One Bank One UniCredit

2016

Annual Financial Statements

Welcome to Bank Austria
Member of UniCredit

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Management Report (CONTINUED)

Economic environment – market developments

Relaxed monetary policy of ECB poses unremitting challenges

The policy of the European Central Bank (ECB) continued to strongly influence Austria's banking sector in 2016. Moderate economic growth and low inflation, which moved into negative territory in the euro area in early 2016, prompted the ECB to step up its quantitative monetary easing efforts. In March 2016 the ECB Governing Council decided to lower interest rates. Since then, the main refinancing rate has been 0%. The marginal lending rate was also cut, by five basis points, to 0.25%, and the deposit rate was reduced by 10 basis points to –0.4%. In addition, the ECB expanded its asset purchase programme, underway since March 2015, from €60 billion to €80 billion per month while including corporate bonds (without banks) in its programme. In June 2016 the ECB launched a series of targeted longer-term refinancing operations, each with a maturity of four years. The additional quantitative easing measures led to a further interest rate decline on money markets. The 3-month Euribor fell even faster into negative territory, to –0.32% at the end of 2016. In Europe, long-term interest rates initially also continued to fall in response to the ECB's monetary policy. Yields on German ten-year government bonds were negative for the first time in June 2016. Interest rate spreads between the peripheral countries and the German benchmark widened again, largely reflecting uncertainty after the British people, at the end of June 2016, voted to leave the EU. But the financial market turbulence eased fairly quickly, supported by the improved global economic outlook. Long-term interest rates have again been moving upwards since the presidential election in the USA, which was unexpectedly won by Donald Trump in November 2016. Yields on German ten-year government bonds were 0.4% at the end of January 2017, while yields on Austrian ten-year government bonds were almost 20 basis points higher. Donald Trump's announcement of a fiscal stimulus plan for the US economy was well-received by markets. Equity markets closed 2016 at, or close to, their annual highs. The MSCI world index advanced by over 5% in 2016. Germany's Dax stock index rose by almost 7%, and Austria's ATX index by over 9%, making it one of the best performers. In December, the ECB announced its intention to extend its asset purchase programme until the end of 2017, albeit at a reduced pace of €60 billion per month as from March 2017. This heralds the beginning of the end of quantitative easing in Europe. According to an announcement by the ECB Governing Council, key interest rates will remain at current or lower levels over and beyond the timeline set for the securities purchase programme.

Global and European economic environment

Economic conditions for the banking sector in 2016 were shaped by a moderate slowdown of global growth to about 3%. The global economy proved to be fairly resilient to the uncertainty created by anxiety over China's growth in early 2016, the decision of the British people in the middle of the year to leave the European Union, and the surprising outcome of the US presidential election. Besides other factors, the resilience is explained by slightly stronger year-on-year growth of emerging economies, which met the challenges presented in 2016 in the form of low commodities prices, sluggish foreign trade and financial market volatility. The growth of the global economy was driven by India, and to a lesser extent China, as well as by Brazil and Russia, although in the case of the latter countries only because their economies were impacted to a lesser extent than in the previous year. In 2016, the moderate growth of industrial countries was strongly influenced by the weaker growth of the US economy, which slowed down by one percentage point to 1.6%. In the first half of the year, in particular, growth was impacted by the knock-on effects of the stronger US dollar, the decline in investment in the energy sector as a result of the trend in oil prices, and a substantial reduction in inventory. The US economy started to pick up in the second half of the year as these effects wore off.

● The **European economy** remained on a sound path of recovery throughout the year, notwithstanding the many different growth signals. Economic growth in the euro area reached a respectable 1.7% and thereby exceeded the trend rate for the second year in succession. Economic growth in Europe was driven by the stable upward trend in domestic demand, supported by fiscal stimulus and low oil prices. Consumption remained robust, helped by strong growth in employment, resulting in a further decline in unemployment, and by low inflation, which averaged only 0.2% in 2016 despite an energy-price induced rise at the end of the year. Investment growth remained sound in the face of great uncertainty. Exports, on the other hand, were unable to provide any impetus to growth despite the advantages of a persistently weak euro; global demand remained sluggish.

Viewed in the context of individual countries, the recovery in the euro area continued to gain momentum on a broad front: with GDP growth of 3.2%, Spain was once again easily the best performer among the large euro area members. In France, economic growth stabilised at a moderate 1.2%, and Italy continued to experience steady recovery at a low level, with growth rising to 0.9%. The German economy expanded at a rate above the euro area average in 2016. Austria's most important trading partner recorded GDP growth of 1.9%.

Management Report (CONTINUED)

Economic situation and market developments in Austria

● In **Austria**, the recovery process consolidated in 2016, with the growth momentum accelerating towards the end of the year after a previously moderate upward trend. Rising from 1 % in 2015 to 1.5 % in 2016, GDP growth returned to euro area levels after an interval of three years. The revival of the Austrian economy is largely explained by fiscal stimulus measures in 2016. A tax reform took effect at the beginning of the year, resulting in tax relief of about €3.5 billion. With a slight time lag, the tax reform boosted private consumption, a development which was particularly apparent in the second half of the year: after stagnating for three years, private consumption grew by 1.5 % in real terms to become an engine of economic growth in Austria. The upturn in consumption was supported by low inflation, which led to a rise in real incomes. Although one of the highest inflation rates in Europe, average inflation in Austria remained low at 0.9 % in 2016 as the stronger upward pressure from a number of services (hotels and restaurants, leisure and culture, rents) was offset by lower oil prices. A significant factor which contributed to the favourable developments in private consumption in 2016 was the stabilisation of the labour market following an acceleration of growth in employment to 1.6 % compared with the previous year. For the first time since 2011, this balanced out the rise in the labour supply, which is largely attributable to migration, and ended the upward trend in the unemployment rate. According to national criteria, unemployment was 9.1 % in 2016, the same as in the previous year. Austria's unemployment rate based on Eurostat averaged 6 % in 2016.

In addition to consumption, investments also showed discernible growth in Austria for the first time in several years. Gross fixed capital formation expanded by 3.1 %, after a moderate increase of 0.7 % in the previous year. Favourable financing conditions, the need for replacement investments, which had been postponed over a long period of time, and strong growth in Austria's population above all led to a jump in investments in plant and equipment, most notably in the automotive sector. The improved business sentiment moreover ended the three-year contraction in construction activity.

The revival of the global economy towards the end of the year supported foreign demand in Austria, which was previously at a low ebb. The Bank Austria Purchasing Managers' Index closed 2016 at 56.3 points, the highest level in five years and a development primarily explained by an increase in export orders. Given sluggish global trade throughout 2016, export growth was however weaker than in the previous year. Foreign trade did not contribute to economic growth in Austria in 2016 as stronger consumption and more dynamic investment activity led to an increase in imports.

● In Austria, demand for loans remained moderate in 2016 despite economic recovery. Demand for corporate loans, in particular, was weak, with de facto volume stagnation during the year. This is ascribed to moderate investment activity but primarily to the ample liquidity of companies in Austria. Deposits from companies grew by almost 10 %. The main reason for the weak demand for credit recorded by Austria's banks despite economic recovery was however the growing significance of alternative finance opportunities in light of the surplus liquidity in the corporate sector. In line with the structure of the Austrian economy, companies met a large proportion of their funding requirements outside Austria in the form of intra-group financing arrangements as well as through commercial credit. While companies also raised funds through bond issues, this practice was less pronounced than the use of cross-border financing.

In the area of personal loans, a decline in the volume of consumer loans compared with an unabated strong increase in the volume of housing construction loans, with growth of over 5 % exceeding the level of 2015. Investments by private households focused on short-term deposits in 2016. These accounted for much of the monetary wealth formation, which again expanded more strongly. Demand for mutual funds remained robust in 2016, while life insurance policies experienced a net decline. Strong disinvestment was seen in the area of long-term bonds, leading to a renewed reduction in the proportion accounted for by this investment form in the portfolios of Austrian households in 2016.

Management Report (CONTINUED)

Bank Austria at a glance

Income statement figures

(€ million)	2016 [1]	2015 [2]	+/–
Net interest	962	967	–0.5%
Dividends and other income from equity investments	126	171	–26.5%
Net fees and commissions	676	725	–6.7%
Net trading, hedging and fair value income/loss	89	69	28.5%
Operating income	2,004	2,002	0.1%
Operating costs	–1,502	–1,589	–5.5%
Operating profit	501	413	21.4%
Net write-downs of loans and provisions for guarantees and commitments	6	12	–51.1%
Net operating profit	507	425	19.3%
Profit or loss before tax	–354	486	n.m.
Total profit or loss after tax from discontinued operations	1,141	635	79.9%
Net profit or loss attributable to the owners of the parent company	641	1,325	–51.6%

Volume figures

(€ million)	31 DEC. 2016	31 DEC. 2015	+/–
Total assets	105,785	193,638	–45.4%
Loans and receivables with customers	60,926	116,377	–47.6%
Direct funding	74,032	139,695	–47.0%
Equity	7,892	15,394	–48.7%
Risk-weighted assets (overall) [3]	35,446	128,259	–72.4%

Key performance indicators

	2016	2015
Cost/income ratio	75.0%	79.4%
Cost of risk	–1 bp	–2 bp
Loan/direct funding ratio	82.3%	83.3%
Leverage ratio [4]	5.6%	5.8%
Common Equity Tier 1 capital ratio [5]	18.0%	11.0%
Tier 1 capital ratio [5]	18.0%	11.0%
Total capital ratio [5]	20.8%	14.9%

Staff

(Full-time equivalent)	31 DEC. 2016	31 DEC. 2015	+/–
Austria in total [6]	6,347	6,737	–390

Offices

	31 DEC. 2016	31 DEC. 2015	+/–
Austria in total	162	205	–43
of which: Retail Banking – UniCredit Bank Austria AG	141	174	–33

1) Net profit includes the CEE results for the first nine months of 2016. The item "Total profit or loss after tax from discontinued operations" includes the CEE results for the first nine months of 2016 before deduction of non-controlling interests. / 2) Not adjusted to the Bank Austria Group structure in 2016. See also reconciliation in the segment reporting section D in the notes to the consolidated financial statements. / 3) Regulatory risk-weighted assets. / 4) Leverage ratio under Basel 3 based on the current status of transitional arrangements. / 5) Capital ratios based on all risks under Basel 3 (transitional) and IFRS. / 6) Comparative figures for 2015 recast to reflect the current structure and methodology.

