Market development

Markets swayed by monetary policy

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

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

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

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

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

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

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

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

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

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

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

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

Development of the banking sector in CEE

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

Banking sector in Austria

In 2016, the banking sector in Austria continued to perform below average when compared to the euro area in terms of credit growth (notably in corporate banking). Lending focused on retail customer and real estate financing transactions in particular. However, the profitability of Austria's banking sector markedly increased at a consolidated level, mainly supported by CEE business. As a result, the Austrian banking sector also significantly improved its capitalization relative to major Western European countries. However, the reported regulatory capital ratios continue to be below average by international standards. If the leverage ratio is included as benchmark, Austrian banks performed remarkably better. Capital requirements will gradually increase following the introduction of the Systemic Risk Buffer as well as of the buffer for Other Systemically Important Institutions (O-SIIs), which the Financial Market Stability Board (FMSB) has recommended. The reduction in the bank tax from 2016 should also have a positive impact in the following years.

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

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

In the first half of 2016, the Austrian banks generated a positive consolidated net income of roughly € 2.9 billion, or € 0.3 billion more than in the same period of the previous year. The positive result was mainly driven by the sharp reduction in loan loss provisions, which not only more than offset significant declines in net interest income as the most important income component, but also lower income from commissions and net trading income. The profitability of Austrian subsidiary banks in CEE significantly improved in the first quarter of 2016. Profit contributions from Austrian subsidiary banks were positive in all CEE countries. The highest profits were made in the Czech Republic, Romania and Russia, albeit with profits down in Russia in comparison with the previous year's quarter.

Regulatory environment

Changes in the regulatory environment

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

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

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

Bank recovery and bank resolution

The Austrian Bank Recovery and Resolution Act (Bankenabwicklungs- und Sanierungsgesetz (BaSAG)) went into force in 2015 and ensures the national implementation of the EU's Bank Recovery and Resolution Directive from 2014. With regard to recovery planning under the Single Supervisory Mechanism (SSM), the Group is subject to direct supervision by the ECB while, with regard to resolution planning under the SRM, it is subject to direct supervision by the SRB.

The Group has drawn up a recovery plan that meets the requirements of the BaSAG. The recovery plan describes potential measures for ensuring the capacity to act in financial stress situations. With the help of material key performance indicator (KPI) monitoring for early detection, the recovery plan establishes a comprehensive governance structure for stress situations. The recovery plan is drawn up by the Group, updated on a regular basis and reviewed by the supervisory authority (ECB).

Resolution plans are drafted by the resolution authority, which also grants powers to remove any barriers to resolution. Resolution strategies for banks are likewise laid down in the resolution plans. As part of the framework for the resolution of banks, specific resolution tools are made available to the resolution authorities. For example, the Group – already prior to the introduction of the Austrian Bank Intervention and Restructuring Act (Banken Interventions- und Restrukturierungsgesetz (BIRG)) and the BaSAG – set limits on intra-Group relationships in order to reduce cluster risk and unrestricted residual risk both to itself and to its owners.

In addition to preparing resolution plans, the obligation to comply with an MREL (Minimum Requirement for Own Funds and Eligible Liabilities) is also determined and individually specified for each bank/resolution entity. The Group is currently working in close cooperation with the SRB and national resolution authorities to draw up a resolution plan that meets the statutory requirements. The participation of creditors (bail-in tool) represents one possible tool in a resolution concept. As a result, the resolution authorities will set the MREL. On the basis of the resolution strategy, an MREL is set for each bank/resolution entity or the entire banking group. The calibration of MREL targets is to be carried out by the supervisory authorities and is based on relevant statutory regulations, resolution plans, as well as individual aspects of the respective bank (e.g. size, business model and risk profile). Not only a bank's regulatory capital but also its long-term unsecured debt that is not subject to a deposit protection scheme or similar restrictions are basically considered to be eligible for MREL.

Amendment to European regulations

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

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

Action plan for building a capital markets union

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

Earnings and financial performance

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

Significant events

Merger of RBI AG and RZB AG

On 5 October 2016, the Management and Supervisory Boards of RBI AG and RZB AG passed in principle a resolution to merge RBI AG and RZB AG. The respective Extraordinary General Meetings of the participating companies subsequently approved the merger by a clear majority in January 2017. Accordingly, the merger of RZB AG into RBI AG will become effective in the first quarter of 2017 with its entry in the commercial register. Consequently, reporting will be prepared on the basis of the combined bank as of the first quarter of 2017. The Company will continue to operate under the name of Raiffeisen Bank International AG, and RBI shares will remain listed on the Vienna Stock Exchange. The shareholding of the RBI free float will be 41.2 per cent following the merger. The regional Raiffeisen banks will hold approximately 58.8 per cent of RBI shares. There is a related syndicate agreement that contains, among other things, lock-up provisions.

Following the merger, the Group's risk-weighted assets (total RWA) would increase 13 per cent to € 68 billion (pro forma as at the end of 2016). The common equity tier 1 ratio (transitional) of the merged entity, based on a pro forma calculation, would be 12.7 per cent as at the end of 2016, with a common equity tier 1 ratio (fully loaded) of 12.4 per cent.

Transformation program

The sale of Raiffeisen-Leasing Polska S.A., Warsaw, to PKO Leasing S.A., Warsaw, was closed on 1 December 2016. The purchase price was € 193 million. Including reclassified realized currency effects, this led to a positive impact of approximately € 18 million on RBI's consolidated profit in the fourth quarter. The transaction also resulted in an improvement of 33 basis points in RBI's CET1 ratio (fully loaded). RWA decreased around € 1,272 million.

Negotiations with Alior Bank S.A. on the sale of the core banking business of Raiffeisen Bank Polska S.A. (Raiffeisen Polbank) were terminated on 7 December 2016. As agreed with the regulator, RBI is now preparing to list a 15 per cent stake in Raiffeisen Polbank in an initial public offering, while also working on rightsizing the business model.

Following the inconclusive sales process relating to ZUNO BANK AG, parts of the existing business are being integrated into the subsidiary banks in the Czech Republic and Slovakia. It is planned to complete the integration by the middle of 2017.

As part of the planned reduction in RWA, significant progress has been made in Asia since the end of 2014, with RWA scaled back by approximately 84 per cent to € 395 million. The winding down of the US operations is also making good headway, with a decrease in RWA of circa 66 per cent to € 347 million since the end of 2014. The remaining business is now being run down; branches in Asia and business outlet in the US are being reduced to a minimum, and no longer conduct active business.

As a result of the measures described, RBI reached its CET1 ratio (fully loaded) target of at least 12 per cent by the end of 2017, ahead of schedule, and significantly exceeded it with a ratio of 13.6 per cent (fully loaded) at the end of 2016. The transformation program was thereby completed ahead of time, and the Non-Core segment is to be dissolved as of the beginning of 2017. The remaining business will be integrated into the existing segments.

Merger of Group parent companies

RBI's former ultimate parent company, Raiffeisen-Landesbanken-Holding GmbH, Vienna, and its wholly owned subsidiary R-Landesbanken-Beteiligung GmbH, Vienna, in which 82.4 per cent of the shares in Raiffeisen Zentralbank Österreich AG were pooled, were merged into Raiffeisen Zentralbank Österreich AG at the end of September 2016. The latter will thus serve as ultimate parent company of RBI up until its merger into RBI, forming a consolidated group. Once RZB AG is merged into RBI AG, then RBI AG itself will be the ultimate parent company.

Revision of bank levy regulation in Austria

In July 2016 the Austrian government reached an agreement to amend the bank levy regulation from 2017 onwards. The amendment includes a reduction in the annual bank levy; at the same time, Austrian banks are to make a one-off payment. For the merged Group this will amount to around € 163 million. This payment will be spread over a four-year period, starting in 2017. The Austrian bank levy came to approximately € 85 million for RBI in 2016 (€ 1 million less than in 2015). Starting in 2017, the amount will be around € 58 million per year for the merged Group, including the proportional share of the one-off payment, until 2020.

Overview of the financial year

In addition to the persistently low interest rate level, which also resulted in a decline in RBI's operating result, the financial year was primarily influenced by significantly lower impairment losses on loans and advances. In CEE, nearly all markets registered declines. Also in Asia, impairment losses were € 118 million lower than in the previous year. Net provisioning for impairment losses fell 40 per cent year-on-year, or € 509 million, to € 754 million. The largest declines occurred in Ukraine, Asia and at Group head office. Consolidated profit amounted to € 463 million and improved 22 per cent year-on-year, or € 84 million.

Operating income was down 5 per cent year-on-year, or € 237 million, to € 4,692 million. A portion of the decline was attributable to currency devaluations in Eastern Europe. Net interest income fell 12 per cent, or € 391 million, to € 2,935 million. This was primarily attributable to continuing low market interest rates in many of the Group's countries, existing excess liquidity, and a reduction of € 215 million, particularly in Russia, in interest income from derivatives entered into for hedging purposes. Despite the currency devaluations in Eastern Europe and lower sales in Central Europe, net fee and commission income declined only 1 per cent, or € 22 million, to € 1,497 million. Net trading income rose € 198 million year-on-year to € 215 million. Net income from currency-based transactions improved by € 176 million to € 116 million, primarily as a result of a more limited devaluation of the Ukrainian hryvnia than in the previous year (€ 81 million increase).

General administrative expenses were down 2 per cent year-on-year, or € 66 million, to € 2,848 million. On the one hand, this decline was attributable to currency devaluations in Eastern Europe; on the other, deposit insurance fees were lower (€ 34 million) mainly in Poland, the Czech Republic, Romania and Bulgaria. In addition, office space expenses fell € 26 million because of branch closures. Expenses were increased by expenditures for the bank resolution fund (up € 10 million) and for IT (up € 6 million). Staff expenses rose 1 per cent, or € 20 million, to € 1,410 million. Cost savings from the workforce reduction of 7 per cent were set against increases from the purchase of Citibank's retail business in the Czech Republic and from growth in Slovakia. Furthermore, no bonuses for the year 2014 were paid in 2015, which resulted in a release of provisions totaling approximately € 76 million. This effect was absent in the 2016 financial year.

The average number of staff was further reduced, down 3,906 year-on-year to 50,186. The number of business outlets decreased 199 year-on-year to 2,506.

In the course of the year, total assets fell 2 per cent, or € 2,563 million, to € 111,864 million. Changes in the scope of consolidation were responsible for around € 2,400 million decline in consolidated total assets, which resulted primarily from the sale of the Polish leasing business and of the Slovenian subsidiary bank. Currency developments – predominantly the appreciation of the Russian rouble (up 25 per cent) and the US dollar against the euro (up 3 per cent) – resulted in an increase of around € 1,700 million.

Equity including capital attributable to non-controlling interests increased 9 per cent, or € 731 million, to € 9,232 million. Increases resulted from profit after tax of € 574 million and other comprehensive income of € 190 million. Exchange rate differences represented the largest item in other comprehensive income and amounted to € 291 million in the reporting period (2015: minus € 194 million).

In terms of regulatory capital, the key metrics changed as follows: Common equity tier 1 (after deductions) was € 8,339 million at the end of the year, a € 668 million increase over the 2015 comparable figure. Total capital pursuant to the CRR came to € 11,537 million, which corresponds to an increase of € 550 million compared to the 2015 year-end figure. Total risk-weighted assets were down € 3,212 million to € 60,061 million, as a result of the sale of the Slovenian subsidiary bank and the Polish leasing business, as well as due to rating improvements in Ukraine and Belarus. Based on total risk, the common equity tier 1 ratio (transitional) was 13.9 per cent while the total capital ratio (transitional) was 19.2 per cent. Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 13.6 per cent, and the total capital ratio (fully loaded) was 18.9 per cent.

No dividend will be distributed for the 2016 financial year, to continue to sustainably strengthen the capital ratio.

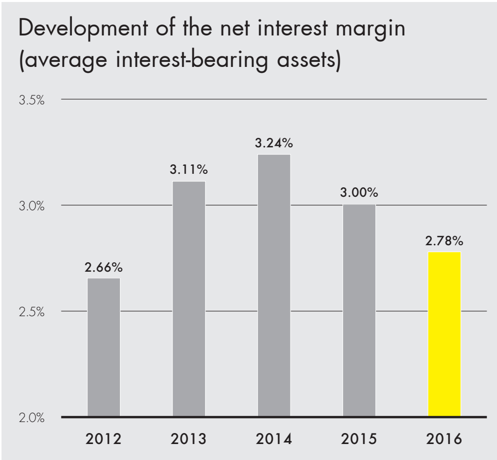
Detailed review of income statement items

in € million	2016	2015	Change absolute	Change in %
Net interest income	2,935	3,327	(391)	(11.8)%
Net fee and commission income	1,497	1,519	(22)	(1.5)%
Net trading income	215	16	198	>500.0%
Recurring other net operating income	45	66	(21)	(31.8)%
Operating income	**4,692**	**4,929**	**(237)**	**(4.8)%**
Staff expenses	(1,410)	(1,389)	(20)	1.5%
Other administrative expenses	(1,107)	(1,173)	66	(5.6)%
hereof regulatory other administrative expenses	(144)	(167)	24	(14.1)%
Depreciation	(331)	(351)	20	(5.8)%
General administrative expenses	**(2,848)**	**(2,914)**	**66**	**(2.3)%**
Operating result	**1,844**	**2,015**	**(171)**	**(8.5)%**
Net provisioning for impairment losses	(754)	(1,264)	509	(40.3)%
Other results	(204)	(40)	(164)	409.8%
Profit/loss before tax	**886**	**711**	**175**	**24.6%**
Income taxes	(312)	(276)	(36)	13.1%
Profit/loss after tax	**574**	**435**	**139**	**31.9%**
Profit attributable to non-controlling interests	(111)	(56)	(54)	96.8%
Consolidated profit/loss	**463**	**379**	**84**	**22.2%**

Operating income

Net interest income

In 2016, net interest income declined 12 per cent, or € 391 million, to € 2,935 million. This was primarily attributable to continuing low market interest rates in many of the Group's countries, existing excess liquidity, and a reduction of € 215 million, particularly in Russia, in interest income from derivatives entered into for hedging purposes. This was a result of the lower interest rates in 2016 (the interbank interest rates were exceptionally high in Russia in the first half of 2015) and of a lower volume of USD swaps. The decline in loan portfolios in Asia also contributed to the reduction in net interest income; across the Group, the volume of interest-bearing assets declined 5 per cent.

