came in below the previous year's level. One contributory factor was the drop in investment activity owing to temporarily lower EU transfer payments into the region. Poland, the region's growth engine, lost considerable momentum and recorded 2.8 per cent year-on-year growth. Overall, however, the economic data indicates balanced growth with solid export and dynamic domestic economic activity.

SEE reported strong economic growth of 3.9 per cent year-on-year in 2016. Once again, the Serbian and Croatian economies significantly stepped up their pace of growth compared to the previous year. The Croatian economy benefited from political stabilization. In Romania, household demand was stimulated by tax cuts. With GDP growth of 3.3 per cent, Bulgaria caught up somewhat with Romania. Overall, economic growth in SEE was at its strongest pace in several years. Although a portion of this growth was attributable to temporary factors, it nonetheless underscores that the weak phase of previous years has been overcome.

Economic conditions in Eastern Europe (EE) improved in 2016. Russia benefited from a recovery in oil prices over the course of the year. Prudent monetary and fiscal policy had a stabilizing effect but failed to deliver additional growth impetus. The recession in Russia flattened out significantly, and economic output fell only 0.2 per cent year-on-year in 2016. Russia's manufacturing sector improved somewhat towards the end of last year, but private household demand remained weak. Ukraine's economy bottomed out in 2015 and returned to growth of 2.2 per cent in 2016. The Belarusian economy, which is heavily dependent on financial support from and exports to Russia, remained in a persistent recession. Inflation rates in EE retreated from high levels amid more stable exchange rate developments and weak domestic demand.

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

Region/country	2015	2016e	2017f	2018f
Czech Republic	4.6	2.3	2.7	2.5
Hungary	2.9	2.0	3.2	3.4
Poland	3.9	2.8	3.3	3.0
Slovakia	3.8	3.3	3.3	4.0
Slovenia	2.3	2.5	2.7	2.5
Central Europe	**3.8**	**2.7**	**3.1**	**3.0**
Albania	2.6	3.5	4.0	4.0
Bosnia and Herzegovina	3.0	2.5	3.0	3.5
Bulgaria	3.6	3.3	3.3	3.3
Croatia	1.6	2.9	3.3	2.8
Kosovo	4.1	3.5	3.5	3.5
Romania	3.9	4.8	4.2	3.5
Serbia	0.7	2.7	3.0	3.0
Southeastern Europe	**3.1**	**3.9**	**3.7**	**3.3**
Belarus	(3.8)	(2.6)	(0.5)	1.5
Russia	(2.8)	(0.2)	1.0	1.5
Ukraine	(9.9)	2.2	2.0	3.0
Eastern Europe	**(3.3)**	**(0.1)**	**1.0**	**1.6**
Austria	**1.0**	**1.5**	**1.7**	**1.5**
Germany	**1.5**	**1.8**	**1.7**	**1.5**
Euro area	**2.0**	**1.7**	**1.9**	**1.7**

Economic recovery in Austria

In 2016, the Austrian economy was able to increase the rate of expansion, which is mainly due to the second half of the year. For the full year of 2016, the real GDP expanded by 1.5 percent, compared to 1.0 percent in 2015. The main pillar of the economic development was domestic demand. On the one hand, private consumption benefited from the increase in real disposable income as a result of the tax reform that came into force at the beginning of 2016. On the other hand, gross fixed capital formation was encouraging, mainly due to equipment investments. Against the backdrop of the cyclical economic recovery, imports continued to develop dynamically. Since at the same time exports could only be expanded moderately, foreign trade did not contribute positively to GDP growth in 2016. The recovery is expected to continue in 2017. Economic growth should continue to be driven by domestic demand (private consumption, investments), while net exports are expected to continue to not contribute to GDP growth in 2017.

Development of the banking sector

Moderate growth in CEE

In 2016, many indicators exhibited a substantial recovery of the banking sector from the subdued levels of the previous year. Positive trends in new lending or in asset growth continued in several CE and SEE countries in 2016 (e.g. in the Czech Republic, Slovakia and Romania). The banking sector in Russia also recovered significantly. Nearly all banking markets in CEE now show a comfortable loan/deposit ratio (well below 100 per cent for the most part), which represents a solid foundation for future growth. In addition, many challenging banking markets of recent years started posting considerable profits again at sector level in 2016 (e.g. Hungary, Romania, Croatia and Russia). In particular, leading foreign banks also significantly outperformed general market trends in the challenging Eastern European banking markets (Russia, Ukraine, and Belarus). The positive profitability trend was additionally supported by the sustained stabilization, or even a sharp drop, in non-performing loans (NPLs) in CE and SEE (with significant differences at country level). Overall, the NPL ratio in CE and SEE fell from previously 8.3 per cent to 7.4 per cent in 2016 as a result. In view of the positive developments in CE and SEE, as well as the stabilization of NPLs and profitability in Russia, return on equity in the CEE banking sector significantly increased above the comparable figure in the euro area again in 2016.

Banking sector in Austria

In 2016, the banking sector in Austria continued to perform below average when compared to the euro area in terms of credit growth (notably in corporate banking). Lending focused on retail customer and real estate financing transactions in particular. However, the profitability of Austria's banking sector markedly increased at a consolidated level, mainly supported by CEE business. As a result, the Austrian banking sector also significantly improved its capitalization relative to major Western European countries. The reduction in the bank tax from 2016 should also have a positive impact in the following years.

In the first half of 2016, the Austrian banks generated a positive consolidated net income of roughly € 2.9 billion, or € 255.8 billion more than in the same period of the previous year. The positive result was mainly driven by the sharp reduction in loan loss provisions, which not only more than offset significant declines in net interest income as the most important income component, but also lower income from commissions and net trading income. The profitability of Austrian subsidiary banks in CEE significantly improved in the first quarter of 2016. Profit contributions from Austrian subsidiary banks were positive in all CEE countries. The highest profits were made in the Czech Republic, Romania and Russia, albeit with profits down in Russia in comparison with the previous year's quarter.

However, the reported regulatory capital ratios continue to be below average by international standards. If the leverage ratio is included as benchmark, Austrian banks performed remarkably better. Capital requirements will gradually increase following the introduction of the Systemic Risk Buffer as well as of the buffer for Other Systemically Important Institutions (O-SIIs), which the Financial Market Stability Board (FMSB) has recommended.

The Sustainability Package, which was launched in 2012, has helped to strengthen the local funding base of Austrian subsidiary banks in CEE. The loan/deposit ratio fell from 117 per cent in 2008 to 88 per cent in the first quarter of 2016, and was primarily attributable to an increase in local savings deposits. Accordingly, credit growth is increasingly financed on a local basis.

The Single Resolution Mechanism (SRM) became fully effective on 1 January 2016. The Single Resolution Board (SRB) is the central body responsible for making all decisions relating to the resolution of major banks that are either failing or at risk of failing.

The measures are implemented in cooperation with the relevant national resolution authorities.

Regulatory environment

Changes in the regulatory environment

The Group focused intensively on current and forthcoming regulatory developments again in the year under review.

Proposed legislation relating to the European Deposit Insurance Scheme (EDIS)

In 2015, the European Commission proposed a European Deposit Insurance Scheme (EDIS) designed to support the banking union, strengthen the protection of depositors, increase financial stability, and further weaken the link between banks and sovereigns. The EDIS is part of the European SRB and covers all national deposit guarantee systems (including IPS) and is to be developed incrementally in three stages by 2024. In the first stage it is to comprise a reinsurance scheme of the national deposit guarantee systems and subsequently become a co-insurance scheme after three years, under which the contribution of the EDIS is to progressively increase over time. A fully comprehensive EDIS is planned as the last stage, which is scheduled for 2024. The final adoption and publication of the law is lined up for the fourth quarter of 2017 at the earliest.

Amendment to European regulations

In November 2016, the European Commission published a legislative proposal to change the prudential requirements (CRD IV/CRR), as well as to amend the recovery and resolution framework (BRRD, SRM). The documents provide the basis for follow-up negotiations with the EU Parliament and European Council and at the same time offer a preview of the regulatory challenges for the years following 2017.

On the one hand, the proposed changes to the CRR can be broken down thematically into criteria for classification under the finalized Basel III. This comprises, for example, the introduction of a binding minimum leverage ratio and net stable funding ratio (NSFR), as well as add-ons to the bank recovery and resolution regulations, in order to meet the Total Loss Absorbing Capacity (TLAC) requirements for global systemically important banks. On the other hand, the drafts include adjustments whose content already relates to Basel IV, e.g. the introduction of a standardized approach for measuring counterparty risks, an overhaul of market price risk regulations within the framework of the Fundamental Review of the Trading Book (FRTB) and new rules for investment funds. Compared to the previous implementation of Basel standards, it is clearly evident that proportionality is given far greater weight, in particular, to meet the needs of the numerous smaller banks in the EU. According to the latest information, the new rules and regulations are expected to be applicable from 2019 onwards.