Management Report (CONTINUED)

Business developments in 2016

Major events

As part of "Transform 2019", the UniCredit Group's new strategic plan, Bank Austria initiated far-reaching adjustments through its strategic reorientation under "Bank Austria Reloaded".

Bank Austria's equity interests in companies in Central and Eastern Europe (CEE) were transferred to the Milan-based Group holding company as at 1 October 2016. While the elimination of Bank Austria's function as sub-holding company has significantly reduced the Group's complexity, Bank Austria remains by far the largest bank in Austria by total assets on a stand-alone basis. Regardless of where the equity investments in the CEE banking subsidiaries are held, Bank Austria's internationally active corporate customers will benefit from full **service continuity**. The full expertise and customary high **quality of services and advice** and the **UniCredit banking network in Central and Eastern Europe** will continue to be available to them.

Further **digitalisation** and the streamlining of processes and the product range are key components of the Bank Austria Reloaded programme which is currently being implemented. In addition to a **reduction of staffing levels**, which is one of the measures taken under the Bank Austria Reloaded project, a number of cost and revenue initiatives have been launched. The staff reduction, based on the principles of voluntary decisions and a socially acceptable approach, is being carried out through an exit offer programme successfully implemented in 2016 and through normal staff turnover.

The switch from a defined-benefit pension scheme, which covered a number of active employees to a defined-contribution **pension scheme** under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) significantly relieves the cost burden on Bank Austria. The reduction of the provision for post-employment benefits will considerably reduce capital volatility (caused by various factors including changes in the discount rate applied) in the future. As explained in the 2015 Annual Report, the rights to future pension benefits for a large number of those persons for whom Bank Austria previously assumed the obligations of the mandatory social insurance scheme were transferred to the Austrian state social insurance scheme as at 29 February 2016. A liability was recognised for this purpose, and for financial compensation payments to the employees for the resulting disadvantages, already in the 2015 financial statements, in accordance with the legal situation applicable at the time. On 16 March 2016, the National Council of the Republic of Austria passed an amendment to the ASVG which requires the payment of 22.8% of the most recent contribution base, instead of the previously applicable 7%, for the transfer of rights to future pension benefits to the Austrian Pension Insurance Institution (Pensionsversicherungsanstalt – PVA) by other pension insurers. This led to an increase in the relevant liability in 2016. In January 2017, Bank Austria received the relevant official notices. The additional amount was partly offset through use of the available restructuring provision while the remaining amount was a charge included in the item "Integration/restructuring costs" in the income statement.

UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective, and for all those employees who, under a commitment to provide defined benefits, left the company to take retirement not later than 31 December 2016. The discount rate applied to the provision for pensions and other post-retirement benefit obligations in the amount of €3.9 billion included in the statement of financial position for this purpose was 1.6% (previous year: 2.05%).

Management Report (CONTINUED)

Condensed income statement of Bank Austria[1]

(€ million)

	RECAST[2]		CHANGE		RECONCILIATION		BANK AUSTRIA GROUP	
	2016	2015	+/– €	+/– %	2016	2015	2016	2015
Net interest	1,040	1,126	–86	–7.6%	–78	–160	962	967
Dividend income and other income from equity investments	126	171	–45	–26.5%	0	0	126	171
Net fees and commissions	675	709	–34	–4.7%	1	16	676	725
Net trading, hedging and fair value income	87	90	–2	–2.8%	1	–21	89	69
Net other expenses/income	152	68	+84	>100%	–1	3	152	71
Operating income	2,081	2,164	–83	–3.8%	–77	–162	2,004	2,002
Payroll costs	–735	–814	+79	–9.7%	2	4	–733	–810
Other administrative expenses	–698	–727	+29	–4.0%	–1	–1	–698	–728
Recovery of expenses	0	–1	+1	–100.0%	1	1	1	1
Amortisation, depreciation and impairment losses on intangible and tangible assets	–71	–52	–20	+37.8%	0	0	–71	–52
Operating costs	–1,504	–1,593	+89	–5.6%	2	4	–1,502	–1,589
Operating profit	577	571	+6	+1.1%	–75	–158	501	413
Net write-downs of loans and provisions for guarantees and commitments	6	12	–6	–51.1%	0	0	6	12
Net operating profit	**583**	**583**	**–0**	**–0.0%**	**–75**	**–158**	**507**	**425**
Provisions for risks and charges	–201	–69	–133	>100%	0	2	–201	–66
Systemic charges	–182	–171	–11	+6.6%	0	0	–182	–171
Integration/restructuring costs	–409	320	–730	n,a,	0	0	–409	320
Net income/loss from investments	–69	–22	–47	>100%	0	0	–69	–22
Profit or loss before tax	**–279**	**642**	**–921**	**n.m.**	**–75**	**–155**	**–354**	**486**
Income tax for the period	–58	111	–169	n.m.	0	0	–58	111
Total profit or loss after tax from discontinued operations	38	105	–67	–63.9%	1,104	530	1,141	635
Non-controlling interests	–62	–10	–53	>100%	–25	102	–87	93
Net profit or loss[3]	**–362**	**848**	**–1,209**	**n.m.**	**1,003**	**477**	**641**	**1,325**

n.m. = not meaningful. / 1) Bank Austria's income statement as presented in this table is a reclassified format corresponding to the format used for segment reporting. / 2) Recast to reflect the consolidation perimeter and business structure in 2016. / 3) Attributable to the owners of the parent company.

Management Report (CONTINUED)

Details of the 2016 income statement

The following commentary on the development of Bank Austria's operating activities and performance is based on the income statement structure used for segment reporting. Following the demerger of the CEE Division as at 1 October 2016 and its subsequent transfer to UniCredit S.p.A., results generated by the CEE Division for the first nine months of 2016, including demerger-related effects, are presented in the item "Total profit or loss after tax from discontinued operations" (before deduction of non-controlling interests) in accordance with IFRS 5. This means that the other items of the income statement reflect the remaining Austrian business. Bank Austria's net profit for 2016, including the results generated in Central and Eastern Europe for the first nine months of 2016, was €641 million.

The item "Total profit or loss after tax from discontinued operations" also reflects the results from Immobilien Holding companies which are still held by Bank Austria but are classified as held for sale.

Retail Banking and Corporate Banking are now shown as separate business segments. Corporate Banking as used in this commentary is the sum of corporate customer business, leasing and factoring activities.

The following commentary describes the results from Austrian business as presented for segment reporting purposes in the column "Bank Austria Group (recast)", i.e. without the amounts shown in the column "IFRS 5 reclassification/recast differences" resulting from reconciliation with Bank Austria's overall results, which include CEE results for 9 months. The consolidated results for Austria were a net loss of €362 million. This reflects one-off effects which impacted a clearly positive operating performance (net operating profit: €583 million). The negative one-off effects mainly included restructuring costs (primarily related to the increase in the liability for the transfer of the defined-benefit pension obligation for active employees to the state scheme) and other provisions.

● **Operating income** in 2016 was €2,081 million, down by 3.8% on the previous year's figure (€2,164 million). Declines in net interest, dividend income and other income from equity investments (due to a positive one-off effect in the previous year) and in net fees and commissions were partly offset by an increase in net other income and expenses. The latter net figure includes a significant income item. As part of the reintegration of its Europe business spun off several years ago, VISA Inc. initiated a share buyback programme at its partner banks. In Austria, card complete, a consolidated subsidiary, generated income of €95 million in this context (reflected in "Other operating income"). Of the total amount, €47 million was attributable to minority shareholders in the company and was therefore included as a deduction in the item "Non-controlling interests". **Net interest** remained the largest component of operating income, accounting for about 50% of the total figure. Net interest was €1,040 million, down by 7.6% on 2015 due to a persistently difficult operating environment of extremely low interest rates and weak credit growth. Interest margins in 2016 – especially in retail banking – continued to be under pressure on both sides, lending and deposits; in combination with stagnant business volume, this led to a decline in net interest.