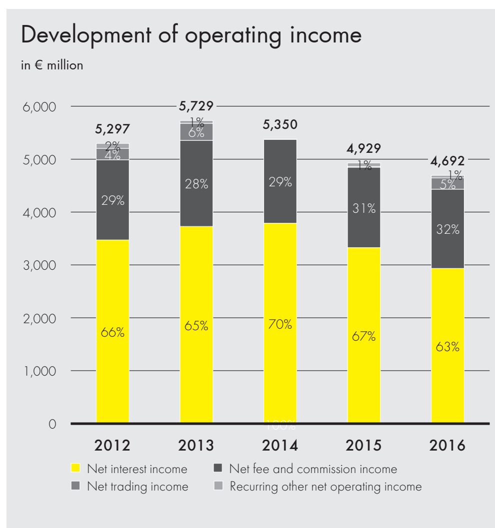


In the Central Europe segment, net interest income fell 4 per cent, or € 25 million, to € 629 million. Lower interest rates reduced net interest income by € 23 million in Slovakia, and by € 14 million in Hungary. In contrast, the Czech Republic reported a volume-related rise of € 12 million. In the Southeastern Europe segment, net interest income fell 5 per cent, or € 42 million, to € 738 million. All countries in this segment – with the exception of Bosnia and Herzegovina – reported declines, which were also mainly attributable to the continuing low level of interest rates. The Eastern Europe segment reported a 9 per cent, or € 82 million, decline in net interest income to € 866 million. This primarily resulted from a 12 per cent, or € 80 million, drop in net interest income to € 567 million in Russia, due to a € 175 million reduction in interest income from derivatives. In contrast, margins from the core business improved significantly, especially on the liabilities side. In Ukraine, the 3 per cent, or € 5 million, decline in net interest income to € 171 million was currency related, whereas in local currency terms, net interest income rose 14 per cent. In Belarus, net interest income increased € 3 million to € 128 million. In the Non-Core segment, however, net interest income fell 14 per cent, or € 54 million, to € 331 million, with Asia reporting the largest decline of 56 per cent, or € 47 million, to € 37 million due to reduced volumes. In the USA, net interest income fell € 11 million to € 14 million, due to the reduction in business volumes. In contrast, in Poland, repricing measures in the deposit business increased net interest income by 4 per cent, or € 9 million, to € 262 million.

The Group's net interest margin declined 22 basis points year-on-year to 2.78 per cent, of which a reduction of 6 basis points was due to exchange rate effects in the Eastern Europe segment. The decline in the net interest margin was attributable to the aforementioned low market interest rates, especially in the Central Europe and Southeastern Europe segments. In addition, the business volume (average interest-bearing assets) was down 5 per cent.

Net fee and commission income

Net fee and commission income declined year-on-year, despite the currency devaluations in Eastern Europe and lower sales in Central Europe, by just 1 per cent, or € 22 million, to € 1,497 million. Net income from the loan and guarantee business fell € 28 million to € 170 million; aside from currency effects, this was also due to volume reductions in Asia and Slovenia, the legal restriction on fees for early loan repayments in Slovakia, lower guarantee income at Group head office and in Croatia, and lower fee and commission income in Hungary. Net income from the management of investment and pension funds also fell, € 5 million to € 38 million, mainly in Slovakia. In contrast, net income from the foreign currency, notes/coins and precious metals business grew 3 per cent, or € 11 million, to € 392 million, predominantly due to higher income in the Czech Republic and at Group head office. Net income from the sale of own and third party products grew 15 per cent, or € 8 million, to € 60 million, most notably in Poland and Romania. Net income from the payment transfer business rose € 7 million to € 651 million due to margins and volumes, primarily at Group head office and in Russia.



Net trading income

Net trading income increased € 198 million year-on-year to € 215 million. Currency-based transactions rose € 176 million to € 116 million, primarily as a result of a more limited Ukrainian hryvnia devaluation than in the previous year (€ 81 million increase). Another positive effect was attributable to the discontinuation of a hedging transaction for Russian rouble denominated dividend income, which had resulted in a € 70 million reduction in the previous year. Net trading income also increased as a result of valuation gains on derivatives and foreign currency positions in Russia (€ 13 million increase) and Croatia (€ 6 million increase). In contrast, Group head office (down € 82 million) and Belarus (down € 61 million) reported declines resulting from lower net income from open foreign currency positions due to valuations and volumes and to the termination of a strategic currency position. Net income from interest-based business rose € 51 million to € 119 million, primarily due to valuation gains and higher interest income from derivatives and securities positions at Group head office. In contrast, net income from equity and index-based transactions fell € 25 million to minus € 18 million, as a result of an adjustment of the yield curve due to changed market conditions.

Recurring other net operating income

Recurring other net operating income decreased € 21 million year-on-year to € 45 million. This included a € 13 million decline in net income from the allocation and release of other provisions, caused by higher allocations for litigation in Slovakia. Net income from investment property fell € 7 million, predominantly due to the disposal of a Group unit in the Czech Republic.

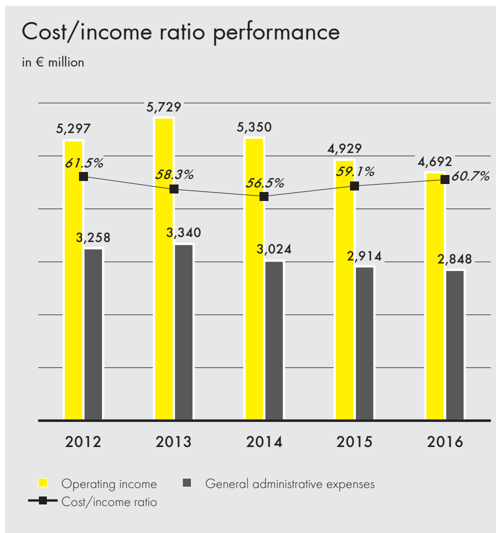
General administrative expenses

The Group's general administrative expenses were down 2 per cent, or € 66 million, to € 2,848 million in the reporting period. The cost/income ratio increased 1.6 percentage points to 60.7 per cent due to lower operating income.

Staff expenses

Staff expenses, which constituted the largest item within general administrative expenses (50 per cent), increased 1 per cent, or € 20 million, to € 1,410 million. Following the decision not to pay a bonus for 2014, bonus provisions of € 76 million were released in the previous year. The Czech Republic reported an increase of € 27 million, primarily driven by higher staffing levels following the purchase of Citibank's retail business. In Slovakia, staff expenses rose € 9 million and was also due to increased staffing levels. At Group head office, staff expenses grew € 7 million as a result of an increase in staffing levels and salary adjustments. Staff expenses fell in Russia (down € 14 million) due to a reduction in staffing levels and to currency effects. In Asia, staff expenses were down € 5 million due to reduced staffing levels.

The average number of staff (full-time equivalents) fell 3,906 year-on-year to 50,186. The largest declines occurred in Ukraine (down 1,728), in Poland (down 1,143) due to the sale of the Polish leasing company, in Russia (down 358), in Slovenia (down 189) due to the sale of the Slovenian subsidiary bank, and in Hungary (down 150). The largest increases occurred in the Czech Republic (up 341) and in Slovakia (up 154).



Other administrative expenses

Other administrative expenses decreased 6 per cent, or € 66 million, to € 1,107 million. The decline was largely driven by lower deposit insurance fees (down € 34 million), primarily in Poland, in the Czech Republic, in Romania, and in Bulgaria. Office space expenses also fell (down € 26 million) due to branch closures. The number of business outlets was down 199 to 2,506 compared to year-end 2015. The most significant declines occurred in Ukraine (down 80), Poland (down 58), Romania (down 32), and in Slovenia due to the sale of the subsidiary bank (down 13). Communication and car expenses also declined, whereas contributions to the bank resolution fund increased € 10 million and IT expenses grew € 6 million.

Depreciation of tangible and intangible fixed assets

Depreciation of tangible and intangible fixed assets fell 6 per cent year-on-year, or € 20 million, to € 331 million. The most significant decline occurred in Hungary, which reported impairment charges in the previous year as a result of branch closures (€ 5 million) and in relation to software (€ 7 million). Ukraine also reported a decline of € 10 million, following impairment charges in relation to buildings and the brand in the previous year. The impairment charge in relation to the Polbank brand amounted to € 21 million in the previous year, with the remaining € 26 million written down in the year under review. An increase was reported in Russia, where investments in software and licenses resulted in higher depreciation.

The Group invested € 384 million in fixed assets in the reporting period. Of that amount, 36 per cent (€ 137 million) was invested in own tangible assets. Investments in intangible fixed assets – mainly related to software projects – accounted for 42 per cent. The remainder was invested in assets in the operating leasing business.

Net provisioning for impairment losses

Net provisioning for impairment losses declined 40 per cent overall year-on-year, or € 509 million, to € 754 million. This included a € 555 million reduction in individual loan loss provisions to € 769 million, while net releases for portfolio-based loan loss provisions declined € 45 million to € 4 million. Proceeds from the sale of impaired loans remained almost unchanged at € 10 million.

The majority of net provisioning for impairment losses in the reporting year was attributable to corporate customers, for which provisions of € 506 million were required. The figure for retail customers was € 237 million, of which € 88 million related to the switch to a rating-based model (PD/LGD) to calculate portfolio-based loan loss provisions, which had commenced in the previous year. An amount of € 28 million was already reported in the previous year.

The largest decline in net provisioning for impairment losses was recorded in Ukraine, which reported a net release of € 2 million compared to a net provisioning requirement of € 212 million in the previous year. This was because higher allocations for retail and corporate customers were still necessary in the previous year, due to the economic situation in the Donbass region, and because currency effects had a reduced influence in the reporting period. In Asia, net provisioning for corporate customers amounted to € 179 million, € 118 million less than in the previous year. In the Group Corporates segment, net provisioning for impairment losses for large corporate customers also fell € 66 million to € 74 million. Hungary reported a net release of € 7 million, compared to net provisioning for impairment losses of € 56 million for corporate and retail customers in the previous year. The decline was due in particular to sales of non-performing loans collateralized with real estate and to rating improvements of corporate customers. The credit risk situation for corporate and retail customers also improved in Russia, where net provisioning for impairment losses amounted to € 145 million, € 36 million less than in the previous year. In Bulgaria, the settlement of several corporate customer non-performing loans resulted in a decline of € 32 million, with no net provisioning requirement in the reporting year. Albania was the only country where the situation was different, with the default of several large corporate customers resulting in a € 34 million increase to € 65 million.

The significant credit risk improvement is also reflected in the portfolio of non-performing loans, which fell € 1,843 million to € 6,486 million during the year. The reduction was primarily attributable to sales of non-performing loans (€ 1,187 million), while the remainder of the decline was largely due to the derecognition of uncollectible loans. Currency effects resulted in a € 52 million rise. The largest declines occurred in Group Corporates (down € 587 million), Ukraine (down € 299 million), Hungary (down € 252 million), Group Markets (down € 233 million), Russia (down € 152 million), Slovenia (down € 121 million as a result of the sale of the Slovenian subsidiary bank), Bulgaria (down € 77 million) and Croatia (down € 72 million). The NPL ratio declined 2.7 percentage points year-on-year to 9.2 per cent. Non-performing loans compared to loan loss provisions amounting to € 4,905 million. Despite the sales and write-offs, the NPL coverage ratio improved from 71.3 per cent to 75.6 per cent.

The provisioning ratio – net provisioning for impairment losses in relation to the average volume of loans and advances to customers – fell 0.59 percentage points year-on-year to 1.05 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives and liabilities declined € 184 million to minus € 189 million. This reduction was primarily due to net income from changes in credit spreads for own liabilities, which fell € 116 million to minus € 119 million due to lower risk premiums for RBI. Net income from the valuation of derivatives entered into for hedging purposes fell € 68 million.

Net income from financial investments

Net income from financial investments improved € 84 million year-on-year to € 153 million. This was primarily attributable to net proceeds from the sale of equity participations, which rose € 144 million year-on-year to € 145 million. The sale of Visa Europe shares to Visa Inc. in June 2016 resulted in proceeds of € 132 million, of which € 78 million was transferred from other comprehensive income. Impairment charges relating to equity participations fell € 28 million in the reporting year to € 18 million. In contrast, the valuation result for securities in the fair value portfolio declined € 59 million to € 16 million, mainly due to significantly lower valuation results on fixed income government bonds linked to the US dollar in Ukraine. Net income from the sale of securities from the fair value portfolio also fell € 23 million. This decline was primarily due to the sale of Icelandic bonds at Group head office in the previous year.

Bank levies and non-recurring effects

The expense for bank levies rose € 39 million year-on-year to € 158 million. The increase was primarily due to expenses of € 34 million for the newly-introduced bank levy in Poland.

The "Walkaway Law" came into force in Romania in the second quarter of 2016. The expected utilization resulted in a provisioning requirement of € 27 million in the reporting period. The new mortgage loan law stipulates that borrowers can sign their properties over to banks and thereby settle their debts, even if the outstanding volume of the loan exceeds the value of the property. The law relates to certain mortgage loans taken out by private individuals in any currency and applies retroactively. Since the Group is of the opinion that this contravenes the Romanian constitution, corresponding proceedings were initiated. In October 2016, the Romanian Constitutional Court repealed sections of the law connected with its retroactive application.