Action plan for building a capital markets union

The European Commission aims to improve access to capital market funding for all companies, especially small and medium-sized enterprises (SMEs). It wants to break down barriers that are blocking cross-border investments on the capital market. The action plan of 30 September 2015, provides for a bundle of measures through to 2017, including specific legislative proposals relating to securitization and consultations on covered bonds. The work packages for the action plan were processed and/or expedited in 2016. While the fundamental aim of driving cross-border investments is certainly to be welcomed, it cannot provide a realistic alternative to credit financing for SMEs through banks. Instead, the proposed measures can arguably only be considered as measures to supplement financing by banks.

Business performance

RZB AG is the lead institution of the Austrian Raiffeisen Banking Group (RBG). It also acts as the central holding company of the RZB Group of domestic and foreign subsidiaries. Its largest equity participation is Raiffeisen Bank International AG (RBI AG), which is stock-exchange listed and has an international banking network focused on Central and Eastern Europe (CEE). As of 31 December 2016, RZB AG held approximately 60.7 per cent in RBI. RBI AG significantly influences the result of RZB AG. In addition, alongside UNIQA Insurance Group AG (UNIQA), dividend income from affiliated companies (in particular Raiffeisen Bausparkasse, Raiffeisen KAG) also contributes to the profit of RZB AG.

Combining the operations of affiliated companies within RZB AG facilitates consistent business management practices, along with improved financial and earnings performance and the application of uniform risk management standards. The objective is to increase the value of the RBG on federal level.

In December 2016, a subsidiary of RZB AG sold a stake of around 17.64 per cent in UNIQA by means of a share transfer to UNIQA Versicherungsverein Privatstiftung. At the same time, shares totaling around 2.24 per cent were acquired from Raiffeisen-Holding Niederösterreich-Wien, Raiffeisen-Landesbank Steiermark and Raiffeisenlandesbank Kärnten. As of 31 December 2016, RZB AG thus held a total indirect stake of around 10.87 per cent in UNIQA.

In September 2016, Raiffeisen-Landesbanken-Holding GmbH (which was until then the ultimate parent company). following its prior merger with its wholly-owned subsidiary R-Landesbanken-Beteiligung GmbH, was merged into RZB AG as the acquiring company,.

Regulatory changes

RZB AG was again confronted with regulatory changes in the past financial year. Since November 2014, the European Central Bank (ECB) has been responsible for the supervision of banks in the euro area under the Single Supervisory Mechanism (SSM). RZB AG has therefore been under the direct supervision of the ECB since the fourth quarter of 2014. The Single Resolution Mechanism (SRM) was also implemented in the euro area in 2015, which is designed to enable an orderly winding down of failing banks. In addition to drawing up resolution plans, banks must also pay contributions to finance a Single Resolution Fund (SRF), which resulted in expenses of € 1 million for RZB AG in 2016. The amount banks are required to contribute to the resolution fund is determined on the basis of business volumes and a bank-specific risk assessment. The target size of the SRF (at least one per cent of covered customer deposits of eligible banks in participating member states) is due to be reached by 2024.

In the area of deposit guarantees, the goal is also to establish a harmonized guarantee system in Europe. The target size of the deposit guarantee fund is based on 0.8 per cent of the deposits covered, and is also expected to be reached by 2024.

Business areas

Alongside the management of its principal equity participation, RBI AG, RZB AG's business predominantly relates to its role as lead institution of the RBG and management of the broader portfolio of equity participations.

The main areas of RZB AG's activity therefore encompass equity participation management, Raiffeisen sector business and liquidity management.

Participation management

The portfolio of participating interests held by RZB AG derives from its role as the lead institution of the Raiffeisen Banking Group in Austria (RBG), as parent credit institution according to the Austrian Banking Act (BWG) and as head of the Group. The focus of the participating interests is on the participating interest in RBI AG and on strategic core holdings, which provide products and services to RBG or which provide support in core business areas.

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

The portfolio of participating interests is characterized by long-term strategic holdings in core business areas (credit institutions, financial institutions, insurance companies, banking support services) and other strategic interests (e.g. IT). In addition, RZB AG enters into financial investments, with the primary objective of income optimization.

Active control of participating interests aims to take account of the interests of RZB AG's owners as regards value appreciation and rising dividend distributions.

The book values of the direct holdings changed as follows:

in € million	31/12/2016	31/12/2015
Additions	**11.4**	**272.4**
Posojilnica Bank (ehemals ZVEZA Bank)	11.0	15.2
RZB Invest Holding GmbH	0.0	256.2
Other	0.4	1.0
Disposals	**0.0**	**(9.7)**
Valida Holding AG	0.0	(8.9)
Other	0.0	(0.8)
Write-ups	**281.9**	**21.2**
Raiffeisen International Beteiligungs GmbH	272.4	0.0
RALT Raiffeisen-Leasing Gesellschaft m.b.H. & Co KG	8.5	0.0
SALVELINUS Handels- und Beteiligungsgesellschaft m.b.H.	0.0	21.2
Other	1.0	0.0
Write-downs	**(578.2)**	**(209.7)**
RZB-BLS Holding GmbH	-(557.1)	(46.8)
Posojilnica Bank (ehemals ZVEZA Bank)	(11.0	(15.2)
R.B.T. Beteiligungsgesellschaft m.b.H.	(10.1)	(22.2)
Raiffeisen International Beteiligungs GmbH	0.0	(125.5)
Total change	**(284.9)**	**74.2**

The write-up of Raiffeisen International Beteiligungs GmbH results from the appreciation in value of RBI AG, as a result of which the write-downs carried out in previous years had to be reversed. The write-down of RZB-BLS Holding GmbH is due, first, to a distribution of € 460 million and, second, to a capital loss (UNIQA partial sale).

The principal holdings listed in order of book value are as follows

Direct investments in € million	31/12/2016	31/12/2015
Raiffeisen International Beteiligungs GmbH, Vienna (Raiffeisen Bank International AG)	3,302.3	3,029.9
RZB Invest Holding GmbH	838.1	838.1
RZB – BLS Holding GmbH, Vienna (UNIQA Insurance Group AG)	439.9	997.0
SALVELINUS Handels- und Beteiligungsgesellschaft mbH, Vienna	358.3	358.3
R.B.T. Beteiligungsgesellschaft m.b.H.	39.2	49.3
Other	190.6	180.7
Total	**5,168.4**	**5,453.3**

Branches

RZB AG has no branches. It does, however, have a representative office in Brussels.

Sector business

RZB AG undertakes significant services to facilitate efficient cooperation in the RBG. The Marketing area at RZB AG provides essential marketing services and is responsible for strategic brand management based on coordination and advisory services for the RBG as well as support for the committee work of the Group. Client Relationship Management at RZB AG is responsible for inquiries, projects, etc. in relation to commercial banking issues in the Group. In addition, all aspects concerning sustainability management topics and associated activities of RZB come together in RZB AG.

The responsibility for strategic brand management for the RBG and RZB lies with RZB AG. Raiffeisen has developed into an internationally successful banking group with RZB AG as its lead institution. A uniform brand identity signals strength, conveys expertise and generates confidence.

Raiffeisen is the clear number one in Austria in terms of customer share, both in the area of private individuals as well as corporate customers. Regionalism, security and sustainability have constituted the guiding principles of the RBG since the days of its foundation. These take on particular significance in economically challenging times, when security and confidence are the most important criteria in choosing a bank.

The consistently integrated communication strategy executed by Central Raiffeisenwerbung (ZRW) - present in the media on TV, on billboards, in print and online - is evidently highly successful in all of its key areas and generates advertising value far exceeding that of competitors. According to the Financial Market Data Service (FMDS - half-year evaluation 2016), in terms of advertising recall Raiffeisen remains uncontested in first place with 52 per cent, 22 percentage points ahead of the next competitor. This lead was greater than in the previous year. In terms of image perception among its own major customers, Raiffeisen scores above average for 14 out of 16 "Image Dimensions" and ranks top among the banks for "high security".

Federal IPS

Institutional protection schemes (IPS) approved by the Financial Market Authority (FMA) have been established within the Austrian RBG since the end of 2014 and contractual or statutory liability arrangements have been concluded in this connection; these schemes provide additional protection for the participating institutions and, in particular, ensure their liquidity and solvency where required. These IPS are based on joint and uniform risk monitoring pursuant to Article 49 CRR (Capital Requirements Regulation). Based on the RBG's structure, the IPS were also designed with two levels (federal and provincial IPS).

As the lead institution of the RBG, RZB AG is a member of the Federal IPS whose members include, in addition to the Raiffeisen regional banks, Raiffeisen-Holding Niederösterreich-Wien, Posojilnica Bank (formerly ZVEZA Bank), Raiffeisen Wohnbaubank and Raiffeisen Bausparkasse. The Federal IPS is its own supervisory legal subject. Consequently, the capital adequacy requirements of the CRR must also be complied with at the level of the Federal IPS. Therefore, no deductions are made for the members of the Federal IPS for their participation in RZB AG. Moreover, internal receivables within the IPS can be weighted at zero per cent. It is planned that, following the registration of the merger of RZB AG and RBI AG, RBI AG will become a member of the Federal IPS.