● **Net fees and commissions** were €675 million in 2016, down by €34 million or 4.7% on the previous year. About two-fifths of net fees and commissions were generated by asset management business, which showed slight improvements overall, with income from assets under management, in particular, continuing its favourable trend. Close to one-half of net fees and commissions came from payment transactions, a business area which remained a major generator of fees and commissions, with income that was only slightly lower than in the previous year. Fees and commissions generated by loans and guarantees as well as other financing services were down on 2015.

Management Report (CONTINUED)

● **Net trading, hedging and fair value income** reached €87 million, almost matching the previous year's figure (down by €2 million or 2.8 %), with the Corporate & Investment Banking Division again making the largest contribution to the total figure.

● **Net other expenses/income** includes a number of items which are not directly related to banking business. The figure of €152 million for 2016 reflects a strong increase over the previous year's €68 million, which is mainly due to card complete Service Bank AG, a consolidated subsidiary: the company generated income of €95 million from the sale of VISA shares (of which €47 million was attributable to minority shareholders and is included as a deduction in the item "Non-controlling interests").

Ongoing restructuring efforts enabled Bank Austria to further reduce costs significantly in 2016 despite business expansion. **Operating costs** were €1,504 million, down by €89 million or 5.6 % (2015: €1,593 million). **Payroll costs** declined by €79 million or 9.7 %, making a substantial contribution to overall cost reductions. This reflects the transfer of social insurance obligations to the state scheme and the reduction of staffing levels (full-time equivalents – FTEs) initiated under the current strategy. Staff is reduced in a socially responsible manner, partly through specific part-time working models and also through attractive offers which met with a high level of acceptance. At year-end 2016, FTEs were down by 390 compared with the end of 2015; Retail Banking and the Corporate Center accounted for a large portion of the total reduction. Despite a significant charge for legal costs, other administrative expenses were also reduced, by €29 million or 4.0 %, on account of consistent strict cost management, which was a focus of management attention in Bank Austria. The total amount of amortisation and depreciation (+37.8 %) includes special depreciation in connection with office buildings; without this factor, the depreciation charge would have declined. The cost/income ratio was 72.3 %, a further improvement on the previous year (73.6 %); the cost/income ratio continues to be a key indicator of restructuring efforts.

The trend in **net write-downs of loans and provisions for guarantees and commitments** was again very favourable across all business segments. In 2016, the bank benefited from a net release of €6 million, mainly reflecting the release of loan loss provisions for large exposures in the CIB Division and for corporate customers. (The net release of loan loss provisions in 2015 reached €12 million.) This result was achieved despite substantial additions to provisions for loans denominated in Swiss francs and for loans with repayment vehicles, and to the provision for IBNR (incurred but not reported) losses.

The cost of risk, expressed in basis points (bp), is calculated by dividing net write-downs of loans and provisions for guarantees and commitments by average lending volume. In view of the net release of loan loss provisions, the cost of risk for Bank Austria was negative, at –1 bp in 2016 (–2 bp in 2015). A breakdown of the cost of risk in the various business segments shows 29 bp for Retail Banking, –5 bp for Corporate Banking and –28 bp for the CIB Division.

➔ Net operating profit (operating profit less net write-downs of loans and provisions for guarantees and commitments) for 2016 was €583 million, exactly matching the previous year's figure. The decline of €83 million in operating income was more than offset by cost reductions (+€89 million) while the favourable effect from the net release of loan loss provisions was slightly lower (–€6 million) than in the previous year. From a divisional perspective, the Austrian customer business segments made the following contributions to net operating profit: Retail Banking +€118 million, Corporate Banking +€366 million, Private Banking +€54 million and CIB +€259 million.

Management Report (CONTINUED)

● Non-operating items added up to a total charge which more than offset net operating profit. A total amount of –€862 million resulting from non-operating items had to be deducted from net operating profit to arrive at profit before tax; the comparative figure for the previous year was +€59 million. Within the non-operating items, the largest single item was the increase in the liability for the transfer of the defined-benefit pension obligation for active employees to the Austrian state pension system. The addition totalled €506 million, based on the amendment to the Austrian General Social Insurance Act passed by the Austrian parliament and on the official notices received by Bank Austria in this context in January 2017. This additional amount and further restructuring measures under the "Bank Austria Reloaded" project were partly offset through use of the existing restructuring provision. Integration/restructuring costs in 2016 totalled €409 million, an increase of €730 million over the previous year (in 2015, this item made a positive contribution of €320 million).

Provisions for risks and charges totalled €201 million (2015: €69 million) in 2016.

Among the non-operating items, costs were again driven by **systemic charges**, which rose by a combined 6.6% or €11 million to €182 million. The total charge for bank levies and other systemic charges thus reached a level that is equal to one-quarter of total payroll costs in Austria. Of the total amount, the bank levy accounted for €128 million, and contributions to the deposit guarantee scheme and the resolution fund totalled €54 million.

Based on a net operating profit of €583 million, and after provisions for risks and charges and after net income/loss from investments, the income statement shows a **loss before tax** of €279 million for 2016. The year-on-year decrease of €921 million was mainly due to additional integration costs (compared with a positive amount in the previous year) and a larger impact from provisions for risks and charges.

To determine net profit or loss (attributable to the owners of the parent company), **income tax** of €58 million had to be deducted. In the previous year, special effects resulted in a positive amount of €111 million shown in this item.

Total profit or loss after tax from discontinued operations includes the contribution of €38 million (2015: €105 million) from the Immobilien Holding companies, including the results from the sale of properties held by these companies.

Non-controlling interests amounted to –€62 million (2015: –€10 million); the total amount includes the above-mentioned minority interest in the VISA-related gain on a sale by card complete Service Bank (–€47 million).

Overall in the new group structure (without CEE), the 2016 financial year closed with a **net loss (attributable to the owners of the parent company)** of –€362 million after a net profit of €848 million in 2015. The negative result is explained by the non-operating special effects described above (mainly restructuring costs, primarily in connection with the increase in the liability for the transfer of the defined-benefit pension obligation for active employees to the Austrian state pension scheme) and other provisions.

As mentioned above, results for 2016 include those of the CEE Division for the first nine months, which amounted to €1,003 million after deduction of non-controlling interests. The largest contributions to this performance came from the banks in Turkey, Russia and the Czech Republic/Slovakia.

With the inclusion of CEE results for the first nine months of 2016, the Bank Austria Group's net profit (attributable to the owners of the parent company) was €641 million.

Management Report (CONTINUED)

Financial position and capital resources

Bank Austria transferred management control of CEE companies and the related CEE sub-holding company functions to UniCredit Group as at 1 October 2016 ("CEE carve-out"). The statement of financial position as at 31 December 2016 therefore shows the remaining Bank Austria Group without CEE business. A direct analysis of changes in the various items of the statement of financial position is not meaningful in view of the structural changes which occurred during the reporting year and required changes in the presentation of the statement of financial position. Nevertheless, where this is sensible, the commentary refers to the effects resulting from the CEE demerger.

The statement of financial position as at 31 December 2015 included the CEE Division on a consolidated line-by-line basis. In the statement of financial position as at 30 June 2016, the CEE Division was included in the items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale" in accordance with IFRS 5.

As at 31 December 2016, Bank Austria's **total assets** after the CEE demerger were **€ 105.8 billion**. The significant reduction of about 45 % in total assets compared with year-end 2015 is largely explained by the transfer of CEE business to the Group's parent company. A comparison with the figures at the end of the first half of 2016 shows that on the **assets side**, the item "Non-current assets and disposal groups classified as held for sale" still included the CEE Division with about € 96 billion as at 30 June 2016. On the **liabilities side**, the CEE Division was still reflected in mid-2016, with about € 77 billion in the item "Liabilities included in disposal groups classified as held for sale".

A comparison with year-end 2015 figures shows the reduction of volume resulting from the CEE demerger in the various items of the statement of financial position instead of in the items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale". As at 31 December 2016, the item "Loans and receivables with banks" included the funding of about € 2.2 billion of the CEE banks in which Bank Austria previously held equity interests. The increase over the figure as at 30 June 2016 was largely due to the CEE demerger and the related short-term liquidity placements.

Quite generally, the Bank Austria Group's statement of financial position at 31 December 2016 reflects the target structure which was to be achieved through the bank's reorientation: an **Austrian universal bank** focused on classic commercial banking business with customers.