A provision of € 67 million was released in the previous year in connection with the implementation of the adjustments required in 2014 under the Settlement Act in Hungary, and a further € 7 million was released in the reporting period.

In Croatia, a law to enforce the conversion of loans denominated in Swiss francs resulted in a negative one-off effect of € 77 million in the previous year (2016: minus € 10 million). Proceedings initiated by the banks against the Croatian government challenging the constitutionality of the law are pending.

Net income from the disposal of Group assets

The disposal of 16 subsidiaries resulted in net income of € 19 million in the reporting year, mainly from the sale of the Polish leasing company. Net income of € 41 million was recorded in the previous year as a result of the exclusion of 28 subsidiaries from the consolidation group. Proceeds of € 86 million from the sale of the 75 per cent stake in the Russian pension fund business ZAO NPF Raiffeisen, Moscow, were offset by an impairment of € 52 million in respect of assets available for sale in connection with the sale of the Slovenian subsidiary bank Raiffeisen Banka d.d., Maribor. Of the 16 subsidiaries excluded in the reporting year, nine companies were excluded due to immateriality, six as a result of their sale and a further one due to a change in control. The companies were predominantly active in leasing, financing and banking business, and as suppliers of ancillary services.

Income taxes

Income taxes increased € 36 million, or 13 per cent, year-on-year to € 312 million. The increase was predominantly the result of the write-off of tax receivables from prior periods in Poland and the return to positive results from a tax perspective in Ukraine and in Croatia. At 35 per cent, the effective tax rate in the reporting year was significantly above the Austrian income tax rate of 25 per cent. This was largely attributable to expenses which are non-deductible for tax purposes mainly in Russia, in the Czech Republic, at Group head office and in Ukraine, as well as to loss carryforwards which cannot be capitalized for tax purposes at Group head office and in Hungary.

Comparison of results with the previous quarter

in € million	Q4/2016	Q3/2016	Change absolute	Change in %
Net interest income	748	732	16	2.2%
Net fee and commission income	400	378	22	5.7%
Net trading income	78	52	27	51.3%
Recurring other net operating income	(4)	24	(28)	–
Operating income	**1,222**	**1,186**	**36**	**3.1%**
Staff expenses	(362)	(347)	(15)	4.4%
Other administrative expenses	(293)	(245)	(48)	19.4%
Depreciation	(94)	(95)	1	(1.2)%
General administrative expenses	**(749)**	**(687)**	**(62)**	**9.0%**
Operating result	**474**	**499**	**(25)**	**(5.0)%**
Net provisioning for impairment losses	(251)	(100)	(151)	151.4%
Other results	(82)	(103)	21	(20.0)%
Profit/loss before tax	**140**	**296**	**(156)**	**(52.7)%**
Income taxes	(46)	(84)	38	(45.0)%
Profit/loss after tax	**94**	**212**	**(118)**	**(55.8)%**
Profit attributable to non-controlling interests	(25)	(28)	4	(13.9)%
Consolidated profit/loss	**69**	**184**	**(114)**	**(62.3)%**

Operating income

Net interest income

Compared to the third quarter of 2016, net interest income rose 2 per cent, or € 16 million, to € 748 million in the fourth quarter. The net interest margin (calculated on interest-bearing assets) increased 6 basis points from the previous quarter to 2.83 per cent. The primary cause of this positive development was the € 21 million increase in interest income from loans and advances to customers, predominantly in Russia and at Group head office.

Net fee and commission income

Net fee and commission income grew 6 per cent compared to the third quarter, or € 22 million, to € 400 million. The increase was based in part on exchange rate movements in Eastern Europe, but was largely due to volume effects. Net income from the payment transfer business posted the largest increase, up 5 per cent, or € 9 million, to € 176 million, due to higher fee and commission income driven by volumes and margins in Russia, at Group head office and in Romania. Net income from the loan and guarantee business improved by € 7 million to € 46 million, due to higher guarantee income at Group head office and higher volumes, notably in Russia and in the Czech Republic. Net income from the foreign currency, notes/coins and precious metals business rose € 6 million to € 105 million, particularly at Group head office and in Poland.

Net trading income

Compared to the previous quarter, net trading income improved € 27 million to € 78 million. Net income from currency-based transactions increased € 21 million to € 44 million, primarily due to exchange rate-related valuation gains on foreign currency positions and on derivatives at Group head office, at Raiffeisen Centrobank and in Russia. This was set against valuation losses from foreign currency positions, notably in Ukraine and Asia. Net income from equity and index-based transactions posted a € 6 million increase as a result of higher levels of activity in securities trading, as well as positive valuation effects in connection with changed market conditions.

Recurring other net operating income

Recurring other net operating income fell € 28 million in the fourth quarter to minus € 4 million. This was primarily attributable to net income from the allocation and release of other provisions, which was down € 8 million due to a provision made for litigation in Slovakia, and net proceeds from the disposal of tangible and intangible fixed assets, which declined € 7 million, largely driven by sales completed in Slovakia in the previous quarter.

General administrative expenses

At € 749 million, general administrative expenses in the fourth quarter were up 9 per cent, or € 62 million, from € 687 million in the previous quarter.

Staff expenses rose € 15 million in the fourth quarter to € 362 million. In addition to currency effects, this was mainly due to higher wages and salaries, predominantly in Russia, Ukraine and the Czech Republic, whereas staff expenses in Poland and Asia were down due to lower staff numbers.

Other administrative expenses increased € 48 million to € 293 million. This was in large part due to a seasonally-driven rise in advertising, legal and advisory and consulting expenses in nearly all countries.

Depreciation of tangible and intangible fixed assets fell € 1 million quarter-on-quarter to € 94 million. An impairment charge for the Polbank brand was recognized in the previous quarter, while depreciation of tangible fixed assets was higher in the fourth quarter, largely in Slovakia.

Net provisioning for impairment losses

Compared to the third quarter, net provisioning for impairment losses rose € 151 million to € 251 million. The increase was mainly attributable to Russia, Asia, Croatia, and the Group Corporates segment. In Russia, net provisioning for impairment losses was up € 60 million from the previous quarter due to a large individual case and to the implementation of a PD/LGD-based calculation of portfolio-based loan loss provisions for retail customers. In Asia, loan loss provisions for corporate customers were up € 39 million. In Croatia, higher loan loss provisions both for corporate and for retail customers were responsible for the € 29 million increase. In the Group Corporates segment, the provisioning requirement was € 24 million higher than in the previous quarter.

Overall, net individual loan loss provisioning rose € 116 million to € 226 million. Net portfolio-based loan loss provisions amounted to € 28 million in the fourth quarter, while net releases of € 5 million were recognized in the third quarter.

The portfolio of non-performing loans to customers declined € 663 million from the previous quarter to € 6,486 million, primarily due to sales of non-performing loans. On a currency-adjusted basis, the decline was € 778 million. There were reductions in nearly all countries, most notably in Hungary (down € 215 million), Russia (down € 144 million), Asia (down € 112 million), Poland (down € 70 million), and Ukraine (down € 55 million). The NPL ratio decreased quarter-on-quarter, from 10.2 per cent to 9.2 per cent, and the NPL coverage ratio was up 3.6 percentage points to 75.6 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives improved € 16 million in the fourth quarter to minus € 55 million. This was mainly due to net income from the valuation of derivatives entered into for hedging purposes; whereas net income from the change in credit spreads on own issues came to minus € 12 million.

Net income from financial investments

Net income from financial investments fell € 7 million in the fourth quarter to minus € 13 million, largely attributable to higher impairment charges on equity participations.

Bank levies, non-recurring effects

Bank levies amounted to € 43 million in the fourth quarter (third quarter: € 34 million). The largest amounts were at Group head office (€ 23 million) and in Poland (€ 9 million). The "Walkaway Law" came into force in Romania in the second quarter of 2016. As a result of the expected take-up rate under the new law, a provision of € 43 million was recognized in May, with releases in the amount of € 12 million in the fourth quarter and € 3 million in the third quarter.

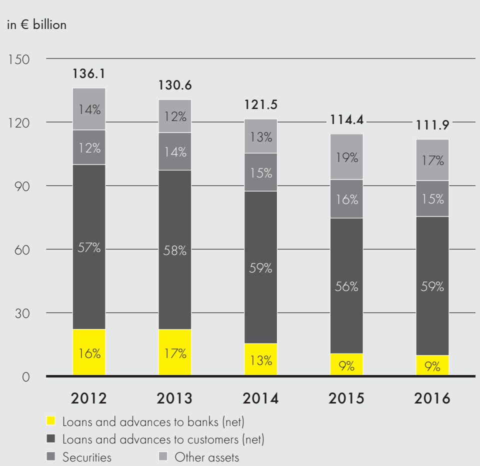
Income taxes

Income tax expense decreased € 38 million quarter-on-quarter to € 46 million, notably in Ukraine, Russia and Slovakia. The effective tax rate was 33 per cent, up from 28 per cent in the previous quarter.

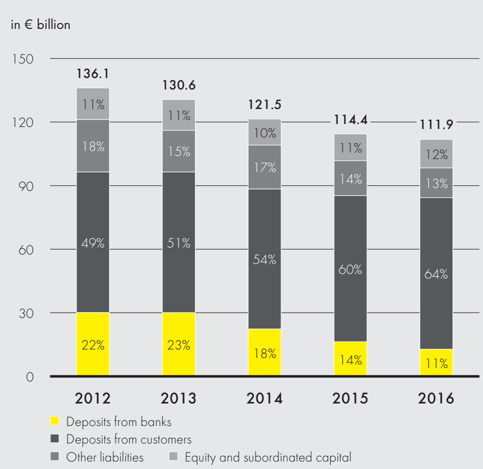
Statement of financial position

In the course of 2016, RBI's total assets declined 2 per cent, or € 2,563 million, to € 111,864 million. The reduction was attributable to changes in the scope of consolidation of around € 2,400 million, primarily as a result of the sale of the Polish leasing company and the Slovenian subsidiary bank. Currency developments – predominantly the appreciation of the Russian rouble (up 25 per cent) and the US dollar (up 3 per cent) against the euro – resulted in a rise of around € 1,700 million.

Breakdown of assets



Breakdown of equity and liabilities



Assets

Loans and advances to banks before deduction of impairment losses (€ 50 million) fell 9 per cent over the year, or € 937 million, to € 9,900 million. This was primarily attributable to a decline of € 1,004 million to € 1,412 million in receivables from the lending business, mainly at Group head office. In contrast, receivables from repurchase agreements and securities lending increased € 2,194 million to € 3,374 million.

Loans and advances to customers before deduction of impairment losses (€ 4,905 million) increased 1 per cent, or € 593 million, to € 70,514 million in the reporting period. In particular, this included a € 943 million net increase in loans and advances to retail customers to € 25,578 million, while loans and advances to corporate customers declined € 195 million to € 44,277 million, and loans and advances to sovereigns fell € 155 million to € 659 million. Loans to private individuals recorded a rise of € 1,514 million. This included an increase in mainly in Russia (primarily currency-related), in the Czech Republic (as a result of organic growth in the lending and mortgage lending business and of the acquisition of Citibank's retail customer and credit card business), and in Slovakia. The € 571 million decline in loans and advances to small and medium-sized entities to € 2,185 million was attributable to the sale of the Polish leasing business. Declines in loans and advances to corporate customers in Asia and the US, due to the planned reduction in business volumes, were largely offset by increases in the Czech Republic, in Russia (notably currency-related) and in Romania.

The item securities registered a decrease of € 1,253 million to € 16,972 million, notably at Group head office and in Poland. The € 2,065 million decline in other assets was mainly the result of the € 970 million reduction in the cash reserve (primarily at Group head office), of the € 745 million reduction in assets available for sale pursuant to IFRS 5 (sale of the Slovenian subsidiary bank, reclassification of Zuno), and of the € 324 million reduction in trading and banking book derivatives.

Equity and liabilities

The volume of Group financing from banks (mainly commercial banks) decreased 22 per cent, or € 3,553 million, to € 12,816 million. Long-term and short-term deposits declined, notably at Group head office and in Asia.

Deposits from customers increased 4 per cent, or € 2,547 million, to € 71,538 million in the course of the year. In particular, deposits from retail customers increased € 4,885 million to € 38,529 million, while deposits from corporate customers declined € 2,089 million to € 31,554 million. The € 4,032 million increase in deposits from retail customers was attributable to private individuals mainly in the Czech Republic (organic growth and purchase of a business unit), Russia, Slovakia and Romania. Deposits from small and medium-sized entities also rose, by € 853 million to € 5,949 million, notably in the Czech Republic and Slovakia. The decline in deposits from corporate customers was mainly recorded at Group head office (repayments) as well as in Poland and Slovakia due to the reduction of excess liquidity. In particular, deposits from large corporate customers reduced by € 2,083 million to € 28,561 million.

Other liabilities fell € 2,328 million to € 14,073 million. Debt securities issued decreased € 856 million, primarily due to the reduced refinancing required, while liabilities available for sale pursuant to IFRS 5 declined € 1,294 million (sale of the Slovenian subsidiary bank, reclassification of Zuno).

Funding

For information relating to funding, please refer to the risk report, note (42) to the consolidated financial statements.