The basis of the Federal IPS is uniform and joint risk monitoring within the framework of the early warning system of the Austrian Raiffeisen Deposit Guarantee scheme (ÖRE). The IPS is therefore an additional element which supplements mutual cooperation in the framework of the Raiffeisen Banking Group, which comes into effect when members run into financial difficulties.

Communication campaigns

In 2016, ZRW implemented national campaigns focused on specific topics and target groups, based on House/Home including "Aspiration fulfillment" (January to March), Youth (March/April), Euro 2016 "My Team. My Bank" (May/June), Account/Convenience (June/July) and Savings (August to November), and developed sales support resources for the corporate customers target group.

Sport sponsorship

Sport sponsorship has been an important factor driving the success of Raiffeisen marketing for many years. As "the Austrian Bank", Raiffeisen considers itself to be the optimal sponsorship partner for home-grown ski stars and the national soccer team. The part nership with top Austrian sportsmen and women brings Raiffeisen the highest level of sport advertisement recall among all banks, along with an extremely high degree of attention and personal identification. The Raiffeisen brand is consequently perceived as particularly familiar and approachable, and as representing partnership.

Sport sponsorship has a number of advantages: it generates attention, increases or more firmly establishes market recognition, positively affects brand image, brings about personal identification and differentiates the brand from competitors, which is particularly important in the financial services sector where products are largely commoditized.

The gable cross was displayed on the helmets of Austrian ski stars in the 2016/2017 world cup season, such as those of six times world champion and five times overall and slalom world cup winner, Marcel Hirscher and the speed specialist, Max Franz. Since 2003, Raiffeisen has also been the main sponsor of the Austrian national soccer team.

Raiffeisen brand

The Raiffeisen brand, according to the Austrian brand value study 2016 undertaken by the European Brand Institute, has a value of approximately € 1.8 billion, ranking sixth among the brands evaluated. In the financial services sector, Raiffeisen is the uncontested market leader in Austria. Of all banks, Raiffeisen also enjoys the highest scores for brand recognition, popularity, and advertising recall.

Liquidity management

RZB AG is the central institution of the RBG. Along with the circa 450 banks in the Group, it forms the largest liquidity network in Austria. Within this liquidity network, pursuant to the Austrian Banking Act (BWG, Section 27a) members are required to hold a liquidity reserve at the parent central institution. RZB AG invests the liquidity reserve in highly liquid assets according to CRR/CRD IV.

As the RBG has a three-tier structure, liquidity balancing takes place on two levels: between the Raiffeisen Banks and the Regional Raiffeisen Banks as central institutions of the Raiffeisen Banks, as well as between the Regional Raiffeisen Banks and RZB AG as central institution of the Regional Raiffeisen Banks. Within the RBG, the highest level of liquidity balancing is undertaken by RZB AG.

In addition to its role as central institution, RZB AG provides numerous other services to the RBG. Amongst other functions, RZB AG coordinates the holding of the RBG minimum reserve at the National Bank of Austria (OeNB), determining and pooling cash flows and passing them on to OeNB.

Financial performance indicators

Statement of financial position

RZB AG's *Total assets* as at the 31/12/2016 reporting date amounted to € 17,797.0 million (31/12/2015: 18,363.7 million).

Cash in hand and balances with central banks totaled € 4.503.5 million at year-end (31/12/2015: € 4,051.9 million) and consisted entirely of balances at the National Bank of Austria (OeNB).

€ 4,264.0 million were shown at the reporting date under the item *Treasury bills and other bills eligible for refinancing with central banks* (31/12/2015: € 4,293.0 million), of which € 2,868.5 million (31/12/2015: € 2,982.5 million) related to domestic debt securities and € 1,395.5 million (31/12/2015: € 1,310.5 million) to foreign debt securities.

Loans and advances to credit institutions amounted to € 1.117,5 million (31/12/2015: € 2,523.2 million). Loans and advances to RBI accounted for 35.8 per cent (31/12/2015: 16.2 per cent), while and 64.2 per cent (31/12/2015: 83.8 per cent) to other banks, predominantly banks in the Austrian Raiffeisen sector, accounted for 64.2 per cent (31/12/2015: 83.8).

Loans and advances to customers stood at € 1,011.0 million at the reporting date (31/12/2015: € 1,083.2 million), of which € 989.3 million (31/12/2015: € 1,070.8 million) were to domestic customers and € 21.7 million (31/12/2015: € 12.4 million) were to foreign customers. As of 31 December 2016, foreign currency denominated loans and advances to customers amounted to € 82.4 million (31/12/2015: € 9.0 million).

At the reporting date, an amount of € 815.6 million (31/12/2015: € 645.6 million) was reported under the item *Debt securities and other fixed-income securities*. The strong increase of € 170.0 million in comparison with the previous financial year is caused by the purchase of bonds and notes issued by credit institutions.

The items *Interest in affiliated companies* and *Financial investments* of € 5,168.4 million in aggregate (31/12/2015: € 5,453.3 million) included material holdings in Raiffeisen International Beteiligungs GmbH, in RZB-Invest Holding GmbH, in RZB-BLS Holding GmbH, in SALVELINUS Handels- und Beteiligungsgesellschaft mbH and in R. B. T. Beteiligungsgesellschaft m.b.H.

At the reporting date, *Other assets* totaled € 819.3 million (31/12/2015: € 261.3 million), of which € 531.2 million (31/12/2015: € 76.2 million) represented receivables due from income from equity participations to be paid out after 31/12/2016. Furthermore, as of 31 December 2016, the item contains receivables due from tax group members in relation to tax transfers of € 37.9 million (31/12/2015: € 34.3 million), receivables due from the tax authority of € 108.6 million (31/12/2015: € 72.6 million) as well as receivables of € 122.9 million (31/12/2015: € 66.8 million) due from ÖRE in connection with the trust account for the federal IPS.

On the liabilities side, *Deposits from banks* were reported in an amount of € 12,427.2 million (31/12/2015: € 13,739.5 million). At 69.8 per cent of total assets (31/12/2015: 74.6 per cent), these represented the largest source of refinancing for RZB AG. Deposits from banks were split between liabilities to RBI AG, which accounted for 5.4 per cent (31/12/2015: 14.6 per cent), and liabilities to other banks, predominantly banks in the Austrian Raiffeisen sector, which accounted for 94.6 per cent (31/12/2015: 85.4 per cent).

As at the reporting date, *Liabilities to customers (non-banks)* amounted to € 680.5 million (31/12/2015: € 272.0 million). This included liabilities to foreign customers of € 67.6 million (31/12/2015: € 140.0 million).

The item *Debt securities issued* increased in comparison with the previous financial year to € 170.1 million (31/12/2015: € 35.0 million).

The item *Other liabilities* totaling € 133.0 million (31/12/2015: € 70.4 million) included liabilities from tax transfers (corporate income tax) and chargeable capital gains as well as withholding tax due to Group members of € 23.4 million in aggregate (31/12/2015: € 37.6 million). Furthermore, this item contains accrued interest for interest rate swaps used for hedging purposes of € 24.9 million (31/12/2015: € 21.0 million).

Provisions recognized by RZB AG are valued at € 69.5 million (31/12/2015: € 76.3 million), of which € 53.6 million (31/12/2015: € 58.0 million) are for pensions and severance payment obligations, € 1.6 million (31/12/2015: € 4.4 million) are taxation provisions, € 1.4 million (31/12/2015: € 1.6 million) are provisions for performance related bonuses, € 2.0 million (31/12/2015: € 1.0 million) are provisions for outstanding invoices, € 1.8 million (31/12/.2015: € 1.7 million) provisions for unused vacation, and € 1.8 million (31/12/2015: € 1.6 million) provisions for anniversary payments. Furthermore, in the 2016 financial year a provision for contingent liabilities was set up in an amount of € 6.3 million (31/12/2015: € 0.0 million). In the previous year, provisions were set up for participations in an amount of € 6.9 million, which were used in the year under review.

The total amount at risk (i.e. the risk-weighted assets) as at 31 December 2016 was € 7.5 billion (31/12/2015: € 8.1 billion). Of this amount, credit risk accounted for € 6.6 billion (31/12/2015: € 6.5 billion), the Basel I floor for € 0.6 billion (31/12/2015: € 1.2 billion) and operational risk for € 0.3 billion (31/12/2015: € 0.4 billion). The total amount at risk fell by approximately € 0.6 billion compared to the previous year.

Common equity tier 1 (CET1 capital) stood at € 4.0 billion as of 31 December 2016 (31/12/2015: € 3.4 billion). The increase was primarily caused by the sale of shares in UNIQA insurance, which significantly reduced deductions for material holdings in the financial sector, and by the allocation of reserves. Tier 2 capital was € 0.0 billion, as the tier 2 capital issued in the amount of € 0.1 billion was largely absorbed by deductions. All in all, total capital amounted to € 4.0 billion (31/12/2015: € 3.4 billion), a year-on-year increase of € 0.6 billion.