Loans and receivables with customers were by far the largest asset item, totalling € 60.9 billion and accounting for 57.6 % of

Major items in the statement of financial position

(€ million)

	31 DEC. 2016	30 JUNE 2016 3)	31 DEC. 2015	YEAR-END 2016 VERSUS YEAR-END 2015	
				+/–	+/– %
ASSETS					
Financial market investments 1)	16,040	16,188	25,383	–9,343	–36.8 %
Financial assets held for trading and hedging derivatives	3,774	4,368	6,303	–2,528	–40.1 %
Loans and receivables with banks	20,762	12,822	32,214	–11,452	–35.6 %
Loans and receivables with customers	60,926	59,458	116,377	–55,450	–47.6 %
Investments in associates and joint ventures	1,777	1,792	4,741	–2,964	–62.5 %
Intangible assets	11	12	221	–209	–94.9 %
Non-current assets and disposal groups classified as held for sale	900	96,828	2,467	–1,566	–63.5 %
Other asset items	1,594	2,339	5,933	–4,339	–73.1 %
Total assets	**105,785**	**193,807**	**193,638**	**–87,852**	**–45.4 %**
LIABILITIES AND EQUITY					
Financial liabilities held for trading and hedging derivatives	3,260	3,941	5,424	–2,164	–39.9 %
Deposits from banks	13,939	15,340	23,432	–9,493	–40.5 %
Deposits from customers	56,239	56,081	110,346	–54,107	–49.0 %
Debt securities in issue	17,394	18,265	28,802	–11,407	–39.6 %
… Direct funding 2)	*74,032*	*74,775*	*139,695*	*–65,663*	*–47.0 %*
Liabilities included in disposal groups classified as held for sale	123	76,948	1,977	–1,854	–93.8 %
Provisions for risks and charges	4,212	4,678	4,830	–617	–12.8 %
Equity	7,892	16,110	15,394	–7,502	–48.7 %
Other liability items	2,726	2,442	3,433	–708	–20.6 %
Total liabilities and equity	**105,785**	**193,807**	**193,638**	**–87,852**	**–45.4 %**

1) Financial assets at fair value through profit or loss + available-for-sale financial assets + held-to-maturity investments. / 2) Deposits from customers + debt securities in issue + financial liabilities at fair value. / 3) Unaudited figures.

Management Report (CONTINUED)

total assets. The Corporate Banking and Corporate & Investment Banking business segments accounted for two-thirds of total lending volume, underlining Bank Austria's leading position as a major lender to the Austrian business sector. Bank Austria also plays an important role in lending to private individuals in Austria.

Deposits from customers totalled € 56.2 billion, with the Retail Banking and Private Banking business segments accounting for over 50 % of total deposits. This gives Bank Austria a strong funding base. Direct funding, i. e. funds entrusted to Bank Austria by non-banks, was an excellent € 74.0 billion as at 31 December 2016. This means that loans to non-banks are covered by deposits from non-banks and debt securities in issue to the extent of about 122 %.

Provisions for risks and charges totalled € 4.2 billion as at 31 December 2016. Within the total, provisions for pensions and other post-retirement benefit obligations amounted to € 3.9 billion. Trends in market interest rates reflected the policy of low interest rates and made it necessary in 2016 to further adjust the discount rate from 2.05 % to 1.6 %, requiring an adjustment of + € 206 million.

Equity amounted to € 7.9 billion as at 31 December 2016. This includes the capital contribution of € 1 billion which Bank Austria received from the Group's parent company and the net profit of € 0.6 billion.

Permanent establishments

There are no permanent establishments.

Capital resources and risk-weighted assets

Regulatory capital, capital requirements and regulatory capital ratios are calculated in accordance with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) to implement Basel 3 in the European Union. Under the Austrian CRR Supplementary Regulation and ECB Regulation 2016/445 on the exercise of options and discretions available in EU law, these provisions are not yet fully applicable but will be gradually introduced over several years. For example, new deductions from Common Equity Tier 1 capital or capital components which are no longer eligible for inclusion under Basel 3 are not yet allowed to be fully taken into account pursuant to CRR/CRD IV in the third year of the transition period.

The Bank Austria Group calculates its consolidated regulatory capital and consolidated regulatory capital requirements on an IFRS basis.

Changes in regulatory capital and capital requirements were strongly influenced by the demerger of CEE business.

● Movements in **capital resources** reflect a decline of € 11.7 billion in **total regulatory capital** versus year-end 2015 to **€ 7.4 billion**; in this context, the demerger of CEE business involved a transfer of **Common Equity Tier 1 capital** (CET1) of € 9.0 billion and a transfer of Tier 2 capital of € 3.7 billion. Various factors increased CET1 capital: the elimination of negative foreign currency effects from foreign subsidiaries; the fact that positive valuation reserves were eligible for inclusion to a larger extent under the transitional arrangements for regulatory requirements (+ € 1.7 billion); and the inclusion of net profit of € 0.6 billion for 2016. As the CET1 threshold was exceeded, on the other hand, deductions for significant investments in financial sector entities and deferred taxes reduced CET1 capital by about € 1 billion.

In addition to the above-mentioned reduction resulting from the CEE demerger, **Tier 2 capital** declined further, by a total of € 0.1 billion, as a lower excess of provisions over expected losses was eligible for inclusion – equally due to the transfer of CEE units – and on account of amortisation.

● The **total risk exposure amount** (RWAs) was **€ 35.4 billion**, down by € 92.8 billion compared with year-end 2015; in this context, the demerger of CEE business accounted for a reduction of € 89.2 billion. The remaining decline of € 3.6 billion was caused by business developments and methodological adjustments.

The effect of the CEE demerger on the risk exposure amount for **market risk**, which is now focused on UniCredit Bank Austria AG, was – € 3.3 billion out of a total – € 3.8 billion reduction in this area in the financial year; of the total reduction of – € 6.9 billion in the risk exposure amount for **operational risk**, the CEE demerger accounted for – € 6.2 billion.

▶ **Credit RWAs** declined from € 113.2 billion to **€ 31.4 billion**. The transfer of CEE units explains the decline to the extent of – € 79.3 billion. Methodological adjustments, the lower funding for CEE UniCredit companies and several leasing companies, accentuated by exchange rate effects, and the shift to capital reduction of amounts relating to significant investments which are subject to capital requirements had a combined effect of – € 2.5 billion.

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▶ Market risk and operational risk:

Apart from the demerger of trading operations of CEE units, the CEE bond portfolio was reduced in the first nine months of 2016 and hedging transactions were concluded which reduced the Value-at-Risk level; the risk exposure amount for market risk thus declined by €0.5 billion.

The risk exposure amount for **operational risk** was **€3.9 billion**, down from €10.7 billion in the previous year. In addition to the deconsolidation effect from the transfer of CEE units, the decline in 2016 was primarily due to a change in the weighting of the Bank Austria sub-group in the allocation mechanism of UniCredit Group. This effect more than offset the increase in operational risk which resulted from provisions for legal risks in 2016.

● The decline in the total risk exposure amount compared with the development of capital resources led to an improvement in the **Common Equity Tier 1 capital ratio** from 11.0% to 18.0%.

The **total capital ratio** increased from 14.9% to **20.8%**.

Capital ratios based on all risks

	31 DEC. 2016	31 DEC. 2015*)
Common Equity Tier 1 capital ratio	18.0%	11.0%
Tier 1 capital ratio	18.0%	11.0%
Total capital ratio	20.8%	14.9%

*) 31 December 2015 as published.

● As at 31 December 2016, the **leverage ratio** pursuant to the Delegated Regulation (EU) 2015/62, based on the current status of transitional arrangements, was 5.6% (31 December 2015: 5.8%).

● Bank Austria complied with the regulatory requirements for capital resources and the leverage ratio, in respect of actual ratios and also on the basis of a demerger scenario, at all times during the 2016 financial year.

Management Report (CONTINUED)

Non-financial performance indicators

Report on research and development

Bank Austria's business purpose is to provide banking services. The production process of a bank does not involve research and development in an industrial sense. But a bank's day-to-day business operations continuously benefit from **development activities**. Generally, Bank Austria aims to meet the needs of different customer groups with simple products. In addition, there is an ongoing need for new developments and adjustments to meet regulatory requirements.

In the area of **information and communication technology** (ICT), investment at UniCredit level focuses on further developing digitalisation while maintaining stringent cost management. The main objective is to enhance the customer experience and expand it to include digital channels. In 2016, some €75 million was invested in IT; a large proportion of this amount went into digitalisation and the further development of online channels (MobileBanking, online sales, self-service facilities), in addition to regulatory requirements.

ICT expenses (investment budgets) are capitalised at UBIS and charged to Bank Austria. UBIS provides the entire Group with IT services, enabling UniCredit to benefit from Group-wide developments and joint platforms as well as unlocking significant synergies in the IT sector.

Corporate Sustainability

In our view, sustainability is closely linked to responsible ways of interacting with the public at large and using economic and ecological resources. The balance between these aspects guides our day-to-day activities.

Social interaction

Social commitment is an essential component of our sustainability strategy. "Acting together for a respectful society" is an initiative which we have launched to make a broader public familiar with our social initiatives, and to stimulate discussion on such important topics as tolerance, respect and social interaction. In our social sponsoring activities we primarily support initiatives which help children and young people in need, and which also focus on integration/migration. In cooperation with UniCredit Foundation, we present the **Bank Austria Social Prize** in each of Austria's federal provinces. Annual prize money totals €85,000. For the first time in 2016, the most innovative idea from among all winning projects was awarded a special prize. Since the Bank Austria Social Prize was created seven years ago, some 80 projects have been supported with over €500,000.

Long-term **partnerships** which we have developed over many years with well-known social care organisations are a particularly important aspect of Bank Austria's activities in the social sector, with the active involvement of employees and customers. Focusing on continuity, this strategy has been pursued in our cooperation with SOS Children's Villages, where we act as house sponsor in Children's Villages throughout Austria. Caritas is another partner with which we have maintained close and professional cooperation in Vienna and throughout Austria for over 25 years. This covers proven projects such as young Caritas Käfig League, the Bank Austria Volunteers Day, and cooperation in disaster relief activities. The Caritas Family Fund of Bank Austria has so far helped more than 600 families who experienced hardship through no fault of their own.