Equity

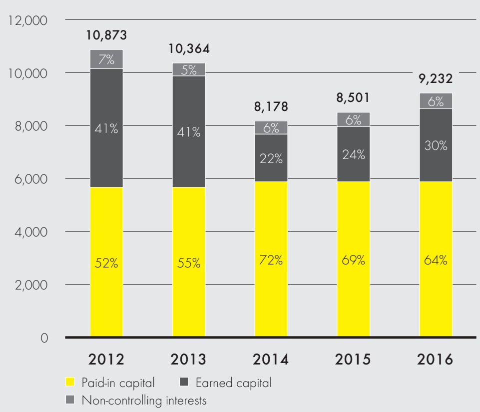
Equity on the statement of financial position

Equity on the statement of financial position – consisting of consolidated equity, consolidated profit/loss and non-controlling interests – increased 9 per cent compared to year-end 2015, or € 731 million, to € 9,232 million. This increase was mainly attributable to total comprehensive income (€ 763 million), whereas dividend payments to non-controlling interests resulted in a € 40 million reduction in capital. No dividends were paid out to RBI's shareholders for the financial year 2015.

Total comprehensive income attributable to the Group of € 667 million comprises consolidated profit of € 463 million and other comprehensive income of € 204 million. Exchange rate differences represented the largest item in other comprehensive income and amounted to € 299 million in the reporting year (2015: minus € 185 million). Key drivers were the appreciation of the Russian rouble, which resulted in an increase of € 348 million, and the devaluation of the Polish zloty, which reduced equity by € 49 million. Since part of the equity in these currencies was hedged (capital hedge), the movement in the exchange rate also resulted in a loss of € 43 million. The sale of Visa Europe Ltd. shares to Visa Inc. realized € 122 million, resulting in a net loss of € 70 million under the item net gains (losses) on financial assets available-for-sale.

Breakdown of equity

in € million



Capital of non-controlling interests rose € 47 million to € 581 million.This was primarily due to the proportion of total comprehensive income attributable to non-controlling interests of € 96 million, the payment of dividends of € 40 million to minority shareholders of Group units – mainly from Tatra Banka (€ 24 million) and Raiffeisenbank in the Czech Republic (€ 13 million) – as well as other smaller capital movements.

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

The following consolidated figures have been calculated in accordance with the provisions of the Capital Requirements Regulation (CRR). Pursuant to Article 11 of the CRR, RBI is supervised by the ECB on a subconsolidated basis and is subject to the CRR provisions not only as an individual credit institution but also as a subgroup. RBI is also part of the RZB Group for regulatory purposes. In addition to the minimum capital requirements defined by the CRR, RBI must also comply with the capital requirements set by the ECB under the SREP process. With respect to this, please refer to note (47) Capital management and total capital according to CRR/CRD IV and the Austrian Banking Act (BWG).

Common equity tier 1 after deductions stood at € 8,339 million. The increase from the 2015 comparable level totaled € 668 million, mainly due to the inclusion of the net profit for 2016 and to positive currency effects, especially in relation to the Russian rouble. In contrast, the application of transitional provisions for 2016 and the inability to continue to recognize the hybrid capital of RZB Finance Jersey IV since May, due to the change in interest terms as stipulated in the prospectus, had a negative impact. Tier 2 capital declined € 118 million compared to the previous year and totaled € 3,198 million. The decline was mainly attributable to matured tier 2 capital instruments in RBI AG. As at 31 December 2016, total capital under CRR amounted to € 11,537 million. This corresponds to an increase of € 550 million compared to the 2015 year-end figure.

Total capital compared to a total capital requirement of € 4,805 million. The total capital requirement for credit risk amounted to € 3,907 million. The decline of € 209 million was based on the sale of Raiffeisen-Leasing Polska, Raiffeisen Banka d.d., Maribor, the rating improvement in Belarus and Ukraine, and also on the reduction in exposures in the Non-Core segment. The total capital requirement for position risk in bonds, equities, commodities and currencies came to € 214 million, a decline of € 27 million. The decline of € 21 million in the total capital requirement for operational risk to € 684 million was attributable to the conversion of larger units to the advanced approach.

Based on total risk, the common equity tier 1 ratio (transitional) was 13.9 per cent, with a total capital ratio (transitional) of 19.2 per cent. Excluding the transitional provisions as defined in the CRR, the common equity tier 1 ratio (fully loaded) stood at 13.6 per cent, and the total capital ratio (fully loaded) was 18.9 per cent.

Research and development

As a universal bank, RBI is not involved in research and development in the strictest sense of the term.

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

In CEE, the RBI subsidiary banks in Slovakia and the Czech Republic are leaders in the mobile and online banking field. To learn from the experiences and know-how in these markets, an extensive project to establish a Group-wide digital roadmap was launched at the end of 2016.

As part of innovation management, networking with ambitious start-up companies, renowned research institutes and original thinkers provides new incentives and solutions for changing customer requirements, which are then placed at the disposal of the Raiffeisen Banking Group. Here, too, the focus is on developing a culture of innovation and supporting the digital transformation of the entire Raiffeisen Banking Group.

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

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

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

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

Control environment

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

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

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

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

Risk assessment

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

Control measures

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

Group consolidation

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

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

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

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

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

Information and communication

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

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

Throughout the year, consolidated monthly reports are produced for the Group's senior management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Exchange Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee. Analyses pertaining to the consolidated financial statements are also provided for management, as are forecast Group figures at regular intervals. The financial and capital planning process, undertaken by Planning & Finance, includes a three-year Group budget.

Monitoring

Financial reporting is a main focus of the ICS framework, whereby financial reporting processes with inherent misstatement risk are identified and subject to additional monitoring and control reviews – the results of which are presented to the Management Board and the Supervisory Board's Audit Committee for evaluation. The Management Board is responsible for ongoing company-wide monitoring. In accordance with the target operating model, three successive lines of defense are established to meet the increased requirements for internal control systems.

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

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

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

Capital, share, voting, and control rights

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

(1) As at 31 December 2016, the company's share capital amounted to € 893,586,065.90 and was divided into 292,979,038 voting common bearer shares. As at 31 December 2016, 509,977 of those were own shares, and consequently 292,469,061 shares were outstanding at the reporting date. In comparison with 31 December 2015 (557,295 shares), this results in a reduction of 47,318 shares and was based on the transferring of shares within the framework of the share-based remuneration program. Please see note (32) for further disclosures.

(2) The Articles of Association contain no restrictions concerning voting rights or the transfer of shares. As RZB's shareholders, the regional Raiffeisen banks are parties to syndicate agreements regarding RZB AG. These syndicate agreements will be replaced by a new syndicate agreement concluded by the regional Raiffeisen banks for RBI AG. The new syndicate agreement will take effect on the effective date of the merger between RZB AG and RBI AG. The terms that the regional Raiffeisen banks intend to incorporate in the new syndicate agreement include a block voting agreement, preemption rights and a prohibition on the sale of RBI shares held by the regional Raiffeisen banks (with few exceptions) for a period of three years (lock-up period) from the effective date of the merger between RZB AG and RBI AG, if the sale would directly and/or indirectly reduce the regional Raiffeisen banks' aggregate shareholding in RBI AG to less than 50 per cent of the share capital plus one share. After the lock-up period expires, the shareholding threshold would fall to 40 per cent of the share capital of RBI AG.

(3) As at 31 December 2016, RZB AG indirectly held around 60.7 per cent of the share capital of the company through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH. By virtue of a syndicate agreement, the voting rights attributable to RZB AG from the 177,847,115 shares in RBI AG are also assigned to the individual regional Raiffeisen banks as syndicate partners and to their holding companies who have acceded to the syndicate agreement (in each case pursuant to § 91 and § 92 7 of the Austrian Stock Exchange Act (BörseG)), which hold, in total, around 90.43 per cent of the share capital and voting rights in RZB AG as parties acting in concert (see notification on voting rights published on 19 July 2016). The remaining shares of RBI AG are held in free float, with no direct or indirect shareholdings amounting to 10 per cent or more known to the Management Board. Please see the "Merger of RBI and RZB" chapter of the Annual Report with regard to the merger approved at the Extraordinary General Meeting of RBI AG on 24 January 2017.

(4) Pursuant to the company's Articles of Association, RZB AG is granted the right to delegate up to one third of the Supervisory Board members to be elected by the Annual General Meeting, as long as it holds an interest in the share capital. Beyond that, there are no special rights of control associated with holding shares. At the Extraordinary General Meeting of RBI AG on 24 January 2017, a decision was made to remove the right to delegate members in § 9 of RBI AG's Articles of Association. The right to delegate members will therefore cease to exist when the amendment to the Articles of Association is registered with the commercial register. According to the syndicate agreement of the regional Raffieisen banks, the regional Raiffeisen banks will be able to nominate nine members of the RBI AG Supervisory Board once the merger between RZB AG and RBI AG takes effect. In addition to the members nominated by the regional Raiffeisen banks, the RBI AG Supervisory Board will in the future also include three (previously: two) independent representatives of free-float shareholders who are not attributable to the Austrian Raiffeisen Banking Group. This is to be implemented at the RBI AG Annual General Meeting in 2017.

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

(6) Pursuant to the Articles of Association, a person who is 68 years or older may not be appointed as a member of the Management Board or be reappointed for another term in office. The rule for the Supervisory Board is that a person who is aged 75 years or older may not be elected as a member of the Supervisory Board or be re-elected for another term in office. Moreover, no person who already holds eight supervisory board mandates in publicly traded companies may be a member of the Supervisory Board. Holding a position as chairman of the supervisory board of a publicly traded company would count twice for this purpose. The Annual General Meeting may choose to waive this restriction through a simple majority of votes if permitted by law. Any candidate who has more mandates for, or chairman positions on, supervisory boards in publicly traded companies must disclose this to the Annual General Meeting. There are no further regulations regarding the appointment or dismissal of members of the Management Board and the Supervisory Board beyond the provisions of the relevant laws (with regard to RZB AG's right to delegate members, please see point (4) above). The Articles of Association stipulate that the resolutions of the Annual General Meeting are, provided that there are no mandatory statutory provisions or Articles of Association to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the votes. As a result of this provision, members of the Supervisory Board may be dismissed prematurely via a simple majority. The Supervisory Board is authorized to adopt amendments to the

Articles of Association that only affect the respective wording. This right may be delegated to committees. Furthermore, there are no regulations regarding amendments to the company Articles of Association beyond the provisions of the relevant laws.

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

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

The Annual General Meeting held on 16 June 2016 authorized the Management Board pursuant to § 65 (1) 8, § 65 (1a) and § 65 (1b) of the AktG to purchase own shares and to retire them if appropriate without requiring any further resolutions to be passed by the General Meeting. Own shares, whether already purchased or to be purchased, may not collectively exceed 10 per cent of the company's share capital. The authorization to purchase own shares expires 30 months after the date of the General Meeting resolution, i.e. as of 15 December 2018. The acquisition price for repurchasing the shares may be no lower than € 1.00 per share and no higher than 10 per cent above the average unweighted closing price over the 10 trading days prior to exercising this authorization. The authorization may be exercised in full or in part or also in several partial amounts, for one or more purposes – with the exception of securities trading – by the company, by a subsidiary (§ 189a 7 of the UGB) or by third parties for the account of the company or a subsidiary.

The Management Board was further authorized, pursuant to § 65 (1b) of the AktG, to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the full or partial exclusion of shareholders' subscription rights, and to stipulate the terms of sale. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses, operations or stakes in one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program for executives and members of the Management Boards of the company and affiliated companies. In addition, if convertible bonds are issued in accordance with the Annual General Meeting resolution of 26 June 2013, shareholders' subscription rights may also be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted them under the terms of the convertible bonds to shares of the company. This authorization may be exercised in whole, in part or in several partial amounts for one or more purposes by the company, a subsidiary (§ 189a 7 UGB) or by third parties for the account of the company or a subsidiary and remains in force for five years from the date of this resolution, i.e. until 15 June 2021.

This resolution, any repurchase program based on it, or any resale program must be published along with the applicable duration. This authorization replaces the authorization granted at the Annual General Meeting of 4 June 2014 pursuant to § 65 (1) 4 and 8 of the AktG to purchase and use own shares and, with regard to their use, extends to the own shares already purchased by the company. No own shares have been bought since the authorization was issued in June 2016.

The Annual General Meeting of 16 June 2016 also authorized the Management Board, under the provisions of § 65 (1) 7 of the AktG, to purchase own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution (i.e. until 15 December 2018), provided that the trading portfolio of shares purchased for this purpose does not exceed 5 per cent of the company's respective share capital at the end of any given day. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition. This authorization may be exercised in full or in part or also in several partial amounts by the company, by a subsidiary (§ 189a 7 UGB) or by third parties acting for the account of the company or a subsidiary. This authorization replaces the authorization to purchase own shares for the purpose of securities trading that was granted in the Annual General Meeting of 4 June 2014.

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

- As a subsidiary of RZB, RBI AG is insured under RZB's group-wide D&O insurance. Insurance cover remains in place in the event of a merger with another legal entity of the RZB Group. In the event of a merger with a legal entity outside the RZB Group, RBI AG will no longer be covered under the group-wide insurance from the date of the merger. In such cases, insurance cover only exists for claims for damages arising from breaches of obligations that occurred before the merger, which are reported to the insurance carrier prior to any termination of RZB's group-wide D&O insurance and thereafter within the agreed notification period of five years.
- The company's SIP provides the following upon a change in corporate control: "If a change in corporate control or a merger occurs during the vesting period, and the combination does not exclusively concern subsidiaries, all contingent shares will lapse without replacement at the time of acquiring the shares of RBI AG and the investor's effective power to dispose of them, or at the time of the merger. An indemnification payment will be made for these contingent shares. The indemnity sum calculated will be paid out with the next possible salary payment."
- Furthermore, the syndicate agreement concluded by RBI AG in relation to a subsidiary bank with a joint shareholder will automatically be terminated upon a change of control.
- The brand agreement concluded with RZB AG (which will cease to exist once the merger is in effect) on the unrestricted use of the name and logo of Raiffeisen Bank International for an indefinite period of time in all jurisdictions in which the brand is registered now or in the future includes a right of cancellation upon a change of control.
- RBI AG is a member of the Professional Association of Raiffeisen Banks. Upon a change in control of RBI AG which results in the attainment of control by a shareholder outside of the Raiffeisen Banking Group Austria, membership of the Professional Association of Raiffeisen Banks and of the Raiffeisen Customer Guarantee Scheme Austria may be terminated.
- The company's refinancing agreements and agreements concerning third-party financing for subsidiaries, which are guaranteed by the company, stipulate that the lenders can demand early repayment of the financing in the event of a change in control.