This resulted in a CET1 ratio and core capital ratio of 53.2 per cent (31/12/2015: 41.9 per cent) and a total capital ratio of 53.6 per cent (31/12/2015: 41.9 per cent). The total capital surplus was approximately € 3.4 billion, € 0.7 million above that of the previous year.

Earnings performance

In the 2016 financial year, RZB AG posted negative *Net interest income* of € 42.4 million (2015: minus € 21.3 million). This development is due on the one hand to negative interest on deposits at the OeNB in an amount of € 10.7 million (2015: € 1.4 million), and to the market and volumes on the other.

Income from securities and participating interests of € 537.2 million (2015: € 82.3 million) mainly consisted of income from shares in affiliated companies of € 530.9 million (2015: € 75.9 million). This change was primarily caused by the dividend payments in the same period from RZB-BLS Holding GmbH of € 460.0 million (2015: € 26.0 million).

Commissions receivable amounted to € 10.0 million (2015: € 11.1 million), in particular due to guarantee fees from affiliated companies.

The income statement item *Other operating income* amounted to € 29.1 million (2015: € 28.0 million), with the major part made up of costs passed on and service fees in the amount of € 17.5 million (2015: € 16.7 million) and SLA income of € 9.2 million (2015: € 8.3 million).

RZB AG generated total *Operating income* of € 533.0 million (2015: € 90.5 million).

Total *Operating expenses* were € 83.9 million (2015: € 87.1 million).

At the reporting date, , *Staff costs* totaled € 31.3 million (2015: € 30.2 million). This change was due to higher salary expenses caused by the absorption of staff from affiliated companies and by income from the release of provisions for pensions as a result of the cessation of pension obligations.

Other administrative expenses rose to € 51.3 million (2015: € 48.4 million) and mainly comprised expenses for legal, advisory and audit costs of € 17.4 million (2015: € 15.5 million), expenses for Service Level Agreements of € 10.6 million (2015: € 9.7 million), advertising expenses of € 11.9 million (2015: € 10.7 million), and rental expenses of € 3.8 million (2015: € 3.0 million).

The income state item *Other operating expenses* totaled € 0.7 million as of the reporting date (31.12.2015: € 8.3 million). The expense in the previous year was caused by the write-off of a receivable in an amount of € 7.6 million.

RZB AG's *Operating result* for the 2016 financial year was € 449.1 million (2015: € 3.4 million).

Net income/expenses from the disposal and valuation of loans and advances and securities held as current assets contains valuation and realized foreign exchange losses of € 7.4 million (2015: minus € 1.4 million) on securities treated as current assets, on the one hand, and valuations of loans and advances, and allocations to provisions for contingent liabilities, of minus € 7.0 million (2015: plus € 14.4 million) on the other.

Net income/expenses from the disposal and valuation of securities evaluated as financial investments and of shares in affiliated companies and participating interests showed a negative result of € 284.4 million (2015: minus € 192.7 million) in the 2016 financial year resulting from a write-up to up to the purchase cost for Raiffeisen International Beteiligungs GmbH of € 272.4 million (2015: write-down of € 125.5 million) and for RALT Raiffeisen-Leasing G.m.b.H. & Co. KG of € 8.5 million, and from an impairment of € 138.9 million (2015: € 46.8 million) and a dividend-related write-down of € 418.2 million for RZB-BLS Holding GmbH. R.B.T. Beteiligungsgesellschaft m.b.H was also written down € 10.1 million (2015: € 22.2 million).

Consequently, *Profit on ordinary activities* was positive, at € 150.3 million for the financial year (2015: minus € 176.3 million).

Expenses for corporate income tax and tax transfers in the amount of € 13.9 million (2015: € 12.7 million) are shown under the item *Tax on profit or loss*. *Other taxes* contain the "stability contribution" special tax for banks in the amount of € 16.5 million (2015: € 20.3 million).

Annual net profit for 2016 amounted to € 147.7 million (2015: annual net loss of € 183.8 million). The item *Changes in reserves* contains a net allocation to the reserves in connection with the federal IPS contribution of € 66.1 million (2015: € 38.7 million). An amount of € 82.6 million was also allocated to other reserves in the last financial year.

After movements of reserves, the annual loss for the year amounted to € 1.1 million (2015: annual profit for the year of € 77.7 million). After adding € 1.1 million in profit brought forward (2015: loss brought forward € 76.6 million), a net profit for the year of € 0.0 million (2015: net profit € 1.1 million) was reported.

Non-financial Performance Indicators

Human Resources

As of 31 December 2016, RZB AG had 245 employees (full-time equivalents, excluding employees assigned to other group companies), an increase of 12 per cent on 2015 (219 employees). This increase was driven by new hiring and the filling of vacancies, undertaken in consideration of the assumption of new functions in the Group (including as a consequence of the "FuturePLUS" (ZukunftPLUS) project) and, as lead institution of the Raiffeisen sector, in consideration of regulatory requirements and also to replace losses in critical functions due to staff turnover. The traditionally very high proportion of women in the total workforce was unchanged at 49 per cent. To help achieve the best possible balance between work and family life, RZB AG offers home office and a number of part-time models alongside flexible working time without core working hours. "Daddy's month" is also offered in RZB AG, giving fathers the opportunity to spend time with their family following the birth of a child. An increasing number of fathers are also taking several months' paternity leave.

The staff turnover rate during the reporting period was 10.2 per cent (2015: 8.3 per cent).

Developments in remuneration management

To anchor the key importance of the medium-term objectives and the capitalization of the RZB Group more firmly in the remuneration system, in 2016 the bonus system was adapted further by extending the "step-in" criteria for Group Executives and adjusting the objective attainment criteria. These steps connected RZB AG's remuneration structure even more closely to the business strategy. Preparatory activities had already been carried out in 2016 to facilitate the smooth implementation of the EBA Guidelines on sound remuneration policies which enter into force in January 2017. As both the RZB AG remuneration system and remuneration processes already largely meet the regulatory requirements, only minor adjustments to the compensation framework are expected.

Organizational structure development

In 2016 adjustments were also made to the organizational structure. On 1 July 2016, in the interests of pooling tasks and creating a stronger focus, the Group Transformation Office and Group Regulatory Affairs areas were combined to create the new Group Regulatory Affairs & Transformation Office area, while the Sector Customers and Sector Sales Services areas were merged to create the new Sector Services area.

Professional and management development

The focus of human resources development in RZB AG during the year under review was placed on continuing professional development, management development and team development.

The targeted support of new executives in the organization was provided through management training, feedback tools and personal coaching. The new selection and promotion process implemented in 2015 in filling new management positions was consistently and successfully deployed. With the implementation of structured 360-degree feedback for management teams in some areas, moreover, a contribution was made to further developing and strengthening leadership skills in existing structures.

The reorganization measures were massively supported by human resources development, and successfully implemented through team development events and tools, making change processes more tangible for staff, and allowing business requirements in the newly created areas to be implemented more quickly and successfully.

The number of "Leaders' Breakfasts", short workshops for executives on relevant management topics, was further increased. These placed greater value on networking between executives from RZB, RBI and affiliated companies.

Corporate responsibility

Sustainability Management at RZB AG

Responsible business practices at RZB AG serve the purpose of comprehensive value creation, incorporating economic, ecological and social responsibility. For 130 years, Raiffeisen has combined economic success with socially responsible conduct. The Raiffeisen values of solidarity, regionalism and subsidiarity form the foundation of all Raiffeisen organizations. Detailed information on the developments in sustainability management is available at www.rbinternational.com/nachhaltigkeitsmanagement and in the current Sustainability Report (available at www.rbinternational.com/nachhaltigkeitsmanagement).

For RZB AG, as the lead institution of the Raiffeisen Banking Group, they are important pillars of corporate responsibility. Ever since Friedrich Wilhelm Raiffeisen founded the original bank, sustainable practices have been an integral part of the culture within all Raiffeisen companies. Accordingly, corporate responsibility and sustainability form integral elements of business activity.

Sustainability issues in 2016

One of the cornerstones of the sustainability strategy is the role of responsible banking. This is of particular significance for the core business, which, through the provision of credit and the investment of funds, constitutes the most effective means of sustainable development. In November 2016, RZB's rating by sustainability rating agency oekom research was upgraded from "C minus" to "C" (corresponding to "prime" status) in recognition of its progress. Around 550 companies currently hold oekom research's prime status and form the oekom Prime Universe, a comprehensive basis for structuring sustainable capital investments and investment products.

Also in November 2016, the seventh Stakeholder Council was held and provided a forum for internal and external participants to meet in workshops and discuss expectations and needs in relation to the following themes: sustainable investments and engagement activities, developing awareness among employees, impact of the Climate Conference, investments in the community, diversity in the core business, consequences of social transformation and sustainability in the supply chain. The numerous findings will be incorporated into the various areas of action for the 2017 sustainability strategy and contribute to ongoing development in sustainability.