Bank Austria's "**Gift Matching Programme**" is an annual initiative, probably unique in Austria, which promotes the social commitment of the bank's employees. The idea behind the programme is simple: private donations made by employees are increased by funds held by UniCredit Foundation. Employees come up with a wide range of creative schemes which ensure stimulating internal communication on social issues. The Gift Matching Programme 2016 raised about €175,000 for 57 projects, an amount which will be increased by UniCredit Foundation.

Supporting art and cultural activities is another area which Bank Austria sees as being part of its social commitment. The bank has been among the major sponsors of art and culture in Austria for many years, with a focus on supporting young talents. Apart from long-standing cooperation arrangements with renowned partners such as the Bank Austria Kunstforum, Albertina and Wiener Musikverein, we use the Bank Austria Art Award for new forms of sponsorship. The Award – with a total prize pool of €218,000 – is given in several categories and reaches a broader and younger target group by providing innovative support to crowdfunding campaigns.

In the field of **sports** we focus on classic sponsoring activities and on people with special needs. We are pleased and proud to be a partner of the Paralympics and of the Special Olympics World Winter Games 2017 in Schladming.

Our economic responsibility includes our "**Financial Education**" initiative, which is targeted at young people, students and teachers and provides them with information on various aspects of money via the website www.finanz-bildung.at. With a renowned partner, the Austrian Museum for Social and Economic Affairs, we offer free workshops to interested secondary schools throughout Austria. The topics discussed range from the functions of money and banks to banking products and distributive justice. The objective is to give young people an overview of the various types of financial transactions, to draw their attention to opportunities and risks, and to inform them of their rights and duties as consumers of financial products. Some 10,000 schoolchildren attend the workshops every year.

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Customers

Customer centricity and change

Digitalisation and electronic mobilisation are changing society in dramatic ways. Some of the key words in this context are "digitalisation – 24 hours/7 days – mobile – social networking – personalised & configurable". These changes have a significant influence on the focus of our business model and service approach. Our measures to support customer centricity, which has top priority in Bank Austria's business model, take account of the changes. The customer experience is taking centre stage. Our ambition is clearly reflected in our **promise to customers** – "Wir möchten die Besten für Sie sein!" (We want to be the best for you) – and in the slogan "Life is full of ups and downs – we're there for both". This is guiding the further development of our **multi-channel bank**.

Bank Austria customers' satisfaction with services, reliability and quality of advice is measured with the **TRI*M** index. This is an important indicator of quality, which we have used in scorecards over many years. From the first to the fourth quarter of 2016, Bank Austria's aggregated TRI*M improved by 1 point, reaching an overall level of 68 and an all-time high in specific customer groups, including a TRI*M of 84 in Private Banking. In the fourth quarter of 2015, rumours circulated in daily newspapers that the Austrian retail banking operations would be sold pushed this key indicator down to a low starting level for 2016. We continued to use **telephone interviews** (about 10,000 calls per year) and online questionnaires (about 3,000 responses per year) in 2016 to measure customer satisfaction while also conducting mystery shopping at branches. Moreover, our customers made intensive use of the possibility to provide feedback on their satisfaction via digital and mobile channels. Tools such as **myFeedback**, which can be used to give feedback quickly and easily via a smartphone, or **Feedback Kundenerlebnis** (automated @mail feedback upon completion of banking transactions) are being further developed and offered at various points of contact in our multichannel bank.

CoCreation in the digital and real worlds. With our Bank Austria **Mitarbeiterforum and Kundenforum** (www.kundenforum.at) developed in 2013, we are using an open social media platform for surveys, forum discussions, quick polls and votings to involve our customers in corporate processes. In 2016, about 20,000 responses via questionnaires and over 700 forum contributions on over 50 topics (including "The Branch of the Future", mobile banking apps, Cashback Online and cashless payments) from about 3,000 customers and employees were processed, evaluated and discussed in the digital sphere. In the real world we have included customer integration in product and process development (using CoCreation workshops and in-depth interviews).

The **BeschwerdeExzellenz** project launched in 2013 enables us to improve all internal and external complaint management processes on an ongoing basis with a view to optimising the handling of complaints for our customers at all points of contact (branch, @mail, CallCenter etc.). We aim to offer top standards with regard to response time (within 48 hours) and solution competence. Moreover, we have bundled specific competencies in the **ombudsperson's office for persons experiencing social hardship**, where customers in financial difficulty receive assistance in reducing their debt, or are granted additional time for payment, etc. without excessive bureaucracy. In 2016 we again maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associations and special interest groups in order to deal with specific issues such as potential or actual complaints concerning foreign currency loans and to find solutions together with our customers.

Employees

Working at the new Campus

Historic representational buildings no longer meet the requirements of the new working world as such buildings lack flexibility and are associated with high costs. Moreover, our head office units are spread across several locations. We are therefore investing in new headquarters for Bank Austria and about 20 other UniCredit Group companies in Austria. In January 2015 we started to build the "Austria Campus" at Vienna's former Northern Railway Station, one of the city's key development areas. In addition to office space covering a gross area of about 200,000 square metres, the buildings which are under construction there will also accommodate infrastructure facilities and shops. SIGNA, an Austrian company specialising in real estate, acts as developer in respect of the relevant construction work, which is scheduled for completion in 2019. Two of the new buildings (construction sites 5 and 8) will be used by Bank Austria under a

Management Report (CONTINUED)

long-term rent agreement. The bank's future headquarters account for about 45 per cent of the Austria Campus and are scheduled to be used by about 5,000 employees starting from 2018.

The new headquarters will unlock significant synergies – through shorter distances, better use of space, and lower operating and maintenance costs. Besides strengthening the team spirit among employees, the new design of our headquarters will result in attractive working methods for head office banking functions.

The main features of the new working world will be an office architecture which can be used flexibly, modern technology and processes with low paper consumption. A test office opened in autumn 2015 – called "Campino" and set up in one of the bank's existing office buildings, with equipment reflecting the latest planning stage of the Austria Campus – provides all employees with an insight into the new working methods. More than 120 employees use about 1,250 square metres of office space and test the new workplace concept, including desk sharing and the clean desk principle. Users of Campino are also offered greater work flexibility in terms of time and location. There are plans to offer these flexible arrangements, which are referred to as "Remote Work", to all head office units and their employees after the test period.

Diversity

Bank Austria sees diversity as one of its key values. Diversity management promotes productivity, creativity and innovation. UniCredit Group employs people who differ from one another in their gender, the colour of their skin, in their language, ethnic, cultural and religious values, in their marital status, age, state of health, social status and sexual orientation. The bank benefits from the manifold qualities, talents and personality facets of employees as all people in the company are recognised and respected in all their diversity. With the "Job and Family" audit performed at Bank Austria at the end of 2009 and followed by a re-audit in 2015, we use assessments by external auditors to make further improvements. Important topics in this context are efforts to increase working time flexibility with a view to making family and job more compatible; creating equal career opportunities for part-time employees; promoting "Remote Work"; and enhancing managers' awareness of the need for a work-life balance.

Numerous initiatives are being implemented at Bank Austria to ensure equal opportunities for men and women. Controlling is key to the success of these efforts. Qualitative objectives and quantitative targets are defined with regard to (almost) any measure and the results are measured, e.g. the proportion of women in managerial and successor positions and in executive development programmes.

Disability

Mutual respect and openness as well as recognition and appreciation of differences are an integral part of Bank Austria's corporate culture. Therefore, disability is an important topic for the company. Two disability managers are responsible for planning and implementing numerous measures. They are supported by a network of about 60 disability employees. In pilot projects the bank is testing various possibilities for helping disabled persons to settle their banking business. Measures that have already been implemented include a special bank card for visually impaired persons, sections of Bank Austria's website which enable customers to listen to spoken information and read texts in simple language, and a shuttle service introduced in 2010 for customers with limited mobility, which is steadily being expanded to cover the whole of Austria. Since autumn 2015 our SmartBanking services have been available in sign language to deaf people. They can now use Bank Austria's advisory services via video calls, benefiting from simultaneous translation into sign language by interpreters employed by ServiceCenter ÖGS. barrierefrei. There are special training programmes for employees to create an awareness of, and sensitivity to, the special needs of customers with disabilities.

Environmental management

An environmental management system (EMS) has been in place at Bank Austria since 2009. In May 2011, Bank Austria's EMS was certified in accordance with ISO 14001, a standard that is widely recognised internationally. The EMS covers the head office buildings and all branches. By complying with this important standard, a company can prove that it operates in harmony with the environment. Environmental management benefits the community while also involving advantages for the company in the form of cost savings resulting from more efficient use of resources. The company therefore makes an important contribution to worldwide measures aimed at reducing CO_2.

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The work with "focus groups", defined as good practice by external auditors, has continued to be very successful in the four strategic areas of environmental issues. The groups, which are composed of members of various specialised units, have drawn up concrete measures to reduce direct environmental impacts (consumption of natural resources, generation of waste) and indirect impacts ("indirect" environmental damage caused by the behaviour of external persons).