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

Risk management

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

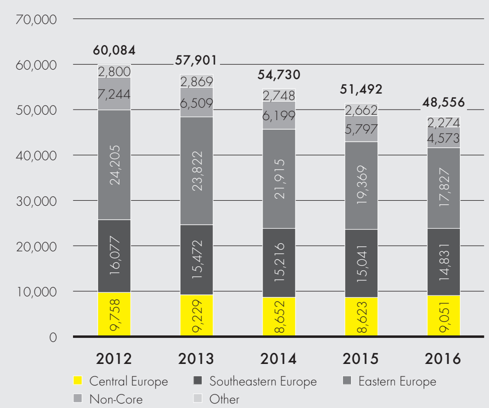
Corporate Governance

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

Human Resources

Human Resources (HR) deals with the key corporate processes for managing personnel resources within the Group, taking both the needs of employees and corporate interests into account. As at 31 December 2016, RBI had 48,556 employees (full-time equivalents), 2,936 or 6 per cent fewer than at the end of 2015. The majority of this reduction is attributable to developments in Ukraine, Poland and Slovenia. The average age of employees remained relatively low at 37 years, and women accounted for 67 per cent of the workforce. Graduates make up 76 per cent of employees, indicating a highly skilled workforce.

Development of personnel
Number of staff at year-end



Professional and management development

In 2016, the training budget was primarily used for strategic objectives and initiatives. As well as ensuring regulatory training requirements were met, increasing emphasis was placed on key areas such as digital banking, sales, affluent retail customer business, procurement and IT. The "Branch Management Academy", a training initiative for managers within sales, was implemented throughout the Group.

The main focus for management development was on strengthening management expertise in the areas of change management, staff leadership, motivation, and communication. The use of reflective learning methods, such as 360° feedback, coaching and mentoring, as well as experience-based measures such as job rotation, was also further expanded.

In Albania, for example, a development program covering a wide variety of areas, "Growth is a Marathon, not a Sprint", was initiated within the subsidiary bank to equip managers for the challenges faced in an increasingly complex operating environment and to facilitate growth.

A similar program, "FIRE" (Freedom – Inspiration – Raiffeisen – Energy), was also implemented in Hungary, focusing on key leadership skills such as credibility and integrity, or resilience and inspiration.

The subsidiary bank in Russia increased efforts to foster a positive culture of communication and cooperation among managers and employees, for example, by implementing ad-hoc feedback and round-table discussions on topical business issues.

Performance and talent management

The new performance management model for Group executives developed during 2015 was successfully implemented in 2016. This included introducing clearly defined target categories (similar to a balanced scorecard approach) and improving consultation between head office and Group units. Other measures included a new competence model and the intensification of dialog and feedback. Based on these concepts, an international team developed the guidelines and fundamental principles for the new performance management process for all other employee levels. Some subsidiary banks have already launched corresponding pilot projects. In Hungary, for example, the focus was on increasing the level of individual responsibility with respect to target definition and performance, as well as on regular and mutual feedback, coaching and staff development.

The annual standard processes to identify and develop talent – each with varying local focal points – were carried out again in 2016. The intensive efforts produced results, with talent pipelines at all levels in almost all units. Data for Austria, for example, shows that 39 per cent of talented individuals identified have advanced in their careers in the last two years (compared to 14 per cent of other employees).

Employee survey

In 2016, around 40,000 employees participated in a Group-wide employee survey. The overall response rate was 87 per cent. Improvements were achieved for the two key factors employee engagement (commitment to the company and associated willingness to voluntarily make additional effort) and employee enablement (existence of an environment which nurtures success). Of the employees surveyed, 65 per cent felt committed to the company and 67 per cent felt their environment nurtured success. Compared to the last Group-wide survey, this represents an increase of 4 and 3 percentage points respectively.

The results are now being used as a basis to develop further improvement measures. For example, the Management Board in Hungary has defined four issues which will be given further attention. Each of the issues is being addressed by an interdisciplinary team led by a member of first-level management, with expert support from the change facilitator and with a Management Board member acting as sponsor.

Developments in compensation management

In order to more strongly reflect the critical importance of RBI's medium-term objectives and its capitalization in the compensation system, the bonus system was further adapted in 2016 by expanding the "step-in" criteria for Group executives and adjusting the criteria for target achievement.

A reduction in the variable compensation components of remuneration packages also led to new, non-financial concepts for recognizing special achievements by employees being established. For example, a non-financial motivation program (starting with a system of medical services) was launched in Belarus to improve employee commitment and reward long-serving employees, while the "Success Celebration System", which aims to strengthen team cooperation and collaboration between business areas, was established in Hungary.

HR awards

The diverse measures taken by HR managers from the subsidiary banks designed to continuously improve HR functions and processes were again recognized by a number of awards during the year under review. The Hungarian subsidiary bank, for example, received the "Employer Partner Certificate" in recognition of high quality standards and "best HR practice". Headhunters ranked the Russian subsidiary bank among the "Top 10 best places to work" and the Head of HR was awarded the accolade "Best HR director in the banking sector". In Romania, the subsidiary bank's project "Inspire to Aspire-Wakanda Challenge" prevailed against 17 competitors and won an HR award in the category "Training and Development of People". This program places special emphasis on adapting leadership behavior. The Bulgarian subsidiary bank received the "Best HR project in a large company award" for the restructuring and modernization of its HR area. In the Czech Republic, RBI received the "HR Excellence Award" which is awarded by HR managers and experts from 300 Czech companies. Finally, the Hungarian bank subsidiary received the "Colibri Internship Award" as the best employer for interns.

Outlook

Economic prospects

Central Europe

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

Southeastern Europe

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

Eastern Europe

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

Austria

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

CEE banking sector

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

Outlook for RBI

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

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

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

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

We look to reach an NPL ratio of around 8 per cent by the end of 2017, and over the medium term we expect this to reduce further.

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

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

Events after the reporting date

Extraordinary General Meeting approves merger with RZB

The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The shareholders also approved the capital increase related to the merger. RBI's share capital will be increased by € 109,679,778.15, from € 893,586,065.90 to € 1,003,265,844.05, through the issuance of 35,960,583 new no par value common bearer shares. The number of shares issued will therefore increase to 328,939,621.

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

Segment reports

Segment overview

Segmentation principles

Segment reporting at RBI is based on the current organizational structure pursuant to IFRS 8. A cash generating unit within the Group is either a country or a business activity. Markets in Central and Eastern Europe are thereby grouped together into regional segments comprising countries with comparable economic profiles and similar long-term economic growth expectations. Business activities outside the CEE region are divided according to business area.

This results in the following segments:

- Central Europe (Czech Republic, Hungary and Slovakia)
- Southeastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Romania and Serbia)
- Eastern Europe (Belarus, Russia and Ukraine)
- Group Corporates (business with large Austrian and multinational corporate customers managed from Vienna)
- Group Markets (customer and proprietary capital markets related business managed from Vienna)
- Corporate Center (central management functions at Group head office and other Group units)
- Non-Core (business areas that are being discontinued or reduced: Asia, Poland, Slovenia, USA, and direct bank Zuno)

The segment reporting section in the consolidated financial statements contains details on segment classification.

Details on the segmentation following the merger of RBI and RZB are provided in the merger chapter.

Segment reports

Central Europe

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	629	654	(3.8)%	160	147	8.6%
Net fee and commission income	383	388	(1.3)%	100	95	4.5%
Net trading income	28	31	(9.3)%	10	5	85.9%
Recurring other net operating income	(24)	(25)	(4.6)%	(20)	(6)	240.9%
Operating income	**1,016**	**1,048**	**(3.0)%**	**249**	**242**	**3.1%**
General administrative expenses	(643)	(636)	1.2%	(179)	(151)	18.5%
Operating result	**373**	**412**	**(9.5)%**	**71**	**91**	**(22.5)%**
Net provisioning for impairment losses	(38)	(133)	(71.3)%	(7)	2	–
Other results	19	31	(36.4)%	(14)	0	–
Profit/loss before tax	**354**	**310**	**14.3%**	**49**	**93**	**(47.3)%**
Income taxes	(64)	(66)	(3.5)%	(8)	(15)	(44.4)%
Profit/loss after tax	**291**	**244**	**19.1%**	**41**	**78**	**(47.8)%**
Risk-weighted assets (total RWA)	13,564	12,910	5.1%	13,564	13,728	(1.2)%
Assets	29,492	26,878	9.7%	29,492	29,054	1.5%
Net interest margin (average interest-bearing assets)	2.31%	2.67%	(0.36) PP	2.26%	2.14%	0.12 PP
Return on equity before tax	**19.1%**	**18.3%**	**0.8 PP**	**10.7%**	**20.8%**	**(10.1) PP**

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

Operating income

Net interest income decreased 4 per cent year-on-year, or € 25 million, to € 629 million due to persistently low market interest rates. In Slovakia, net interest income declined € 23 million. Half of the € 14 million decline in Hungary was attributable to higher interest-like expenses in connection with the termination of an intra-Group mezzanine financing arrangement. In the Czech Republic, in contrast, net interest income increased € 12 million as a result of higher volumes. The net interest margin fell 36 basis points year-on-year to 2.31 per cent due to interest rate adjustments relating to assets.

Net fee and commission income declined 1 per cent year-on-year, or € 5 million, to € 383 million. Net income from the payment transfer business reduced € 9 million to € 187 million as a result of lower margins, particularly in the Czech Republic, as well as changes to regulations in Slovakia. Net income from the loan and guarantee business decreased 21 per cent, or € 9 million, to € 34 million due to legal restrictions on fees for early loan repayments in Slovakia and lower income in Hungary. Net income from the management of investment and pension funds also fell € 6 million to € 15 million, largely as a result of a market-driven decline in Slovakia. Net income from the foreign currency, notes/coins, and precious metals business, in contrast, increased € 14 million to € 95 million as a result of improved margins, primarily in the Czech Republic. Net income from the securities business rose € 4 million to € 39 million, mainly due to higher income in the Czech Republic.

Net trading income fell 9 per cent, or € 3 million, to € 28 million. This included a € 6 million year-on-year decrease in net income from interest-based transactions to € 3 million, attributable to valuation losses on interest-based derivatives in the Czech Republic. Net income from currency-based transactions, in contrast, increased € 2 million year-on-year to € 26 million, primarily as a result of valuation gains on derivatives and foreign currency positions in the Czech Republic and Slovakia.

Recurring other net operating income improved slightly from minus € 25 million to minus € 24 million. Allocations to other provisions increased in Slovakia, but were almost completely offset by a decrease in sundry operating expenses in all countries in the segment.

General administrative expenses

The segment's general administrative expenses rose 1 per cent year-on-year, or € 7 million, to € 643 million. Staff expenses increased 13 per cent, or € 36 million, to € 318 million, due to the purchase of Citibank's retail and credit card business in the Czech Republic as well as the expansion of a call center in Slovakia. Other administrative expenses decreased 6 per cent, or € 15 million, to € 250 million. The decline was largely the result of lower office space expenses – especially in Hungary, where provisions were recognized in the previous year in connection with the closure of bank branches – and lower deposit insurance fees, whereas communication and IT expenses increased. Contributions to bank resolution funds in the Czech Republic (€ 7 million), Slovakia (€ 6 million) and Hungary (€ 3 million) were up € 5 million year-on-year. Depreciation of tangible and intangible fixed assets decreased 15 per cent, or € 14 million, to € 75 million, due to an impairment charge in the previous year's period in connection with branch closures and an impairment charge for software in Hungary. The segment's number of business outlets rose by 15 year-on-year to 410, with most of the increase taking place in the Czech Republic. The cost/income ratio increased 2.6 percentage points to 63.3 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses in the Central Europe segment declined 71 per cent year-on-year, or € 95 million, to € 38 million in the reporting period. This included a € 79 million decrease in net allocations to individual loan loss provisions to € 38 million, while net allocations to portfolio-based loan loss provisions fell € 14 million to € 2 million. Most of this reduction was in Hungary, where a net total of € 7 million of provisions were released during the reporting year. A decrease of € 63 million was primarily attributable to sales of non-performing loans that were collateralized with real estate, as well as to rating improvements and lower defaults in the corporate customer business. In Slovakia, net provisioning for impairment losses declined € 23 million to € 13 million due to loan sales and repayments in the corporate customer business. In the Czech Republic, net provisioning for impairment losses decreased € 9 million year-on-year to € 32 million. Significantly lower portfolio-based loan loss provisions for retail customers, due to new default probability rates implemented in the previous year, as well as improvements in the economic environment and loan sales, were offset by higher individual loan loss provisions due to several defaults on the part of large corporate customers.

The portfolio of non-performing customer loans fell € 254 million to € 1,077 million, primarily due to a reduction of € 249 million in Hungary following sales of loans. The proportion of non-bank non-performing loans in the Central Europe segment's loan portfolio decreased 1.6 percentage points year-on-year to 5.5 per cent. The NPL coverage ratio declined 4.3 percentage points to 71.0 per cent.

Other results and taxes

The Central Europe segment's other results decreased € 11 million year-on-year to € 19 million.

In the previous year, a provision of € 67 million was released in connection with the implementation of the Settlement Act (unilateral interest rate changes on consumer loans) in Hungary. There was a release of € 7 million in the reporting period.

The bank levies contained in the other results increased € 3 million to € 38 million. The increase was evenly distributed between Hungary and Slovakia.