As a fair partner, RZB AG maintains an active, transparent and open dialog with all stakeholders. The annual Sustainability Report is an important communication tool in this connection. The 2015 Sustainability Report received the gold award of the Austrian ASRA (Austrian Sustainability Reporting Award) as the best sustainability report in the "large companies" category.

In spring 2016, RZB AG launched the diversity initiative "Diversity 2020". The project's primary focus is on the empowerment of women (for details, please refer to the Corporate Governance Report). In organizational terms, this involved establishing a diversity committee, creating diversity ambassadors and appointing a diversity officer.

As an engaged citizen, RZB AG assumes responsibility for society and the environment. Accordingly, it was for example engaged in the establishment of the Raiffeisen Climate Protection Initiative (Raiffeisen Klimaschutz-Initiative - RKI) in 2007. The RKI is a platform and a driving force for measures in the areas of sustainability, climate protection, energy efficiency, renewable resources and corporate responsibility.

Under the established corporate volunteering program, all employees of RZB AG and RBI AG are given the opportunity to demonstrate active participation in society and spend two days' special leave per year working on selected community projects. In that connection, migration/integration in Austria was selected as a special focus. Projects to promote financial education are currently being prepared.

Risk management

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

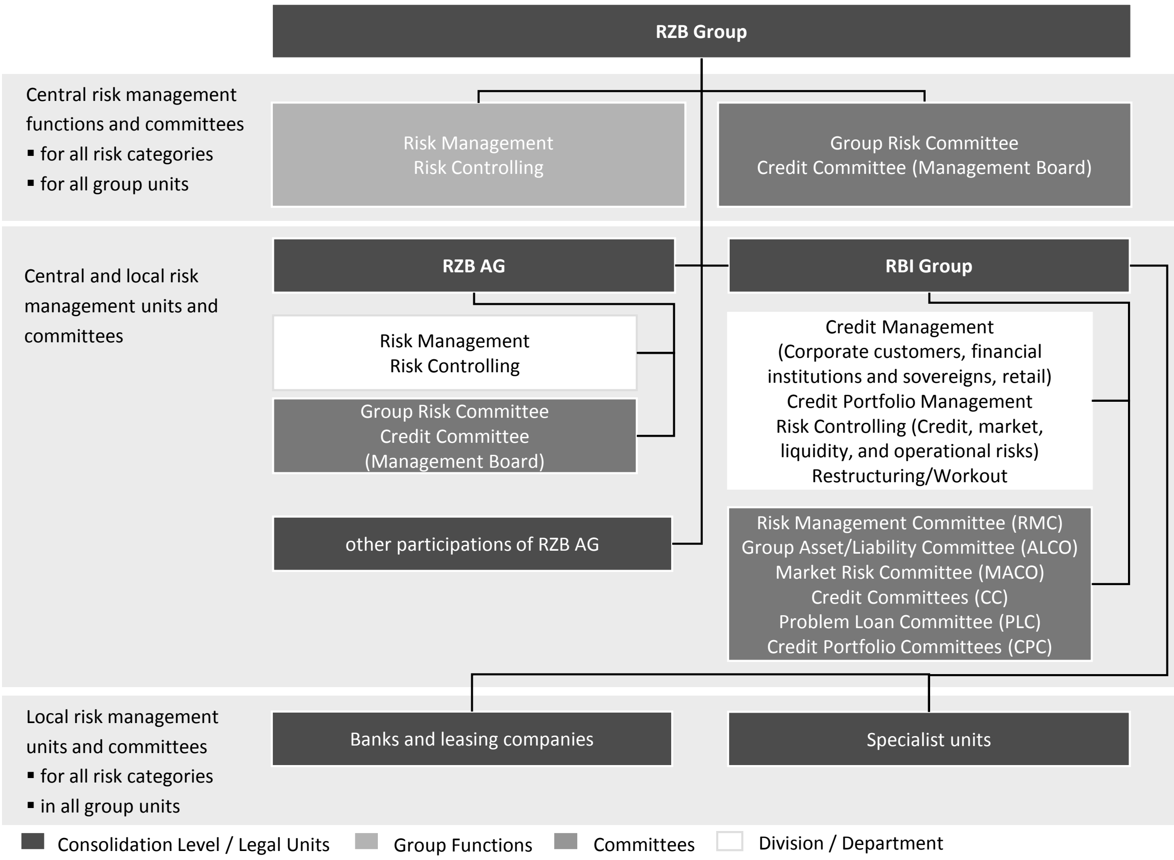
This function spans the entire organizational structure, including all levels of management, and is also implemented in each of the subsidiaries by local risk management units. Risk management is structured to ensure the careful handling and professional management of credit risk, country risk, market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

Risk report

Active risk management constitutes a fundamental responsibility of RZB AG, as parent credit institution of the RZB Group, in respect to the governance of the Group. In order to effectively identify, classify and contain risks, the bank works closely with RBI AG to develop and implement relevant concepts.

Organization

RZB AG, as parent credit institution, maintains a number of Service Level Agreements with risk management units within RBI AG, which carries out the operational implementation of risk management processes in the Group in conjunction with the individual Group subsidiaries. In addition, RZB AG determines risk management policies and defines business-specific guidelines, tools and procedures for all companies in the Group.



The two risk management units of RZB AG have defined authority for credit decisions relating to business undertaken by RZB AG and for large Group credit exposures (risk management) as well as for risk monitoring in the Group (risk controlling). These risk management units also ensure compliance with all regulatory requirements in the RZB credit institution group pursuant to Section 30 of the BWG (Banking Act).

The Group Risk Committee is under the chairmanship of the RZB AG Board member responsible for risk management and is the ultimate decision-making body for all risk-related issues in the Group. It decides upon the risk management and control policies to be employed for the overall Group and in principal areas of the Group. This also includes determination of risk appetite, different risk budgets and limits on overall bank level, monitoring of the current risk position and corresponding management measures. Additionally, personnel from risk management areas in RZB AG are represented in all risk-related committees within the Group.

Quality assurance and internal audit

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

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

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

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

Moreover, an independent and objective audit, free of potential conflicts of interest, is carried out during the audit of the annual financial statements by the auditing companies. Finally, the Group is continuously supervised by the Austrian Financial Markets Authority.

Overall bank risk management

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

Objective	Description of risk	Measurement technique	Confidence level
Target rating perspective	Risk of not being able to satisfy claims of the Group´s senior lenders	Unexpected losses on an annual basis (economic capital) must not exceed the present value of equity and subordinated liabilities	99.92 per cent as derived from the default probability implied by the target rating
Going concern perspective	Risk of not meeting the capital requirement as defined in the Basel III regulations	Risk-taking capacity (projected earnings plus capital exceeding regulatory requirements) must not fall below the annualized value-at-risk of the company	95 per cent presuming the owners´ willingness to inject additional capital
Sustainability perspective	Risk of falling short of a sustainable tier 1 ratio over a full business cycle	Capital and net income projection for a three-year planning period based on a severe macroeconomic downturn scenario	70-90 per cent based on the management decision that a temporary reduction in risks or the raising of additional capital might be required.

Target rating perspective

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

in € thousand	2016	Share	2015	Share
Participation risk	958,961	75.9%	1,077,421	81.9%
Credit risk sovereigns	91,842	7.3%	43,160	3.3%
Macroeconomic risk	55,000	4.4%	39,750	3.0%
Market risk	50,915	4.0%	48,340	3.7%
Credit risk financial institutions	23,550	1.9%	8,840	0.7%
Credit risk corporate customers	11,416	0.9%	8,109	0.6%
Operational risk	6,421	0.5%	5,060	0.4%
Other tangible assets	4,222	0.3%	7,478	0.6%
CVA risk	637	0.1%	0	0.0%
Liquidity risk	0	0.0%	15,030	1.1%
Risk buffer	60,148	4.8%	62,659	4.8%
Total	**1,263,111**	**100.0%**	**1,315,848**	**100.0%**

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. RZB AG 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.

Economic capital is an important instrument in overall bank risk management and is used in the allocation of risk budgets. Economic capital limits are assigned to individual business areas during the annual budgeting process and are supplemented for day-to-day management by volume, sensitivity, or value-at-risk limits. In RZB AG, this planning is undertaken on a revolving basis for the upcoming three years and incorporates the future development of economic capital as well as available internal capital. Economic capital thus substantially influences the plans for future lending activities and the overall limit for market risks.

Risk-adjusted performance measurement is also based on this risk measure. The profitability of business units is examined in relation to the amount of economic capital attributed to these units (risk-adjusted return on risk-adjusted capital, RORAC), which yields a comparable performance measure for all business units of the Bank. This measure is used in turn as a key figure for overall bank management, for future capital allocations to business units, and influences the remuneration of executive management.

Recovery and resolution of banks

At the beginning of January 2015, the Federal Act on the Recovery and Resolution of Banks (BaSAG), the national transposition of the European Union's 2014 Banking Recovery and Resolution Directive (BRRD), came into force. With regard to the recovery agendas, RZB AG is subject within the framework of the Single Supervisory Mechanism (SSM) to direct supervision by the supervisory authority of the European Central Bank (ECB) and with regard to the resolution agendas is subject within the framework of the Single Resolution Mechanism (SRM) to direct supervision by the Single Resolution Board (SRB).