In regard to operational climate protection considerations, Bank Austria, as one of the six founding members, has since November 2011 been a partner of klima:aktiv pakt2020, which was created by the Austrian Ministry of Life. The participating companies undertake to meet the Austrian climate-related targets for 2020. Bank Austria has additionally committed itself, through a voluntary agreement on objectives, to reducing CO_2 emissions by 45% and achieving a 51% share of renewable energies. Bank Austria further reduced business travel through the use of video conferencing facilities and the trend towards digitalisation in the working world. A positive secondary effect of the gradual expansion of "remote work" is that it reduces environmental pollution, especially the pollution caused by commuters who use cars. Last but not least, Bank Austria is taking measures to enhance awareness among its employees: one example from the year under review is a training instrument for all employees in the form of an interactive film on energy efficiency.

In the past few years, our measures to improve **energy efficiency** focused on consumption of electricity (which accounts for a high proportion of overall energy consumption); these include the areas of refrigeration and IT. All electricity supplied to Bank Austria comes from renewable sources of energy, which is guaranteed by a certificate issued by the bank's energy supplier confirming that 100% of the electricity supplied is hydroelectric power. As a contribution to increasing the proportion of renewable energy, the bank has installed **photovoltaic systems** at branches in Innsbruck and Hirschstetten/Vienna and a **solar power installation** in Vienna's second district, on the roof of the Lassallestrasse 5 office building.

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Human Resources

Human Resources Austria

In 2016, the activities of Human Resources Austria focused on the Bank Austria Reloaded transformation project, which was launched to implement the multi-year plan 2016–2019. The project involves a number of initiatives aimed at revenue growth and cost reduction. Overall, these initiatives are to lead to a significant improvement in operating profit. The measures to improve the cost/income ratio include payroll cost savings, defined with a view to reducing costs per employee and the number of employees.

The first step, taken as at 1 March 2016, was to transfer all active "Bank Austria ASVG" employees who did not retire in 2016 to the state scheme of full social insurance under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) through the termination, by mutual agreement, of the internal service regulation concerning pensions.

Furthermore, together with the Employees' Council, agreement was reached on a social plan to create transparent and socially responsible instruments for payroll cost reductions. Based on years of service, age, type of employment contract and annual income, employees were provided with specific terms and conditions of exit, which they could use to make a binding offer, by 30 September 2016, to leave the company in the period from 31 October 2016 to 31 December 2017. The bank undertook to give all employees binding information by the end of October 2016 as to whether, and as at which date, it would accept their offer to leave. The adjustment of the strategic plan required further staff-related measures.

In addition, the bank offered all employees various support measures including external advisory services and coaching for job reorientation. Talks are currently being held with all other banks in Austria with a view to setting up a labour foundation, which will be of relevance for Bank Austria, too. The bank also acted to comply with Austrian labour market rules, including the early warning system, on a timely basis.

These measures ensure that the planned targets for payroll cost reductions will be met.

Internal recruiting: "MoveOn" is Bank Austria's internal job market and a key component of the HR strategy. It offers a platform for all vacant positions within the bank. The objective of this innovative, cloud-based recruiting solution is to make employees aware of new opportunities through the automated analysis of their personality and subsequent job matching. Finding the right job no longer depends on employees' curriculum vitae and training alone but also on the specific features of their personality. "MoveOn" brings the internal job market to life, with employees being able to view new job opportunities with ease. These activities are aimed at supporting a more effective use of employee potential and raising employee satisfaction.

Assessment of staff performance: UniCredit Performance Management is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. All employees can view their evaluation and the feedback documentation in their personal electronic archives. Performance Management thus makes an essential contribution to a feedback culture. The goals of each employee are discussed between the employee and the manager and then captured in the Performance Management tool. The employee's performance is evaluated after a maximum period of 12 months and feedback on development is provided. The information obtained from feedback and evaluation serves as a basis for personal development measures and further steps in Bank Austria.

Staff development: Digital learning media are becoming more and more important. While advancing digitalisation opens up new channels for our customers to do banking business with us, it also offers our employees new ways of cooperating and learning. The UniCredit Academy Austria therefore added digital self-study media and methods to the comprehensive portfolio of learning media introduced in 2015, with emphasis on needs-oriented real-time learning. The UniCredit Academy Austria gives special attention to supporting the business areas in transforming Bank Austria into the "Bank of the Future". For example, the UniCredit Academy Austria provides effective support for the introduction of the new service model in retail banking by making available an 8-week change and intensive learning programme which includes workshops and seminars as well as intensive self-determined and team-determined learning phases. Another focal area of the UniCredit Academy Austria's activities is to encourage learning from and with one another, and learning on the job. The UniCredit Academy Austria is thereby following the 70/20/10 principle of what is called "new learning" (70 per cent learning on the job, 20 per cent learning by sharing, and 10 per cent formal learning). Employees can learn on a self-determined basis and are not tied to specific time schedules, thereby enhancing the return on learning for everyone – in line with the motto: higher earnings through effective learning. www.unicreditacademy.at

Succession planning: Our Executive Development Plan (EDP) and Talent Management programme support our managers in developing the relevant qualities and skills for the "Bank Austria of the Future". We focus on the development and training of managers from within the bank, giving special attention to raising the percentage of female managers on a sustainable basis. We thereby ensure forward-looking and effective personnel planning for managers and talents who can get along well in a changing digitalised society and who can make sustainable contributions to shaping the "Bank Austria of the Future".

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Compensation & Benefits: Our human resources activities, especially those in the area of Compensation & Benefits, are based on and guided by the Global Job Model, the Group-wide job evaluation system used for describing and categorising all roles and activities within UniCredit, and by the UniCredit Competency Model, which defines essential skills and employee conduct in our company. Our Group-wide Total Compensation system provides for a balanced mix of fixed and variable monetary and non-monetary components. Remuneration of top management is determined within UniCredit by way of a Group Compensation System, which has been in place for several years and has also been implemented at Bank Austria. Parts of the variable components of compensation are withheld in line with regulatory requirements, and deferred payments are made subject to sustainability, partly in the form of UniCredit shares. The bonus pool method used across the Group ensures that variable components of remuneration are subject to the achievement of sustainable, long-term financial and non-financial performance criteria. The introduction of this method further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

Diversity and equal opportunity: Diversity is a key value of Bank Austria. **Diversity management** activities are aimed at enhancing productivity, creativity and innovation (see the Diversity section in the chapter on Corporate Sustainability).

Gender balance: In 2012, UniCredit launched the Group-wide Gender Balance Programme with a view to creating fair workplaces, based on equal rights, for men and women and ensuring that these values are firmly anchored in the corporate culture. The degree to which this objective is reached, especially at managerial levels, is measured by means of a dashboard on a half-yearly basis. The proportion of women at senior management level in Bank Austria has increased slightly since 2012. Female members of the Supervisory Board currently account for 24% of the total number. This progress reflects the strong commitment of 23 diversity managers who are currently active under global management, supported in Bank Austria by ambassadors at the divisional level. To support career planning by women, advertisements of vacant managerial positions are presented to female candidates in particular, with female talents being assisted in taking further steps in their careers. Specific communication activities focus on women who have already been promoted to managerial positions and act as models for other talents. Cooperation across countries and divisions is being intensified through regular meetings and the involvement of subsidiaries in the Gender Balance Programme. “Diversity Manager Couples” are formed for the purpose of regularly sharing experience with UniCredit Bank (HVB) in Germany in order to learn from one another. Targeted training programmes such as the Inclusion@work Workshop underline the importance of equal opportunities.

IT platform for efficient human resources management: In 2016, as in previous years, we worked intensively to simplify our HR services. With the smooth migration of the payroll to the new HRIT platform at the beginning of the 2016 financial year, employees and managers have been able, since the beginning of the second quarter, to initiate many HR processes themselves, e.g. changes of personal details or applications for job certificates. We have thereby taken clear steps setting the course for the future. And we will continue to give close attention to implementing efficient HR processes and simplifying services.

HR Central and Eastern Europe

The CEE Human Resources unit was transferred from Bank Austria to UniCredit S.p.A. in October 2016 as part of the demerger of the CEE Division.

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Outlook

Economic scenario

General conditions for the global economy at the beginning of 2017 were better than in any of the past several years. Brief periods of uncertainty over surprising political decisions, including the British vote to leave the European Union and Donald Trump's election as 45th President of the United States have given way to stable optimism. Stock markets have so far seen a bullish trend, though marked by strong volatility. The world stock index (MSCI World) rose by 3.5 % between the US election and Donald Trump's inauguration on 20 January 2017. The Dow Jones Index and the Euro Stoxx 50 even climbed by 8 %. More and more positive economic data followed the upward trend in market data and improved business sentiment in the past weeks. Economic growth in the industrial countries has been gathering momentum, led by the US economy and accompanied by stronger recovery in Europe. Growth in emerging markets has also picked up, with only a few exceptions.

● The world economy got off to a strong start in 2017. UniCredit's Global Leading Indicator, which combines economic data for many countries and various industries, has reached a 3-year high. Can the global economy benefit from the more favourable starting position to achieve more dynamic growth in 2017 than in the previous year? We believe it can and our forecast for 2017 reflects our view that the improved economic data will prevail over existing risks. We believe that four factors in particular may create problems: first, the possibility of a protectionist US economic policy under the new President Donald Trump; second, negotiations on the United Kingdom's exit from the European Union; third, political uncertainty over elections in a number of European countries, including France and Germany, which is caused by the rise of populist movements; and fourth, the question of whether the economic upswing in emerging markets will be sustainable. In this overall environment we expect global economic growth of 3.5 % in 2017, up from 3 % in the previous year, although there are initial signs of a turnaround in view of a moderate expansion of global trade and rather modest growth in the industrial countries.