Net income from financial investments rose € 51 million year-on-year to € 47 million, mainly driven by the sale of Visa Europe Ltd. shares to Visa Inc., which closed in June and generated proceeds of € 56 million. Of this total, € 30 million was attributable to Slovakia, € 19 million to the Czech Republic and € 6 million to Hungary. This was offset by an increase of € 6 million in impairment charges for equity participations, primarily relating to Hungarian equity participations.

In the reporting period, net income from the disposal of Group assets amounted to € 7 million (2015: € 6 million). Most of the net income posted in 2016 stemmed from the sale of a property leasing project in the Czech Republic.

Net income from derivatives and liabilities remained unchanged year-on-year at minus € 3 million and resulted from hedging to adjust the currency and interest rate structure.

The segment's income taxes declined slightly year-on-year to € 64 million. The effective tax rate was 18 per cent in the reporting period compared to 21 per cent in the previous year. The decrease is predominantly attributable to the utilization of tax loss carryforwards in Hungary.

Detailed results of individual countries:

2016 in € million	Czech Republic	Hungary	Slovakia
Net interest income	247	107	275
Net fee and commission income	111	122	151
Net trading income	8	14	6
Recurring other net operating income	14	(33)	(5)
Operating income	**380**	**210**	**427**
General administrative expenses	(236)	(151)	(256)
Operating result	**144**	**59**	**170**
Net provisioning for impairment losses	(32)	7	(13)
Other results	24	(13)	9
Profit/loss before tax	**136**	**52**	**166**
Income taxes	(27)	0	(37)
Profit/loss after tax	**109**	**53**	**129**
Risk-weighted assets (total RWA)	4,942	3,597	5,024
Assets	11,966	6,606	11,388
Loans and advances to customers	8,075	3,107	8,577
hereof corporate %	43.7%	67.3%	44.0%
hereof retail %	55.8%	30.9%	55.9%
hereof foreign currency %	17.1%	43.1%	0.8%
Deposits from customers	8,415	4,474	8,981
Loan/deposit ratio (net)	93.1%	61.6%	93.2%
Equity	979	587	996
Return on equity before tax	14.8%	10.3%	17.5%
Return on equity after tax	11.9%	10.3%	13.6%
Cost/income ratio	62.1%	72.0%	60.1%
Net interest margin (average interest-bearing assets)	2.36%	1.78%	2.52%
Employees as at reporting date	3,158	1,983	3,910
Business outlets	142	72	196
Customers	613,901	540,189	851,746

Southeastern Europe

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	738	780	(5.4)%	184	183	0.5%
Net fee and commission income	390	380	2.7%	100	102	(2.5)%
Net trading income	54	50	7.2%	9	14	(33.7)%
Recurring other net operating income	21	3	>500.0%	7	11	(37.4)%
Operating income	**1,203**	**1,214**	**(0.9)%**	**299**	**310**	**(3.4)%**
General administrative expenses	(674)	(681)	(1.0)%	(179)	(161)	10.8%
Operating result	**529**	**533**	**(0.8)%**	**120**	**148**	**(18.8)%**
Net provisioning for impairment losses	(175)	(191)	(8.4)%	(77)	(26)	203.0%
Other results	8	(82)	–	11	0	–
Profit/loss before tax	**363**	**260**	**39.4%**	**54**	**123**	**(55.7)%**
Income taxes	(62)	(33)	89.4%	(15)	(18)	(17.2)%
Profit/loss after tax	**301**	**227**	**32.2%**	**39**	**104**	**(62.5)%**
Risk-weighted assets (total RWA)	14,203	13,968	1.7%	14,203	14,253	(0.4)%
Assets	22,694	22,120	2.6%	22,694	22,182	2.3%
Net interest margin (average interest-bearing assets)	3.55%	3.84%	(0.29) PP	3.46%	3.51%	(0.05) PP
Return on equity before tax	**18.5%**	**15.0%**	**3.6 PP**	**11.2%**	**25.9%**	**(14.7) PP**

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

Operating income

Net interest income decreased 5 per cent year-on-year, or € 42 million, to € 738 million. All of the segment's countries – with the exception of Bosnia and Herzegovina – reported lower net interest income, which was primarily attributable to the persistently low interest rate level. The largest reduction (minus € 14 million) was reported in Albania, where declining lending volumes had an additional dampening effect. The € 10 million drop in net interest income in Croatia also reflected a reduction in interest-bearing assets. The lower market interest rate level led to declines in net interest income of € 5 million in Romania and € 8 million in Serbia. The segment's net interest margin ultimately fell 29 basis points to 3.55 per cent.

In contrast, net fee and commission income increased 3 per cent year-on-year, or € 10 million, to € 390 million. Net income from the payment transfer business was up € 9 million to € 209 million due to a rise in income from the credit card business, mainly in Romania, Bosnia and Herzegovina and Albania. Net income from the foreign currency, notes/coins and precious metals business also increased € 4 million to € 85 million, largely as a result of higher volumes in Romania und Croatia. Net income from the sale of own and third party products was up € 2 million to € 22 million, primarily in Romania. In contrast, net income from the securities business fell € 4 million as a result of lower income, largely in Romania.

Net trading income grew 7 per cent year-on-year, or € 4 million, to € 54 million in Southeastern Europe. Higher valuation gains on foreign currency positions, mostly in Croatia, were mainly responsible for the € 4 million increase to € 34 million in currency-based transactions, while Serbia and Albania reported valuation losses. Net income from interest-based business remained almost unchanged.

Recurring other net operating income improved € 17 million to € 21 million, primarily as a result of a € 20 million increase in net income from the allocation to and release of other provisions (up € 13 million in Romania due to provisions for litigation in 2015).

General administrative expenses

General administrative expenses fell 1 per cent year-on-year, or € 7 million, to € 674 million. Staff expenses remained virtually unchanged at € 301 million. Increases in Bulgaria and Albania were offset by a decline in Bosnia and Herzegovina. The segment's other administrative expenses fell € 6 million to € 299 million. The decline was largely due to lower deposit insurance fees in Romania and Bulgaria. In contrast, advertising, PR and promotional expenses, legal, advisory and consulting expenses and the contributions to the bank resolution fund increased. Depreciation of tangible and intangible fixed assets decreased € 1 million, mainly as a result of a reduction in depreciation of tangible fixed assets in Serbia. The cost/income ratio remained almost unchanged at 56.0 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses declined € 16 million year-on-year, or 8 per cent, to € 175 million. Net individual loan loss provisioning fell € 40 million to € 149 million, while portfolio-based loan loss provisions were up € 25 million to € 27 million. The positive trend in individual loan loss provisioning was primarily attributable to loan sales, while the implementation of a PD-/LGD-based calculation of the portfolio-based loan loss provisions in the retail customer business had a negative effect in further Group units.

The largest declines were reported in Bulgaria, Croatia and Serbia: In Bulgaria, net releases of loan loss provisions totaled € 1 million, after net provisioning for loan losses amounted to € 32 million in the previous year. The reduction was mainly due to loan sales and lower portfolio-based loan loss provisions for retail customers due to the implementation of default probabilities in the previous year. In Croatia, net provisioning for impairment losses was down € 14 million to € 22 million. The decrease was the result of loan sales and releases of provisions for mortgage loans that had been recognized in connection with the conversion of Swiss franc loans. In contrast, the implementation of a PD-/LGD-based calculation of the portfolio-based loan loss provisions for retail customers had a negative effect of € 15 million. In Serbia, net releases totaled € 6 million, compared to net provisioning for impairment losses of € 8 million in the previous year. This was due to the improved risk situation in the corporate customer business, while the introduction of new default probabilities had a negative impact of € 6 million in the reporting year. In Romania, net provisioning for impairment losses amounted to € 77 million, which was € 4 million more than in the previous year. The improved risk profile of corporate and retail customers had a positive effect, while the implementation of a PD-/LGD-based calculation of portfolio-based loan loss provisions for retail customers resulted in an increase of € 18 million in net provisioning. In Albania, net provisioning for impairment losses rose € 34 million to € 65 million, which mainly reflected defaults of several large corporate customers, the revaluation of collateral (negative effect of € 7 million) and the PD/LGD-based calculation of portfolio-based loan loss provisions for retail customers (negative effect of € 6 million).

Non-performing loans fell € 166 million to € 1,421 million, compared to year-end 2015. The biggest reductions were reported in Bulgaria (down € 77 million) and Croatia (down € 72 million). The proportion of non-bank non-performing loans in the segment's loan portfolio fell 1.6 percentage points to 10.5 per cent, while the NPL coverage ratio was up 8.1 percentage points to 79.7 per cent.

Other results and taxes

Other results improved € 91 million to € 8 million. Net income from financial investments increased € 41 million year-on-year to € 46 million. This mainly reflected proceeds of € 38 million from the sale of Visa Europe Ltd. shares to Visa Inc. in the reporting year (€ 21 million in Romania, € 10 million in Croatia and € 7 million in Bulgaria), as well as a € 6 million increase in valuation gains on securities in the fair value portfolio, primarily in Romania and Croatia.

In the second quarter of 2016, the "Walkaway Law" entered into force in Romania. This resulted in a charge of € 27 million in the reporting period. The new mortgage loan law stipulates that borrowers may transfer ownership of their properties to the banks and thereby settle their debt, even if the loan exceeds the value of the property. The law relates to certain mortgage loans taken out by private persons in any currency and applies retroactively. As RBI believes that this violates the Romanian constitution, legal action has been initiated. In October 2016, the law was partially repealed by the Romanian constitutional court. As a result of the ruling, an amount of € 12 million was released from the required provisioning of € 43 million in the fourth quarter. The releases amounted to € 3 million in the third quarter.

In Croatia, expenses of € 77 million for governmental measures were recognized in the comparable period of 2015; while in the reporting period, an expense of only € 10 million was incurred in connection with the conversion of Swiss franc loans. In this case as well, an objection was filed against the law under the bilateral investment protection treaties. A decision is still being awaited.

The tax expense increased € 29 million year-on-year to € 62 million, while the effective tax rate was up 5 percentage points to 17 per cent. The rise was largely due to the use of loss carry-forwards in Croatia, where the tax expense increased € 21 million to € 19 million and the effective tax rate was 24 per cent. In Bulgaria, the tax expense doubled to € 7 million for income-related reasons, while the effective tax rate remained nearly unchanged at 9 per cent.

Detailed results of individual countries:

2016 in € million	Albania	Bosnia and Herzegovina	Bulgaria
Net interest income	56	67	112
Net fee and commission income	13	38	42
Net trading income	12	2	2
Recurring other net operating income	(3)	0	0
Operating income	**78**	**106**	**156**
General administrative expenses	(47)	(58)	(86)
Operating result	**31**	**49**	**71**
Net provisioning for impairment losses	(65)	(13)	1
Other results	2	(1)	7
Profit/loss before tax	**(32)**	**35**	**78**
Income taxes	0	(6)	(7)
Profit/loss after tax	**(33)**	**29**	**71**
Risk-weighted assets (total RWA)	1,584	1,559	1,728
Assets	2,002	2,057	3,350
Loans and advances to customers	815	1,188	2,166
hereof corporate %	61.1%	31.2%	42.1%
hereof retail %	38.9%	68.0%	57.5%
hereof foreign currency %	56.4%	63.8%	48.9%
Deposits from customers	1,694	1,646	2,426
Loan/deposit ratio (net)	39.5%	67.5%	83.9%
Equity	191	264	487
Return on equity before tax	–	13.8%	17.0%
Return on equity after tax	–	11.5%	15.4%
Cost/income ratio	60.1%	54.2%	54.9%
Net interest margin (average interest-bearing assets)	3.03%	3.55%	3.41%
Employees as at reporting date	1,291	1,268	2,569
Business outlets	81	98	138
Customers	751,313	454,454	641,126

2016 in € million	Croatia	Kosovo	Romania	Serbia
Net interest income	126	38	259	80
Net fee and commission income	66	10	185	38
Net trading income	18	1	17	3
Recurring other net operating income	15	1	2	6
Operating income	**224**	**49**	**463**	**126**
General administrative expenses	(131)	(26)	(254)	(73)
Operating result	**94**	**23**	**209**	**53**
Net provisioning for impairment losses	(22)	(3)	(77)	6
Other results	6	0	(6)	0
Profit/loss before tax	**78**	**20**	**125**	**59**
Income taxes	(19)	(2)	(21)	(6)
Profit/loss after tax	**59**	**17**	**104**	**52**
	0	0	0	0
Risk-weighted assets (total RWA)	2,872	533	4,335	1,593
Assets	4,689	896	7,605	2,097
Loans and advances to customers	2,807	533	4,825	1,151
hereof corporate %	41.4%	37.1%	34.3%	51.0%
hereof retail %	56.8%	62.9%	63.6%	48.8%
hereof foreign currency %	55.3%	0.0%	39.3%	61.0%
Deposits from customers	3,283	725	5,797	1,578
Loan/deposit ratio (net)	74.9%	70.9%	76.9%	66.8%
	0	0	0	0
Equity	671	124	771	471
Return on equity before tax	12.5%	17.7%	17.1%	12.9%
Return on equity after tax	9.5%	15.6%	14.3%	11.5%
Cost/income ratio	58.2%	53.1%	54.9%	58.0%
Net interest margin (average interest-bearing assets)	3.14%	4.38%	3.71%	4.17%
	0	0	0	0
Employees as at reporting date	2,128	731	5,322	1,522
Business outlets	78	52	480	87
Customers	449,960	312,842	2,110,244	704,974