In accordance with the requirements of the Federal Act on the Recovery and Resolution of Banks (BaSaG) RZB AG has a Group Recovery Plan. The Recovery Plan describes potential measures to ensure the capacity to act in financial stress scenarios. Accompanied by the monitoring of important KPIs (Key Performance Indicators) for the early identification of risk, the Recovery Plan establishes a comprehensive governance structure for stress scenarios.

The Recovery Plan is prepared by RZB AG and is audited by the supervisory authority (ECB).

The resolution authority drafts the resolution plans including powers for the elimination of obstacles to resolution. The resolution plans also stipulate the resolution strategies for the banks. Certain resolution instruments are made available to the resolution authorities within the framework of bank resolutions. For example, even before the introduction of the BIRG and the BaSaG, RZB AG limited internal group exposures in order to reduce cluster risks as well as unlimited residual risks for itself and for its owner banks. Besides drafting resolution plans, the resolution authority also stipulates the obligation to comply with an MREL (Minimum Own Funds and Eligible Liabilities) ratio, which is prescribed for each individual bank/resolution unit.

Risk position

Risks relating to equity participations form the most important risk category for RZB. The holding in RBI - which in addition to its own banking business also holds interests in banks and leasing companies in Central and Eastern Europe - constitutes the largest equity participation. The majority of the direct and indirect equity participations held by RZB (e.g. network banks, leasing companies) are fully consolidated in the consolidated financial statements and their risks are therefore closely monitored from an integrated perspective not only by RBI, but also by the risk controlling area of RZB AG. The other equity participations include affiliated companies and are additionally focused on the insurance industry, the food sector and the area of banking support services.

Market and liquidity risks in RZB AG are relatively minor in comparison and primarily relate to the sovereign bond portfolio.

Equity participation risk

The risks from listed and unlisted equity participations are also considered to be part of the banking book. They are reported separately under this risk category. Most of RZB AG's direct or indirect equity participations are fully consolidated in the consolidated financial statements (e.g. network banks, affiliated companies, leasing companies) and their risks are therefore captured in detail. Consequently, the management, measurement and monitoring methods described in relation to other types of risk are employed for the risks arising from these equity participations.

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

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

Credit risk

Credit risk in RZB AG principally relates to default risk resulting from business with public sector borrowers or from business with members of the Austrian Raiffeisen Banking Group. As the latter group predominantly have a relationship based on ownership with RZB AG - either as a subsidiary or a parent company – default risk protection generally takes the form of posting of collateral and netting agreements. Moreover, in the context of managing the Group, large credit exposures of subsidiary companies are also approved by RZB AG whenever a credit limit application for a customer group exceeds the defined approval authority of that subsidiary.

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

RZB AG risk policies and credit assessments also take the industry sector of the borrower into account. Financial Intermediation represents the largest industry sector, which is to a large extent attributable to the Austrian Raiffeisen sector. The public sector predominantly derives from the portfolio of securities issued by the Republic of Austria. Credit exposure by customer industry classification is shown in the following table:

in € thousand	2016	Share	2015	Share
Financial Intermediation	16,008,481	71.3%	17,283,026	72.0%
Public administration and defence, compulsory social security	3,890,277	17.3%	3,964,356	16.5%
Real estate activities	895,436	4.0%	1,160,294	4.8%
Business management, -consultancy	848,462	3.8%	966,764	4.0%
Extraterritorial organizations	427,620	1.9%	261,827	1.1%
Other personal services	213,279	1.0%	213,785	0.9%
Others	162,842	0.7%	143,507	0.6%
Total	**22,446,397**	**100.0%**	**23,993,559**	**100.0%**

A detailed credit portfolio analysis is undertaken based on individual ratings. Customer ratings are tailor-made and are therefore carried out separately for different asset classes. Internal risk classification models (rating and scoring models), which are validated by a central organization unit, are used. The rating models in the main non-retail segments – corporates, financial institutions and sovereigns – provide for ten main grades. Rating and validation software tools are available (e.g. business valuation, rating and default database).

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

Credit default and workout process

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

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

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

As part of the Basel II project, a Group-wide default database was created to record and document customer defaults. Defaults and default reasons are also recorded in the database, which enables probabilities of default to be calculated and validated.

Provisions for impairment losses are formed in accordance with defined guidelines based on IFRS accounting principles and cover all identifiable credit risks. In the non-retail segment, problem loan committees decide on individual loan loss provisions.

Country risk

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

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

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

Counterparty credit risk

The default of a counterparty in a derivative, repurchase, securities lending or borrowing transaction can lead to losses from reestablishing an equivalent contract. At RZB AG, this risk is measured by the mark-to-market approach where a predefined add-on is added to the current fair value of the contract in order to account for potential future changes. The total amount of the potential expected credit exposures from derivatives transactions determined in this way is set out in the tables for the individual customer segments. For internal management purposes, potential price changes, which affect the fair value of an instrument, are calculated specifically for different contract types based on historical market price changes.

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

Market risk

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

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

Organization of market risk management

The measurement, monitoring and management of all market risks is undertaken at the RZB AG overall bank level.

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

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

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

Limit system

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

- Value-at-risk (VAR) confidence level 99 per cent, horizon one day
  The VaR limit caps the maximum loss which is not exceeded with a confidence level of 99 per cent within one day. It is the main steering instrument in liquid markets and normal market situations.

- Sensitivities (to changes in exchange rates, interest rates, gamma, vega, equity and commodity prices)
  Sensitivity limits are designed to avoid concentrations in normal market situations and represent the main steering instrument in stress situations or in illiquid markets or those that are structurally difficult to measure.

- Stop loss
  This limit strengthens traders' management of their proprietary positions to ensure that they do not allow losses to accumulate, but strictly limit them instead.

A comprehensive stress testing concept complements this multi-level limit system. It simulates potential valuation changes in the total portfolio under various scenarios. Risk concentrations evidenced by these stress tests are reported to the Market Risk Committee and taken into account when setting limits. Stress test reports for each portfolio are included in daily market risk reports.

Value-at-risk (VAR)

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

Structural interest rate risks and spread risks from bond books maintained as a liquidity buffer dominate the VaR. RZB AG does not have a qualifying trading book. The complete overview therefore represents the results from the banking book.

Total VaR 99% 1d in € thousand	VaR as at 31/12/2016	Average VaR	Maximum VaR	Minimum VaR
Currency risk	13	6	13	0
Interest rate risk	955	540	1,207	292
Credit spread risk	6,437	5,650	9,165	3,561
Vega risk	3	2	7	0
Total	5,962	5,589	8,914	3,665

Total VaR 99% 1d in € thousand	VaR as at 31/12/2015	Average VaR	Maximum VaR	Minimum VaR
Currency risk	5	782	6,809	2
Interest rate risk	607	1,480	11,970	256
Credit spread risk	5,544	7,711	33,246	2,006
Total	5,162	8,871	32,284	4,279

Interest rate risk in the banking book

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

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

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

2016 in € thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	0	0	0	0	0	0	0	0	0	0	0	0
CZK	(3)	0	0	0	0	0	0	1	(4)	0	0	0
EUR	50	(13)	(6)	4	96	9	64	25	(130)	0	0	0
PLN	0	0	0	0	0	0	0	0	0	0	0	0
SEK	0	0	0	0	0	0	0	0	0	0	0	0
USD	0	0	0	0	0	0	0	0	0	0	0	0

2015 in € thousand	Total	< 3 m	> 3 to 6 m	> 6 to 12 m	> 1 to 2 y	> 2 to 3 y	> 3 to 5 y	> 5 to 7 y	> 7 to 10 y	> 10 to 15 y	> 15 to 20 y	>20y
CHF	0	0	0	0	0	0	0	0	0	0	0	0
CZK	8	0	0	0	0	0	1	1	6	0	0	0
EUR	146	(23)	(17)	(45)	51	141	126	42	(130)	0	0	0
PLN	0	0	0	0	0	0	0	0	0	0	0	0
SEK	0	0	0	0	0	0	0	0	0	0	0	0
USD	0	0	0	0	0	0	0	0	0	0	0	0

Credit spread risks

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

Liquidity Management

Principles

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

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

The regulatory component is addressed by compliance with reporting requirements under Basel III (minimum liquidity ratio, liquidity coverage ratio, structural liquidity ratio and net stable funding ratio as well as key ratios for liquidity monitoring and additional liquidity monitoring metrics) as well as by compliance with the regulatory limits.

Organization and responsibility

Responsibility for guaranteeing adequate levels of liquidity lies with the overall Management Board. In terms of functions, the responsible Management Board members are the Chief Financial Officer (Treasury) and the Chief Risk Officer (Risk). Consequently, the processes relating to liquidity risk are mainly carried out by two divisions within the bank. Firstly, Treasury controls the liquidity risk positions within the strategy, guidelines and parameters set by decision-making bodies. Secondly, these are monitored and supported by independent Risk Controlling units. The risk units measure and model liquidity risk positions, set limits and monitor their compliance.