● Stronger economic growth in 2017 will be driven by emerging markets to a significant extent. China's economy has shown a good performance and will remain robust, with growth of over 6 %, thanks to continued measures to stimulate business activity; this should benefit commodity exporters and other Asian countries. When OPEC agreed on production cuts, oil prices started to turn around and they should gradually increase to 60 US dollars per barrel by year-end 2017. Rising commodity prices and the upswing in global trade will strengthen growth in emerging markets, all the more so as some big countries like Argentina, Brazil and Russia are emerging from recession and can contribute to a stronger economic performance. The outlook for emerging markets for 2017 could be affected by the pace of US interest rate increases and potential impacts from policies pursued by the new US government. Since Donald Trump won the presidential election, yields on US government bonds have risen steeply, ahead of expected interest rate increases by the Fed. This has triggered massive outflows of funds from emerging markets, significantly weakening exchange rates and pushing up financing costs. While the adjustment of US yields appears to be largely complete, the upward movement may be expected to continue. This means that portfolio shifts are likely to continue, which could primarily impact countries with economic imbalances and extensive financing requirements, such as Turkey, Brazil and South Africa. The new US government's stance on free trade and on US companies' practice of outsourcing abroad poses a potential risk to several emerging markets. Despite the election campaign rhetoric, we still proceed from the assumption that the US government will refrain from any major protectionist moves. If any such steps were taken, Mexico would perhaps be facing the greatest risk, besides Asia and of course China.

● In several industrial countries, especially in the **US**, economic growth may be expected to accelerate in 2017. The US economy will grow at a rate of 2.4 % in 2017, up from 1.6 % in the previous year as investment restraint in the energy sector, caused by low oil prices, will decrease. US economic growth in 2017 will additionally be driven by fiscal measures. The scope of taxation and investment plans of the new US President Donald Trump is not yet known; however, these plans are expected to have positive effects on a US economy which already operates at a high level of capacity utilisation. Higher pressure on wages could pose a risk to corporate profits and US companies' competitiveness while also driving inflation. We believe that the inflation rate will almost double, to an average 2.5 % in 2017. This will help the US Fed in taking steps for its monetary policy to gradually return to normal. After a single increase in key interest rates in both 2015 and 2016, we expect that 2017 will see two decisions to raise interest rates in the US.

● While growth in the **euro area** in 2017 will be significantly weaker than in the US, recovery is continuing at the moderate pace which has become a familiar feature of recent years. We expect the growth rate to reach 1.5 %, a level which is more or less unchanged compared with 2016 and dampened by the effects of higher oil prices and diminishing support from the still

Management Report (CONTINUED)

weaker euro. The European economy will continue to benefit from slightly positive impetus provided by fiscal measures and from the European Central Bank's highly accommodative monetary policy.

Domestic demand will again be driving growth in 2017, though losing some of its momentum. Growth of private consumption will slow as inflation increases, mainly due to oil price developments, while the savings ratio will remain more or less unchanged. The upward trend of investment activity will continue, benefiting from companies' improved profitability, significant net savings in the corporate sector and a relaxed financial setting. While stronger support should come from foreign demand in 2017, it will probably remain weak as the favourable effect from growing world trade could largely be offset by expected currency appreciation. In fundamental terms, we see a number of strong arguments in favour of an impending downward correction of the US dollar against the euro.

In response to an increase in inflation to 1.5% in the euro area, the ECB will take further steps at the end of 2017 to gradually reduce its asset purchase programme. We believe that the monthly amount of purchases may be reduced to €40 billion by or around the middle of 2018. The ECB would thus be on track to end the programme of quantitative easing by year-end 2018 or the beginning of 2019. If QE is gradually reversed and the ECB's Governing Council remains committed to keeping interest rates "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases", the key interest rates may hardly be expected to be raised before 2019.

● Favourable general conditions helped the **Austrian economy** get off to a good start in 2017. The level of foreign demand is promising, and consumer confidence has increased. Business prospects for the construction industry have stabilised at a promising level and the Bank Austria Purchasing Managers' Index started 2017 at a five-year high.

Domestic demand will continue to drive economic growth in Austria in 2017, though the supportive effect of the 2016 tax reform will weaken as the year progresses. A further rise in unemployment and higher inflation will affect domestic demand. The unemployment rate, based on the Eurostat definition, is likely to rise to 6.1% due to labour supply trends. Inflation will rise to an average 1.8% in 2017, mainly reflecting movements in commodity prices and continued strong increases in prices for various services and in rents. The investment momentum carried over from the previous year will not be sustained as pent-up demand will diminish in an environment marked by various factors creating political uncertainty. However, global trade prospects have improved and this should benefit the Austrian economy. While economic growth in 2016 was predominantly supported by domestic demand, foreign trade will again make a significant contribution to GDP growth in Austria in the current year. For 2017, we expect the Austrian economy to grow by 1.6%, a slightly higher rate than in the previous year. Somewhat stronger global demand will benefit Austrian exporters to a larger extent than in the previous year, thereby offsetting a slowdown in the growth of consumption and investment.

In the course of 2017, slightly better economic prospects should translate into stronger growth of corporate loans, which has so far been weak. However, companies still enjoy a very good liquidity position and also have access to alternative financing methods in capital markets. SMEs will probably show stronger demand for finance and demand for consumer finance is also likely to increase in line with higher expectations on the part of consumers. Housing finance is expected to remain buoyant as interest rates remain low, demand for housing is strong and real estate prices will continue to rise at least slightly.

Private households' investment behaviour continues to be determined by low interest rates. In 2017, investments are again expected to focus on short-term deposits, which will account for a large proportion of new investment as deposits for longer periods and bonds do not offer attractive yields. We expect to see additional demand for investment funds while classic life assurance will hardly achieve any net growth.

Medium-term and long-term objectives

The 2016 financial year was dominated by the reorientation of Bank Austria to transform it into the most attractive bank for customers of the 21st century, in line with the Group strategy "Transform 2019" presented by UniCredit. For Bank Austria, this means:

● adjusting the business model with a view to keeping costs low on a sustainable basis and providing focused customer services, with digitalisation and related IT investment being increasingly important factors in this context;

Management Report (CONTINUED)

- reducing the cost base through a significantly leaner Corporate Center;

- making more intensive use of potential resulting from the broad customer base and the Group's market leadership position in many business areas and a number of regional markets by unlocking Group synergies and taking advantage of cross-selling opportunities.

After the transfer of business operations in Central and Eastern Europe to UniCredit in the fourth quarter of 2016, Bank Austria now focuses on the Austrian market and is working intensively to implement strategic measures in this connection. With the reorientation, Bank Austria is now concentrating on Austrian customer business while continuing to benefit from all capabilities of a major European bank and the advantages of an international outlook. The "Bank Austria Reloaded" project defined the main pillars of the bank's reorientation, on the basis of intensive and detailed analyses of all segments and business areas, and in line with the changing market environment.

The various analyses and results under this project were taken into account in drawing up a transformation programme which encompasses major business-policy decisions and forms part of UniCredit Group's multi-year plan for the period to 2019. These measures aim at making Bank Austria a bank that meets the latest standards and is even more attractive for our customers while improving the cost/income ratio.

We are adjusting our services and our organisational structure and internal processes with a sharp focus on changes in our customers' needs. In addition to customer service-related initiatives, a number of revenue and cost initiatives have been launched for this purpose.

On the revenue side, Bank Austria will further expand its leading market position in three business areas: Corporate Banking, Corporate & Investment Banking, and Affluent customers and Private Banking. In addition to selective efforts to win new corporate customers, also in the segment of medium-sized companies, Bank Austria will concentrate on leveraging more effectively on existing customer business potential available to the bank as Austrian market leader. In Private Banking and in the Affluent customer segment, where we hold market leadership positions, we see additional growth opportunities. Schoellerbank will further pursue its upmarket strategy. Within Bank Austria we have identified strong potential for new business with existing customers of other divisions. We will generate income by optimising the structure of portfolios, i.e. by assisting customers in channelling bank deposits and safe-custody securities holdings into asset management products with high added value – a shift which is in the mutual interest of customers and the bank. Retail banking activities focus on giving branches and the digital marketplace – comprising the Online-Shop and the online branch – equal weight as channels for product sales and advisory services.

On the cost side, we have created a significantly flatter hierarchy in Bank Austria's organisational structure – especially in back-office operations – and we have integrated units to make processes more efficient. This will be achieved by concentrating on essential services and reducing complexity. A distinct feature of the new organisation is the significant reduction of the first management level below the Management Board and of Corporate Center units, i.e. Bank Austria's back-office operations, as compared with customer-facing units. The reorientation enables the bank to provide many services in a much more effective and efficient manner than in the past. Moreover, digitalisation makes it possible to perform the required tasks with fewer employees in the future.