Eastern Europe

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	866	949	(8.7)%	229	219	5.0%
Net fee and commission income	391	404	(3.1)%	113	99	13.8%
Net trading income	64	31	110.6%	16	14	16.2%
Recurring other net operating income	(7)	(22)	(67.4)%	(2)	(1)	45.4%
Operating income	**1,315**	**1,361**	**(3.4)%**	**357**	**331**	**7.9%**
General administrative expenses	(519)	(563)	(7.9)%	(162)	(122)	33.2%
Operating result	**796**	**798**	**(0.2)%**	**195**	**209**	**(6.8)%**
Net provisioning for impairment losses	(163)	(422)	(61.2)%	(71)	(13)	442.1%
Other results	17	173	(90.4)%	3	2	90.9%
Profit/loss before tax	**649**	**550**	**18.2%**	**127**	**198**	**(35.6)%**
Income taxes	(126)	(128)	(1.5)%	(16)	(42)	(61.3)%
Profit/loss after tax	**524**	**422**	**24.1%**	**111**	**156**	**(28.6)%**
Risk-weighted assets (total RWA)	11,536	11,642	(0.9)%	11,536	11,483	0.5%
Assets	15,291	14,179	7.8%	15,291	14,589	4.8%
Net interest margin (average interest-bearing assets)	6.60%	6.14%	0.46 PP	6.64%	6.62%	0.02 PP
Return on equity before tax	**41.3%**	**33.5%**	**7.8 PP**	**32.4%**	**49.6%**	**(17.2) PP**

As in 2015, the Eastern Europe segment was again affected by a high level of currency volatility in the reporting period. The average exchange rate of the Russian rouble was 7 per cent lower year-on-year, while the Ukrainian hryvnia and Belarusian rouble were down 15 and 20 per cent respectively. On 1 July 2016, a currency reform came into effect in Belarus; the new Belarusian rouble (BYN) replaced the old Belarusian rouble (BYR) at a rate of 1 to 10,000. In Ukraine, net trading income increased € 85 million due to the more limited depreciation of the Ukrainian hryvnia, compared to the prior year, and an improved result from foreign currency positioning. There were releases of provisions for impairment losses as a result of the improvement in the risk situation, after very high provisioning was still necessary in the comparable period in 2015 due to the political situation in the Donbass region. Profit before tax in Ukraine therefore increased € 241 million to € 150 million. In contrast, Russia reported a 16 per cent drop in profit before tax. A volume- and margin-related decline in net interest income was almost entirely offset by lower general administrative expenses and net provisioning for impairment losses; however in 2015, net income from the disposal of group assets of € 86 million was also recognized as a result of the sale of the Russian pension fund business, ZAO NPF Raiffeisen. In Belarus, profit fell year-on-year due to a valuation result from a foreign currency position recognized in the previous year and lower net income from proprietary trading.

Operating income

Net interest income was down 9 per cent year-on-year, or € 82 million, to € 866 million. This was mainly due to a decrease in net interest income in Russia of 12 per cent, or € 80 million, to € 567 million. Apart from foreign currency effects, the decline was primarily caused by a € 175 million decrease in interest income from derivative financial instruments entered into for hedging purposes. This was a consequence of the lower interest rate level in 2016 (interbank interest rates in Russia were exceptionally high in the first half of 2015) as well as lower volumes of USD swaps. In addition, interest income from loans and advances to customers fell as a result of volume effects. In contrast, new retail business resulted in considerable margin-driven increases, particularly due to the focus on local currencies. In Ukraine, the 3 per cent, or € 5 million, decline in net interest income to € 171 million was entirely currency-related; in local currency, net interest income increased 14 per cent. In Belarus, net interest income rose just € 3 million to € 128 million, despite better margins, as a result of currency devaluations. The segment's net interest margin improved 46 basis points year-on-year to 6.60 per cent.

Net fee and commission income fell 3 per cent year-on-year, or € 12 million, to € 391 million. Net income from foreign currency, notes/coins and precious metals business dropped 7 per cent, or € 8 million, to € 108 million – mainly as a result of currency movements as well as lower volumes and margins in Belarus and Russia. Net income from the loan and guarantee business was also down € 2 million to € 56 million – primarily as a result of exchange rate effects in Ukraine and Belarus.

Net trading income increased from € 31 million in the comparable period of 2015 to € 64 million. Net income from currency-based business improved € 30 million to € 52 million. Ukraine reported a significant increase of € 81 million due to the more limited depreciation of the Ukrainian hryvnia and foreign currency positions. Net trading income in Russia was also up on the back of valuation gains on derivative financial instruments and foreign currency positions. In contrast, net trading income in Belarus declined due to the closure of a strategic currency position that had led to a valuation gain of € 34 million in the previous year, and a valuation- and volume-related fall in net income from open foreign exchange positions. Net income from interest-based transactions increased € 3 million to € 12 million due to valuation gains on securities positions in Ukraine.

Recurring other net operating income was up € 15 million year-on-year to minus € 7 million, mainly as a result of a € 12 million decline in other provisions in Russia due to branch closures in the previous year.

General administrative expenses

General administrative expenses fell 8 per cent year-on-year, or € 44 million, to € 519 million. Russia and Ukraine accounted for most of the reduction, which largely reflected the depreciation of the Russian rouble and Ukrainian hryvnia. The € 16 million decrease in staff expenses was based on currency devaluations and a lower headcount. Other administrative expenses fell € 24 million due to a decrease in legal, advisory and consulting expenses, as well as in office space expenses. The number of business outlets in the segment fell by 91 to 771. Of these, 80 were in Ukraine. Depreciation was down € 4 million following impairment charges for buildings in Ukraine in the previous year. The cost/income ratio improved 1.9 percentage points to 39.5 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses fell 61 per cent year-on-year, or € 258 million, to € 163 million. In Ukraine, net provisioning for impairment losses was down € 214 million; thus in the reporting year, there was a net release of € 2 million. This was attributable primarily to the high provisioning requirements for loans to retail and corporate customers in the comparable period of the previous year, due to the economic situation in the Donbass region and currency movements. In addition, restructuring and loan sales reduced risk costs. The credit risk situation also improved in Russia in the retail and corporate customer areas; net provisioning for impairment losses fell € 36 million to € 145 million. In Belarus, the provisioning requirement declined € 6 million to € 20 million due to a reduction in corporate customer loan volumes.

Compared to the start of 2016, the portfolio of non-performing customer loans in Eastern Europe declined € 326 million to € 1,576 million. The currency-adjusted fall was € 403 million. The biggest drop (€ 299 million) was reported in Ukraine, compared to € 152 million in Russia. In contrast, non-performing loans increased € 47 million in Belarus. The proportion of non-bank non-performing loans in the segment's loan portfolio fell 4.2 percentage points year-on-year to 14.7 per cent. The NPL coverage ratio dropped 0.6 percentage points to 85.7 per cent.

Other results and taxes

Other results were down € 156 million to € 17 million year-on-year. The decrease was mainly due to net income from the disposal of Group assets and from financial investments, which fell € 85 million and € 79 million respectively. In the previous year, net income from the disposal of group assets of € 86 million was reported as a result of the sale of the Russian pension fund business; in the reporting year, the result was € 1 million. The decrease in net income from financial investments to € 11 million resulted primarily from lower valuation gains on securities in the fair value portfolio, mainly from fixed income government bonds in Ukraine and bonds in Russia. In contrast, net income from financial derivatives rose € 7 million to € 4 million in the reporting year, as a result of the valuation of interest rate swaps used to mitigate interest rate structure risk and changes in market values of banking book derivatives, above all in Russia.

The tax expense declined slightly to € 126 million. In Ukraine, the tax expense increased € 22 million as a result of the turnaround, while it was € 15 million and € 9 million lower in Belarus and Russia respectively for income-related reasons. The effective tax rate amounted to 19 per cent compared to 23 per cent in the previous year.

Detailed results of individual countries:

2016 in € million	Belarus	Russia	Ukraine
Net interest income	128	567	171
Net fee and commission income	51	259	81
Net trading income	7	47	11
Recurring other net operating income	(2)	(3)	(2)
Operating income	**185**	**869**	**261**
General administrative expenses	(70)	(326)	(123)
Operating result	**115**	**543**	**138**
Net provisioning for impairment losses	(20)	(145)	2
Other results	0	6	10
Profit/loss before tax	**95**	**404**	**150**
Income taxes	(23)	(88)	(15)
Profit/loss after tax	**72**	**316**	**135**
Risk-weighted assets (total RWA)	1,399	8,294	1,836
Assets	1,524	11,768	1,999
Loans and advances to customers	999	7,821	1,894
hereof corporate %	73.6%	60.1%	59.4%
hereof retail %	26.4%	39.9%	40.6%
hereof foreign currency %	68.7%	37.8%	49.2%
Deposits from customers	904	8,509	1,535
Loan/deposit ratio (net)	103.4%	86.9%	63.5%
Equity	369	1,834	311
Return on equity before tax	34.1%	30.9%	74.8%
Return on equity after tax	25.9%	24.2%	67.3%
Cost/income ratio	37.8%	37.5%	47.1%
Net interest margin (average interest-bearing assets)	9.57%	5.64%	9.87%
Employees as at reporting date	2,005	7,742	8,073
Business outlets	91	181	498
Customers	762,782	2,364,821	2,536,828

Group Corporates

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	313	326	(4.0)%	90	72	24.1%
Net fee and commission income	60	74	(19.1)%	17	14	25.8%
Net trading income	8	1	>500.0%	1	2	(17.1)%
Recurring other net operating income	2	1	82.4%	0	0	0.4%
Operating income	**382**	**402**	**(4.9)%**	**109**	**89**	**23.4%**
General administrative expenses	(153)	(143)	7.1%	(38)	(40)	(4.2)%
Operating result	**229**	**259**	**(11.5)%**	**71**	**49**	**45.9%**
Net provisioning for impairment losses	(74)	(141)	(47.2)%	(18)	6	–
Other results	(4)	(15)	(71.5)%	(3)	(1)	208.1%
Profit/loss before tax	**150**	**103**	**46.6%**	**50**	**54**	**(7.1)%**
Income taxes	(37)	(25)	43.7%	(12)	(13)	(4.7)%
Profit/loss after tax	**114**	**77**	**47.5%**	**37**	**41**	**(7.8)%**
Risk-weighted assets (total RWA)	9,208	8,590	7.2%	9,208	8,922	3.2%
Assets	15,201	13,873	9.6%	15,201	14,822	2.6%
Net interest margin (average interest-bearing assets)	2.16%	2.08%	0.08 PP	2.42%	1.99%	0.43 PP
Return on equity before tax	**12.6%**	**9.3%**	**3.2 PP**	**17.0%**	**18.9%**	**(1.9) PP**

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

Operating income

Net interest income declined 4 per cent, or € 13 million, to € 313 million. This was mainly due to lower loan volumes and declining margins in the corporate customer business (Austrian and multinational corporate customers serviced from Vienna). In addition, interest-like extraordinary income declined after exceptionally high interest-like income, especially from real estate financing, was reported in the previous year. The segment's net interest margin increased 8 basis points to 2.16 per cent.

Net fee and commission income declined 19 per cent, or € 14 million, to € 60 million. Lower fee and commission income from export and investment financing, liquidity management services and bond trading, as well as a reclassification of net fee and commission income items as net trading income was partly offset by higher net fee and commission income from bond issues.

The increase of € 7 million in net trading income was the result of the above-mentioned reclassification.

General administrative expenses

General administrative expenses increased 7 per cent, or € 10 million, to € 153 million. The increase was due mainly to other administrative expenses, which rose because of the pro rata allocation of the contribution to the bank resolution fund to the segment. The cost/income ratio increased 4.5 percentage points to 40.0 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses declined 47 per cent year-on-year, or € 66 million, to € 74 million. In the previous year, individual provisions for losses on loans to large corporate customers, especially from the Donbass region, were significantly higher. On a currency-adjusted basis, the portfolio of non-performing loans declined € 587 million to € 688 million, since the start of the year, as a result of sales of loans. The proportion of non-bank non-performing loans in the segment's loan portfolio fell 4.7 percentage points to 4.6 per cent. The NPL coverage ratio increased 9.2 percentage points to 65.9 per cent.

Other results and taxes

Other results improved € 11 million to minus € 4 million, mainly due to a € 16 million rise in income from financial investments, which predominantly came from a real estate transaction. This was offset by a € 5 million increase in expenses for bank levies (€ 20 million).

Income tax expense increased 44 per cent, or € 11 million, to € 37 million as a result of higher income.

Group Markets

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	62	74	(15.9)%	17	16	5.6%
Net fee and commission income	113	122	(7.3)%	30	27	11.1%
Net trading income	122	78	56.4%	35	32	9.8%
Recurring other net operating income	9	14	(34.1)%	2	2	(0.7)%
Operating income	**307**	**288**	**6.5%**	**84**	**77**	**9.1%**
General administrative expenses	(211)	(216)	(2.0)%	(53)	(54)	(1.5)%
Operating result	**95**	**72**	**31.7%**	**31**	**23**	**33.5%**
Net provisioning for impairment losses	(34)	7	–	(7)	(33)	(79.0)%
Other results	6	15	(61.9)%	(6)	(3)	149.5%
Profit/loss before tax	**67**	**94**	**(29.1)%**	**18**	**(12)**	**–**
Income taxes	(15)	(23)	(32.3)%	(4)	4	–
Profit/loss after tax	**51**	**72**	**(28.1)%**	**14**	**(8)**	**–**
Risk-weighted assets (total RWA)	3,211	3,781	(15.1)%	3,211	3,249	(1.2)%
Assets	12,149	13,461	(9.7)%	12,149	14,027	(13.4)%
Net interest margin (average interest-bearing assets)	0.60%	0.77%	(0.17) PP	0.69%	0.58%	0.11 PP
Return on equity before tax	**13.4%**	**17.2%**	**(3.7) PP**	**14.3%**	**–**	**–**

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

Operating income

Net interest income decreased 16 per cent, or € 12 million, to € 62 million. The excess liquidity in the market and the associated lower credit demand had a negative effect in this respect. Interest income from loans and securities also decreased as a result of lower volumes due to the reduction of a securities portfolio in the bank book. The net interest margin declined 17 basis points to 0.60 per cent.