In addition to the aforementioned line functions, the Group Risk Committee (GRC) functions as a decision-making body for all matters affecting management of a unit's liquidity positions and the structure of RZB AG's statement of financial position, including determining strategies and guidelines for handling liquidity risks. The GRC makes decisions and reports to the respective management boards on at least a monthly basis using standardized liquidity risk reports.

Liquidity strategy

Treasury is obliged to comply with certain performance ratios and risk-based principles. The current performance ratios include general targets (e.g. for return on risk adjusted capital (RoRAC) or coverage ratios), as well as specific Treasury targets for liquidity (such as a minimum survival horizon in defined stress scenarios or diversification of the financing structure). Besides achieving a structural contribution by means of maturity transformation which reflects the liquidity and market risk assumed by the bank, Treasury must pursue a prudent and sustainable risk policy in its management of the statement of financial position. Strategic objectives include reducing the parent company's funding to the Group subsidiaries, further stabilization of the investor base and ongoing compliance with regulatory requirements and with internal rules and limits.

Liquidity risk framework

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

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

The mainstays of the economic liquidity risk framework are the going concern (GC) and the time to wall scenario (TTW). The going concern report shows the structural liquidity position and covers all main risk drivers which could detrimentally affect the group in a normal business environment ("business as usual"). The going concern models are also the main input factors for the cost contribution for the funds transfer pricing model. The time to wall report, on the other hand, shows the survival horizon for certain disadvantageous scenarios and stress models (market, name and combined crisis) and determines the minimum level of the liquidity buffer (and/or the balancing capacity) of the Group and its individual units.

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

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

Risk appetite and liquidity limits

The liquidity position is monitored at the level of RZB AG and is restricted by means of a comprehensive limit system. The limits are determined both for a normal business environment and also for stress scenarios. In accordance with the defined risk appetite, RZB AG must demonstrate a survival horizon of up to 90 days (TTW) in a severe, combined stress scenario (name and market stress). This can be guaranteed either by a structurally positive liquidity profile or by a sufficiently high liquidity buffer. In a normal going concern environment, maturity transformation must be fully covered by the available liquidity buffer in the medium term. This means that the cumulative liquidity position over a period of up to one year must be positive. In the long term (one year or more), maturity transformation is permitted up to a certain level. For internal models, these limits are supplemented by limits on compliance with regulatory liquidity ratios, such as the liquidity coverage ratio (LCR). All limits must be complied with on a daily basis.

Liquidity monitoring

The bank uses a series of customized measuring instruments and early warning indicators which provide the Management Board and corporate management with near-term and forward-looking information. Compliance with the liquidity risk framework ensures that the bank can continue its business activities even under high levels of stress.

Monitoring and reporting on compliance with the limits is conducted regularly and effectively, and the corresponding escalation channels function and are used as intended. The defined limits are complied with in a very disciplined manner and any breach is reported to the GRC and escalated. This takes appropriate steps or escalates contentious matters to the Management Board.

Liquidity stress test

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

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

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

Liquidity buffer

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

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

Emergency funding plan

Under aggravated liquidity conditions, the RZB AG moves to an emergency process in which it follows predefined emergency funding plans. These emergency plans also constitute an element of the liquidity management framework and are mandatory for all significant Group units. The emergency management process is designed so that RZB AG can retain a strong liquidity position even in serious crisis situations.

Liability structure and liquidity position

Funding of RZB AG consists mainly of wholesale deposits. The funding instruments are appropriately diversified and are made use of on a regular basis. The ability to procure funds is precisely monitored and evaluated by Treasury.

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

The results of the going concern scenario are shown in the following table. The table shows excess liquidity and the ratio of expected capital inflows and the counterbalancing capacity to capital outflows (liquidity ratio) for selected maturities on a cumula tive basis. The capital flows are based on assumptions taken from expert opinions, statistical analyses and country specifics. This calculation also includes estimates on the sediment of customer deposits, outflows of off-balance sheet items and market downturns for positions which are included in the counterbalancing capacity.

in € thousand	2016		2015	
Maturity	1 month	1 year	1 month	1 year
Liquidity gap	1,224,648	79,958	441,437	458,511
Liquidity ratio	115%	101%	106%	105%

Liquidity coverage ratio (LCR)

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

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

In 2016, the regulatory LCR limit was 70 per cent which will be raised gradually to 100 per cent by 2018.

in € thousand	31/12/2016	31/12/2015
Average liquid assets	8,737,667	7,661,682
Net outlows	7,626,223	7,007,152
Inflows	646,705	1,936,875
Outflows	8,272,928	8,944,027
Liquidity Coverage Ratio	**115%**	**109%**

The LCR increased slightly in 2016 year-on-year. While cash inflows declined due to longer loan periods, the HQLAs were increased by moving liquidity from the Raiffeisen Sector to the ECB, so that the LCR improved slightly.

Net Stable Funding Ratio (NSFR)

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

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

in € thousand	2016
Required stable funding	7,793,426
Available stable funding	7,411,744
Net Stable Funding Ratio	**95%**

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

Operational risk

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

These risks are analyzed and managed on the basis of in-house historical loss data and the results of the risk assessment.

As with other risk types, the principle of firewalling between risk management and risk controlling also applies to operational risk at RZB AG. To this end, individuals are designated and trained as so-called OpRisk Managers for each division and report regularly their risk assessments, loss events, indicators and measures to central OpRiskControlling. They are supported in their work by the DORS. .

The risk controlling units for operational risk are responsible for the reporting, implementation of the framework, the development of control measures and the monitoring of compliance with the requirements. Within the framework of the annual risk management cycle they also coordinate the participation of the relevant second-line-of-defense units (Financial Crime Management, Compliance, Vendor Management, Outsourcing Management, Insurance Management, Information Security, Physical Security, BCM, Internal Control System) and the entire first-line-of-defense contacts (OpRisk Managers).

Risk identification

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

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

Monitoring

In order to monitor operational risks, early warning indicators are used for prompt identification and mitigation of losses. Operational losses are recorded in a central database named ORCA (Operational Risk Controlling Application) broken down by business line and type of event.In addition to the requirements for the internal and external reporting for standard approach units, loss-events are used for the exchange of information with international databases to further develop advanced measurement methods as well as to track measures and effectiveness of controls. Since 2010, the RZB Group has participated in the ORX data consortium (Operational Riskdata eXchange Association), whose data is currently used for internal benchmark purposes and analyses and as part of the operational risk model. The ORX data consortium is an association of banks and insurance groups for statistical purposes.

The Risk Management Committee receives regular and comprehensive reports on the results of the analyses as well as on events arising from operational risks.

Quantification and mitigation

Since October 2016, RZB AG has calculated the equity requirement using the Advanced Approach.

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

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

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

Introduction

The establishment and definition of a suitable internal control and risk management system with regard to the accounting process is extremely significant for RZB AG and the Group. The annual financial statements of RZB AG are prepared in the Financial Accounting department of Raiffeisen Bank International, which falls within the area of responsibility of the Chief Financial Officer (CFO). The scope of its activities is defined in a service level agreement between the companies.

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

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

- Wall Street Systems and Murex (Treasury transactions)
- GEOS und GEOS Nostro (securities settlement and nostro securities management)
- Payments
- Banktrade (guarantees and letters of credit)
- SAP sub-ledgers (accounts receivable, accounts payable, fixed asset accounting)

The accounting process can be described as follows:

- <u>Day-to-day accounting</u>
  Day-to-day accounting records are mainly posted to the respective sub-ledgers (sub-systems). This posting data is transferred to the general ledger (SAP) in aggregated form on a daily basis, using automated interfaces. In addition, individual postings are recorded directly in the SAP general ledger. The general ledger in SAP has multi-GAAP functionality, which means two equivalent parallel general ledgers are maintained in SAP: one in accordance with UGB/BWG reporting standards and also a parallel ledger in accordance with IFRS. An operational chart of accounts exists for the two general ledgers; depending on the respective content, all postings are made either simultaneously in both general ledgers or in only one of the two ledgers. The parallelism of the entries and the parallel existence of the two general ledgers remove the need for reconciliations from UGB/BWG to IFRS.
- <u>Individual financial statements for RZB AG in accordance with UGB/BWG and IFRS</u>
  The SAP trial balance in accordance with UGB/BWG and/or IFRS results from the posting data of the respective sub-systems which is delivered via automated interfaces. In addition, a number of supplementary ledger-specific closing entries are made directly in SAP. These are independent of the respective sub-systems. The sum of all these entries gives the statement of financial position and the income statement pursuant to UGB/BWG or IFRS.

Control environment

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

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

Additional guidelines exist solely for RZB AG. These include, for example, accounting guidelines, which defines the instruction process for the settlement of purchase invoices or the management of clearing accounts.

Risk assessment

The assessment of the risk of incorrect financial reporting is based on various criteria. Valuations of complex financial instruments may lead to an increased risk of error. In addition, asset and liability items have to be valued for the preparation of the annual financial statements; in particular the assessment of the impairment of receivables, securities and equity participations, which are based on estimates of future developments, gives rise to a risk. The main focus of risk assessment is on RZB AG's listed and unlisted participating interests; any impairments have a significant influence on the annual financial statements.

Control measures

The main control measures encompass a wide range of reconciliation processes. Besides the four eyes principle, automation-aided controls and monitoring instruments dependent on risk levels are used, for example the comparison of the main ledger with the sub-ledgers or the continuous reconciliation of clearing accounts. The duties assigned to individual positions are documented and updated on an ongoing basis. Particular emphasis is placed on effective deputizing arrangements to ensure that deadlines are not missed due to the absence of one person.

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

Information and communication

Information on the accounting treatment of their respective products is regularly exchanged with the specialist departments. Regular departmental meetings ensure that employees receive ongoing training on changes to accounting rules under the Austrian Commercial Code (UGB).

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

External reports are for the most part prepared only for the consolidated results of RZB. This information is published on a semi-annual basis, comprising consolidated financial statements and an interim financial report. In addition, there are regular regulatory reporting requirements with respect to the banking supervisory authority.

Monitoring

Financial reporting is an important part of the ICS during which the accounting processes are subject to additional monitoring and control, the results of which are presented to the Management Board and Supervisory Board. The Audit Committee is also responsible for monitoring the accounting process. The Management Board is responsible for ongoing company-wide monitoring.

In accordance with the target operating model, three successive lines of defense are established to meet the increased requirements for internal control systems.

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

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

Internal audits are the third line of defense in the monitoring process. Responsibility for auditing lies with Group Internal Audit at RZB and also the respective internal audit departments of the Group units. All internal auditing activities are subject to the Group Audit standards, which are based on the Austrian Financial Market Authority's minimum internal auditing requirements and international best practices. Group Audit's internal rules are additionally applicable (notably the Audit Charter). Group Audit regularly and independently verifies compliance with the internal rules within the RZB Group units. The head of Group Internal Audit reports directly to the Management Boards

Outlook

Economic prospects

Central Europe

Following somewhat weaker growth last year, growth in Central Europe (CE) is expected to pick up again in 2017. Ongoing expansionary monetary policy in the region, a solid growth climate in the euro area and an expected recovery in investment demand – amid continued strong private household consumer spending – should support this positive momentum. Leading the way are Poland and Slovakia, each with projected growth of 3.3 per cent, closely followed by Hungary, whose economy should grow by 3.2 per cent. In the Czech Republic, growth is forecast to reach 2.7 per cent.

Southeastern Europe

The Southeastern European (SEE) region is likewise expected to continue its growth trend. Following very strong GDP growth of 3.9 per cent in 2016, SEE should increase its economic output in 2017 by slightly more than 3 per cent, which is its current potential growth rate. In particular, Romania could continue its solid growth trajectory with GDP growth of 4.2 per cent, but momentum is already slowing somewhat following last year's peak of over 4.8 per cent. Conversely, negative overheating effects such as a ballooning current account deficit should be avoided as a result. Serbia and Croatia, the two countries showing the strongest economic recovery in 2016, should both achieve economic growth of around or just over 3.0 per cent.

Eastern Europe

In Russia, moderate economic growth of 1.0 per cent is expected following the easing of the recession; a positive trend in oil prices would further support the Russian economy. In Ukraine, a continuation of last year's weak recovery process is anticipated whereas the economy in Belarus is still expected to shrink slightly. In general, Eastern Europe currently lacks strong external and internal growth drivers, as a result of which the region is not able to replicate the higher growth rates of the past. In addition, event risk remains considerable.

Austria

In Austria, the moderate economic upturn in 2017 should continue and gain momentum. Domestic demand (private consumption, gross capital investment) should continue to be the main pillar of support. The growth rate for exports should be higher than in 2016. Notwithstanding continuing solid growth in imports resulting from domestic economic momentum, net exports are expected to continue to support GDP growth in 2017. This scenario implies a 1.7 per cent increase in real GDP, following 1.5 per cent in 2016.

CEE banking sector

Solid economic growth in CE and SEE – as well as the end of the recession in Russia and Ukraine – should have a markedly positive impact on the CEE banking sector in 2017. Favorable developments in the operating business in CE and SEE could also be supported by at least stable or even slightly improved interest margins and/or somewhat steeper yield curves in 2017. In addition, recent years have already seen necessary adjustments for foreign currency loans and NPL portfolios resulting from the earlier expansion in CE and SEE, as well as their negative income effects. Accordingly, return on equity in the CEE banking sector should continue to recover in 2017.

Outlook for RZB following merger with RBI

Due to the resolution passed by the General Extraordinary Meetings of RZB AG and RBI AG on 23 January, and respectively on 24 January 2017, regarding the merger of the two institutes, RBI AG is the universal successor of RZB AG and, among other things, will take over the role of central institution of the RBG.

As a result of the merger with RZB, to be entered in the commercial register on 18 of March 2017, the following outlook applies to the combined bank.

RBI reached the 12 per cent CET1 ratio target one year ahead of schedule with a fully loaded CET1 ratio of 13.6 per cent at 31 December 2016 (12.4 per cent for the pro forma combined bank). In the medium term RBI strives to achieve a CET1 ratio (fully loaded) of around 13 per cent.

After stabilizing loan volumes, RBI looks to resume growth with an average yearly percentage increase in the low single digit area.

RBI expects net provisioning for impairment losses for 2017 to be below the level of 2016 (€ 754 million).

RBI looks to reach an NPL ratio of around 8 per cent by the end of 2017, and over the medium term RBI expects this to reduce further.

RBI further aims to achieve a cost/income ratio of between 50 and 55 per cent in the medium term, unchanged from our previous target.

RBI's medium term return on equity before tax target is unchanged at approximately 14 per cent, with a consolidated return on equity target of approximately 11 per cent.

Auditor's Report

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of

**Raiffeisen Zentralbank Österreich Aktiengesellschaft,
Vienna**

that comprise the statement of financial position as of 31 December 2016, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2016, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles, and other legal requirements (Austrian Banking Act).

Basis for our Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the Company within the meaning of Austrian commercial law and professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with the audit committee, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

In the following we present the key audit matters from our point of view:

Recoverability of shares in affiliated companies and participating interests

The Financial Statement Risk

Shares in affiliated companies and participating interests represent a significant proportion of the total assets of Raiffeisen Zentralbank Österreich Aktiengesellschaft. Alongside its holding in Raiffeisen Bank International AG, Vienna, the bank has shareholdings in particular in specialized subsidiaries of the Austrian Raiffeisen Group, in which it holds an indirect majority through holding companies. Additionally, it has direct and indirect shareholdings in credit institutions and in project companies and service companies.

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

At the reporting date, the bank division "Participations Management and Finance" assesses whether, on the basis of the fair value of the individual participations, there are triggers for permanent impairment in any given case or whether a reversal of a previous impairment up to the amount of the acquisition cost is necessary.

Internal and external company valuations are used to calculate the fair value. The company valuation calculation is based to a large extent on assumptions and estimates regarding expected future cash flows. These are based on the budgeted figures approved by the governing bodies of the respective company. The discount rates applied can furthermore be affected by market-based, economic and legal factors which may change in the future.

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

Our Audit Approach

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

Our valuation specialists have examined the appropriateness of the valuation models used, the planning assumptions and the valuation parameters. The valuation models applied were analyzed on a sampling basis and it was assessed as to whether they adequately calculate company valuations. The valuation parameters used in the models, primarily the interest rate components, were evaluated and critically assessed. The assumptions used to determine the interest rates were assessed as to their appropriateness by comparison with market and industry-specific benchmarks. Backtesting of the planning assumptions conducted by the bank was reviewed to evaluate the forecasting accuracy with respect to the assumptions in the detailed planning phase. The calculation of the company valuations was analyzed on a sampling basis. The results of the company valuations were compared with market data and publicly available information (primarily market multiples).

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

Managemet's Responsibility and Responsibility of the Audit Committee for the Financial Statements

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

Management is also responsible for assessing the Company’s ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Company’s ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Company or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for the oversight of the financial reporting process of the Company.

Auditors’ Responsibility

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole, be expected to influence the economic decisions of users based on the financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

– We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.

– We consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

– We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.

– We conclude on the appropriateness of management’s use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity’s ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.

– We assess the overall presentation, structure and content of the financial statements including the notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.

– We communicate to the audit committee the scope and timing of our audit as well as significant findings including significant deficiencies in internal control that we identify in the course of our audit.

– We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.

– From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

Report on Other Legal Requirements

Management Report

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

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

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

Opinion

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

Statement

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

Auditor in Charge

The auditor in charge is Mr. Mag. Wilhelm Kovsca.

Vienna, 1 March 2017

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Wilhelm Kovsca

Wirtschaftsprüfer

(Austrian Chartered Accountants)