Net fee and commission income was down € 9 million year-on-year to € 113 million. Higher income from cash management was offset by a decline in investment banking resulting from lower bond issuance volumes, reduced income from the securities business due to lower volumes and margins, as well as the reclassification of income items from the securities business with institutional customers as net trading income. In addition, income generated by Kathrein Privatbank AG in the securities business decreased € 1 million.

Net trading income increased € 44 million to € 122 million. Higher volumes in business with institutional investors had a positive impact, while losses resulted from the abolition of the minimum exchange rate for the Swiss franc in the previous year. Despite the withdrawal from individual markets and discontinuation of business with specific customer groups, a slight increase was also reported in banknote trading due to improved margins.

Recurring other net operating income declined € 5 million to € 9 million due to lower sundry operating income.

General administrative expenses

General administrative expenses declined 2 per cent, or € 4 million, to € 211 million. The cost/income ratio decreased 5.9 percentage points year-on-year to 69.0 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses amounted to € 34 million in the reporting period after a net amount of € 7 million was released in the previous year. Non-performing loans (including to banks) declined € 284 million to € 131 million. The proportion of non-performing loans in relation to the segment's total credit exposure amounted to 1.9 per cent. The NPL coverage ratio amounted to 71.9 per cent.

Other results and taxes

Other results declined € 10 million year-on-year to € 6 million due to a lower valuation result for bonds. This contrasted with increased net income from derivative financial instruments resulting from the interest rate development. The expenses for bank levies reported in the segment amounted to € 21 million, a year-on-year increase of € 3 million.

Income tax expense posted an income-related decline of 32 per cent, or € 7 million, to € 15 million. The effective tax rate in the reporting period was 23 per cent.

Corporate Center

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	362	1,124	(67.8)%	23	88	(73.4)%
Net fee and commission income	42	17	138.7%	20	13	47.1%
Net trading income	(26)	(147)	(82.6)%	2	(9)	–
Recurring other net operating income	114	154	(25.7)%	28	31	(9.4)%
Operating income	**492**	**1,148**	**(57.2)%**	**73**	**123**	**(40.8)%**
General administrative expenses	(326)	(306)	6.6%	(80)	(68)	18.3%
Operating result	**166**	**842**	**(80.3)%**	**(7)**	**56**	**–**
Net provisioning for impairment losses	(9)	(23)	(59.3)%	(1)	2	–
Other results	(221)	(226)	(2.5)%	(56)	(78)	(27.7)%
Profit/loss before tax	**(64)**	**593**	**–**	**(65)**	**(21)**	**212.7%**
Income taxes	32	22	45.7%	18	7	171.5%
Profit/loss after tax	**(33)**	**614**	**–**	**(46)**	**(14)**	**232.6%**
Risk-weighted assets (total RWA)	13,990	14,777	(5.3)%	13,990	14,136	(1.0)%
Assets	20,936	27,287	(23.3)%	20,936	22,249	(5.9)%

This segment principally comprises net income from Group head office governance functions and from other Group units. As a result, its net income is generally more volatile. Profit before tax significantly declined – by € 657 million – in 2016. Operating income mainly decreased due to lower dividend income. Net income from derivatives and liabilities declined, while there was an increase in net income from financial investments and net income from the disposal of Group assets.

Operating income

Net interest income fell 68 per cent year-on-year, or € 762 million, to € 362 million. This was mainly due to a decline of € 604 million in dividend income from the Central and Eastern European Group units, after higher dividends were received in the previous year, particularly from Russia (€ 479 million) and Croatia (€ 84 million). Interest income from intra-Group refinancing also declined due to the decreasing financing volumes.

In contrast, net fee and commission income increased € 24 million year-on-year to € 42 million. This increase mainly resulted from higher income from cash management, while net fee and commission income from the loan and guarantee business declined due to lower volumes

Net trading income improved 83 per cent year-on-year, or € 122 million, to minus € 26 million. This was mainly due to a loss of € 70 million from a hedging transaction for dividend income in Russian roubles, booked in the previous year, and lower currency-related valuation losses from a property company.

Recurring other net operating income fell 26 per cent, or € 40 million, to € 114 million. This decline primarily resulted from lower income from intra-Group service charges.

General administrative expenses

General administrative expenses increased 7 per cent, or € 20 million, to € 326 million. This was largely driven by higher staff expenses and the allocation of the contribution to the bank resolution fund to the segment.

Net provisioning for impairment losses

Net provisioning for impairment losses amounted to € 9 million in the reporting period, after a provisioning requirement of € 23 million for corporate customers at Group head office in the previous year.

Other results and taxes

Other results improved € 6 million to minus € 221 million.

Net income from the disposal of Group assets amounted to € 11 million in the reporting period, after a negative amount of € 49 million – mainly as a result of a provision booked for the sale of Raiffeisen Banka d.d., Maribor (€ 52 million) – was reported in the previous year.

The segment reported expenses for bank levies of € 42 million, which was € 7 million lower than in the comparable period in the previous year.

The negative development of net income from derivatives and liabilities, as a result of the valuation of bank book derivatives and own issues, contrasted with improved net income from financial investments.

Tax income of € 32 million was posted in the segment in the reporting period after € 22 million in the previous year.

Non-Core

in € million	2016	2015	Change	Q4/2016	Q3/2016	Change
Net interest income	331	385	(14.1)%	77	91	(15.6)%
Net fee and commission income	154	172	(10.3)%	35	38	(7.5)%
Net trading income	(5)	1	–	(6)	(1)	>500.0%
Recurring other net operating income	0	19	–	(7)	7	–
Operating income	**480**	**577**	**(16.8)%**	**98**	**135**	**(27.0)%**
General administrative expenses	(406)	(462)	(12.3)%	(85)	(111)	(23.9)%
Operating result	**74**	**114**	**(35.4)%**	**13**	**23**	**(41.9)%**
Net provisioning for impairment losses	(255)	(375)	(31.9)%	(68)	(38)	76.5%
Other results	(22)	(2)	>500.0%	(14)	(17)	(19.2)%
Profit/loss before tax	**(203)**	**(263)**	**(22.7)%**	**(68)**	**(32)**	**110.7%**
Income taxes	(41)	(24)	72.5%	(8)	(4)	104.8%
Profit/loss after tax	**(244)**	**(286)**	**(14.9)%**	**(76)**	**(36)**	**110.1%**
Risk-weighted assets (total RWA)	7,235	10,611	(31.8)%	7,235	9,272	(22.0)%
Assets	13,828	18,835	(26.6)%	13,828	16,130	(14.3)%
Net interest margin (average interest-bearing assets)	2.12%	2.01%	0.11 PP	2.12%	2.31%	(0.19) PP

The Non-Core segment encompasses those business areas which are to be sold or reduced in line with RBI's strategic review, as laid out in 2015. The sale of the Raiffeisen bank in Slovenia closed in June 2016, while the sale of Raiffeisen-Leasing Polska closed in December 2016. When RBI acquired Raiffeisen Bank Polska S.A. (Raiffeisen Polbank) in 2012, it made a commitment to the Polish regulatory authority (KNF) to list the shares of Raiffeisen Polbank on the Warsaw Stock Exchange with a free float of at least 15 per cent by 30 June 2016. In May 2016, the KNF agreed that RBI could satisfy this commitment by selling Raiffeisen Polbank to a listed Polish bank by the end of 2016. On 7 December 2016, the negotiations with Alior Bank S.A. regarding the sale of Raiffeisen Polbank's core banking business were terminated. RBI will now prepare the listing of 15 percent of Raiffeisen Polbank, as agreed with the KNF, while also working on rightsizing the business model.

The segment's profit before tax improved 23 percent to minus € 203 million. This mainly resulted from lower net provisioning for impairment losses on loans and advances, predominantly in Asia, and reduced general administrative expenses. Operating income declined as a result of the planned reduction in volumes.

Operating income

Net interest income was down 14 per cent year-on-year, or € 54 million, to € 331 million. Asia reported the largest decline, with a volume-related reduction of 56 per cent, or € 47 million, to € 37 million. The € 7 million decrease in Slovenia is attributable to the sale of the Slovenian Raiffeisen bank. Net interest income in the US declined € 11 million to € 14 million due to the planned reduction in business volumes. In contrast, in Poland, repricing measures in the deposit business increased net interest income by 4 per cent, or € 9 million, to € 262 million. The net interest margin improved 11 basis points to 2.12 per cent.

Net fee and commission income declined 10 per cent year-on-year, or € 18 million, to € 154 million. Net income from the loan and guarantee business decreased € 12 million to € 22 million as a result of lower volumes, primarily in Asia, Slovenia and Poland. Net income from the foreign currency, notes/coins, and precious metals business fell € 5 million to € 68 million due to a reduction of income in Poland. Net income from the payment transfer business dropped € 4 million, primarily in Asia and Slovenia. In contrast, net income from the sale of own and third party products increased € 4 million to € 27 million, mainly in Poland.

Net trading income was down € 5 million year-on-year to minus € 5 million. Net income from currency-based transactions declined € 3 million due to valuation losses on foreign currency positions in Poland. Net income from interest-based transactions declined € 3 million, primarily in Poland.

Recurring other net operating income declined € 20 million to almost zero due to losses from the disposal of tangible and intangible fixed assets in Poland (negative impact of € 5 million), lower income from the allocation and release of other provisions (down € 5 million), higher other operating expenses (up € 8 million), especially in Poland, and lower net income from non-banking activities (down € 4 million).

General administrative expenses

General administrative expenses dropped 12 per cent, or € 57 million, to € 406 million. Staff expenses decreased 6 per cent, or € 11 million, to € 187 million, primarily due to the windown in Asia and the sale of the subsidiary bank in Slovenia. Other administrative expenses declined 22 per cent, or € 44 million, to € 154 million. This decrease was based on lower deposit insurance fees due to an exceptional payment relating to the default of a Polish bank in the previous year. Furthermore, a one-off payment was made in the previous year to a mortgage borrowers' support fund in Poland. Depreciation of tangible and intangible fixed assets fell 3 per cent, or € 2 million, to € 65 million. The Polbank brand's residual value of € 26 million was written off in the reporting year due to the results of the endeavors to sell the company. In the previous year, a partial impairment of € 21 million was recognized in relation to the Polbank brand. Depreciation of tangible fixed assets, in contrast, was lower. The number of business outlets fell by 73 to 305, with most of the decline occurring in Poland (down 58) and Slovenia (down 13). The cost/income ratio rose 4.4 percentage points to 84.6 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses declined 32 per cent year-on-year, or € 120 million, to € 255 million. This development was mainly attributable to Asia, where net provisioning for loans to large corporate customers declined € 118 million to € 179 million. Net provisioning for impairment losses in Poland fell € 4 million year-on-year to € 40 million. This was primarily due to an improvement in the credit risk situation of corporate customers. In Slovenia, a net amount of € 2 million in provisions was released before the bank was sold in the middle of the year, as compared to the previous year when net provisioning was € 19 million. In the US, net provisioning for corporate customers who had already defaulted amounted to € 36 million (up € 23 million).

The portfolio of non-performing loans decreased € 268 million since the start of the year to € 1,634 million, with a decline of € 222 million on a currency-adjusted basis. The largest reduction was recorded in Slovenia (decline of € 121 million) due to the sale of the Slovenian subsidiary bank. In Poland, the decline was € 38 million, € 37 million in the US, and € 29 million in Asia. The proportion of non-bank non-performing loans in the segment's loan portfolio increased 2.3 percentage points year-on-year to 17.7 per cent. The NPL coverage ratio rose 4.2 percentage points to 66.6 per cent.

Other results and taxes

The segment's other results fell € 19 million year-on-year to minus € 22 million. Expenses of € 34 million for the newly-introduced bank levy in Poland had a negative impact. Net income from financial investments primarily increased due to € 22 million resulting from the sale of Visa Europe Ltd. shares to Visa Inc. (in Poland: € 18 million, ZUNO BANK AG: € 4 million).

Tax expense increased 73 per cent year-on-year, or € 17 million, to € 41 million as a result of the write off of tax assets from prior periods in Poland. The effective tax rate for the segment was 20 per cent.

Selected detailed results:

2016 in € million	Asia	Poland	USA
Net interest income	37	262	14
Net fee and commission income	4	145	3
Net trading income	(12)	6	0
Recurring other net operating income	(1)	(1)	1
Operating income	**28**	**414**	**18**
General administrative expenses	(46)	(304)	(16)
Operating result	**(18)**	**109**	**2**
Net provisioning for impairment losses	(179)	(40)	(36)
Other results	(1)	(22)	(3)
Profit/loss before tax	**(198)**	**47**	**(37)**
Income taxes	(1)	(41)	2
Profit/loss after tax	**(199)**	**6**	**(35)**
Risk-weighted assets (total RWA)	395	6,315	347
Assets	852	12,055	262
Loans and advances to customers	625	8,070	76
hereof corporate %	100.0%	30.8%	100.0%
hereof retail %	0.0%	68.9%	0.0%
hereof foreign currency %	3.5%	58.4%	0.0%
Deposits from customers	4	8,284	0
Loan/deposit ratio (net)	–	92.7%	–
Equity	–	1,423	13
Return on equity before tax	–	3.0%	–
Return on equity after tax	–	0.4%	–
Cost/income ratio	164.1%	73.6%	88.3%
Net interest margin (average interest-bearing assets)	2.92%	1.99%	3.53%
Employees as at reporting date	108	4,242	32
Business outlets	3	299	1
Customers	60	816,413	34

Asia: Some Asian entities are operated as branches; therefore no equity available.