Further information

The following detailed information is included in the notes to the consolidated financial statements:

- Events after the end of the reporting period are included in section F.16 within "F – Additional disclosures" of the notes to the consolidated financial statements on page 215.
- The risk report is a separate chapter ("E – Risk report") in the notes to the consolidated financial statements (pages 148 to 197).
- The report on key features of the internal control and risk management systems in relation to the financial reporting process is contained in section E.15 of the risk report (pages 196 and 197).
- Information on the use of financial instruments is included in the notes to the consolidated financial statements, parts B, C and E in particular.

Segment report

Development of business segments 25

Segment report (CONTINUED)

Development of business segments

Retail Banking

(€ million)	2016	2015 [1]	CHANGE	
Operating income	918	864	+53	+6.2%
Operating costs	–747	–803	+56	–6.9%
Operating profit	170	61	+109	>100%
Net write-downs of loans	–52	–28	–24	+85.3%
Net operating profit	118	33	+85	>100%
Profit before tax	**65**	**–4**	**+69**	**n.m.**
Loans to customers (avg.)	18,071	18,127	–55	–0.3%
Direct funding (avg.)	24,254	24,806	–552	–2.2%
Risk-weighted assets (avg.) [2]	8,519	9,047	–528	–5.8%
ROE before tax in %	7.2	–0.4	+8	n.m.

1) For segment reporting purposes, the comparative figures for 2015 were recast to reflect the structure and methodology of the 2016 reporting period (see the segment reporting section in the notes to the consolidated financial statements on pages 143 and 144 of this report. / 2) Average risk-weighted assets (all risks) under Basel 3. / n.m. = not meaningful

● Operating profit

The Retail Banking business segment generated an operating profit of €170 million in 2016, almost triple the amount recorded in the previous year. Although the market environment was difficult, operating income increased to €918 million (up by €53 million or 6.2% on the previous year), supported by a special effect from the sale of Visa shares (+€95 million). As a result of strict cost management, and with the continued reorientation of the branch network and the consistent implementation of measures to enhance efficiency in the sales network, operating costs declined to €747 million (–6.9% year-on-year).

● Net write-downs of loans

Net write-downs of loans and provisions for guarantees and commitments were again kept at a low level of €52 million in 2016 (2015: €28 million), despite additions of €65 million to the provisions for foreign currency loans and loans with repayment vehicles, and of €17 million to the IBNR provision.

● Profit before tax

After deduction of net write-downs of loans and provisions for guarantees and commitments, and after deduction of non-operating expenses in the amount of €53 million – mainly systemic charges totalling €38 million (2015: €24 million) – Retail Banking made a positive contribution of €65 million to overall profit before tax in 2016 (2015: –€4 million). This means that Retail Banking's performance is fully in line with the restructuring plan.

After deduction of minority interests (mainly resulting from the sale of Visa shares), the Retail Banking business segment generated a net profit of €2 million. This confirms that the restructuring programme initiated in Retail Banking took immediate effect.

● Customer loans and customer deposits (averages)

Lending volume totalled €18.1 billion, thus remaining stable compared with the previous year (–0.3%). Direct funding was €24.3 billion, down by 2.2% as the market environment was characterised by unattractive interest rates.

Retail Banking launched a number of growth initiatives in 2016. Since 1 January 2016, small businesses and independent professionals with an annual turnover of up to €3 million have been served in the retail banking network. The number of branches providing services to these customer groups was almost doubled to 55.

Work on modernising the entire branch network continued in 2016, with a focus on large advisory centres offering a significantly wider range of services. Core components of this reorientation include extended opening hours at many branches (from 9 a.m. to 6 p.m. or from 8.30 a.m. to 5.30 p.m., without a lunch break). The online branch is accessible from 8 a.m. to 8 p.m., offering video-based advisory services to private customers and businesses wherever they are. Digital media are increasingly being used, and gradually expanded, to meet customers' day-to-day banking needs. The advance of digital sales channels enables the bank to sharpen the focus on core business and simplify processes. Customers who need specialist advice can use the services of experts, on a decentralised basis at branches or via the head office on a remote basis. Following the great success of the 100 real estate specialists whose expertise is available to customers, some 100 investment specialists now also provide customers with advisory services, which have met with a highly favourable response. The branch renewal programme creates the setting required for these processes.

In 2016, our branches and the online marketplace, with the online branch and the Online-Shop, were given equal weight as channels for product sales and advisory services. We can offer our customers tailor-made advice, on site or on a remote basis. Moreover, with the launch of the new Bank Austria app – the Mobile Wallet – and the Online-WunschKredit loan, which can be arranged online around the clock, we again underlined our innovation leadership position in digital banking services.

Segment report (CONTINUED)

Corporate Banking (including factoring and leasing units)

(€ million)	2016	2015	CHANGE	
Operating income	616	631	–15	–2.4%
Operating costs	–264	–292	+27	–9.3%
Operating profit	352	340	+12	+3.6%
Net write-downs of loans	14	1	+13	>100%
Net operating profit	366	340	+25	+7.4%
Profit before tax	**226**	**284**	**–58**	**–20.4%**
Loans to customers (avg.)	26,490	26,127	+363	+1.4%
Direct funding (avg.)	18,612	18,162	+450	+2.5%
Risk-weighted assets (avg.)	8,794	9,776	–983	–10.1%
ROE before tax in %	20.0	24.6	–5	–18.7%

● Operating profit

Operating income declined by 2.4% (–€15 million) to €616 million, reflecting the difficult interest-rate and market environment. The decline was more than offset by a reduction of operating costs, which were €264 million, down by €27 million or 9.3%. This shows that the planned cost reductions were consistently implemented. Operating profit thus rose from €340 million in 2015 to €352 million in 2016 (+€12 million/+3.6%).

● Net write-downs of loans

Based on the high quality of the loan portfolio, the Corporate Banking business segment benefited from a net release of €14 million (2015: a net release of €1 million) from loan loss provisions.

● Profit before tax

Non-operating items were a total charge of €140 million in 2016 (2015: a charge of €56 million). These items include provisions relating to **legal risks**, systemic charges of €40 million and write-downs on equity interests (€14 million). After deduction of non-operating expenses, profit before tax was €226 million, down by €58 million or 20.4% on the previous year, despite a good operating performance.

● Customer loans and customer deposits (averages)

Lending volume rose by 1.4% to €26.5 billion (2015: €26.1 billion). Direct funding also increased, from €18.2 billion in the previous year to €18.6 billion in 2016 (+2.5%).

At the beginning of 2016, responsibility for serving business customers (with an annual turnover of up to €3 million) and independent professionals was transferred from the sales network for corporate customers to the retail banking network. Bank Austria has thereby responded to customers' request for closer regional proximity while bundling services to meet business and private needs in this customer group. Corporate banking activities now focus more sharply on expanding business with medium-sized and large companies.

A number of strategic measures were taken in early 2016 to achieve the revenue and cost targets defined in UniCredit Group's multi-year plan. Corporate Banking made a significant contribution by enhancing customer-oriented solutions, expanding the share of wallet and focusing on winning new customers while maintaining strict cost discipline. Leasing business was restructured and integrated in the corporate banking network. Commercial real estate activities and business with public sector customers were combined in the "Corporate Banking Area".

A traditional strength of Bank Austria remained in the limelight in 2016: promoting the internationalisation of Austrian companies in cooperation with UniCredit partner banks and helping companies to operate successfully beyond Austria's borders. The UniCredit International Center continues to perform this role effectively. Great attention will be given to these activities also in 2017.

Private Banking

(€ million)	2016	2015	CHANGE	
Operating income	175	179	–4	–2.1%
Operating costs	–122	–123	+1	–1.2%
Operating profit	54	56	–2	–4.3%
Net write-downs of loans	0	0	–0	n.m.
Net operating profit	54	56	–3	–4.6%
Profit before tax	**45**	**51**	**–6**	**–12.5%**
Total financial assets (avg.)	23,639	22,631	+1,008	+4.5%
Direct funding (avg.)	9,733	9,493	+240	+2.5%
Loans to customers (avg.)	647	619	+28	+4.5%
Risk-weighted assets (avg.)	600	635	–35	–5.5%
ROE before tax in %	19.2	24.3	–5	–20.9%

● Operating profit

2016 was a successful year for Private Banking, with customer satisfaction levels reaching new highs. Operating income declined from €179 million to €175 million (–2.1%), not least due to the fact that interest rates remained low. Operating costs were reduced by 1.2% to €122 million compared with the previous year. On this basis, operating profit came to €54 million, a figure which was €2 million or 4.3% lower than for the previous year.

Segment report (CONTINUED)

● Profit before tax
Profit before tax was €45 million, down by €6 million or 12.5% on the previous year. The main reasons for the decline were higher provisions for risks and charges and an increase in systemic charges.

● Customer loans and customer deposits (averages)
Total financial assets increased by 4.5% to an average €23.6 billion. Growth was mainly driven by assets under management, which rose by €0.8 billion (+9.6%).

The Private Banking business segment comprises the two well-known brands Bank Austria Private Banking – the private banking arm of a major bank – and Schoellerbank – a traditional private banking institution. With a market share of 23%, these operations make the Private Banking business segment the undisputed market leader in services provided to high net worth individuals in Austria.

Market volatility in 2016 reflected fears of economic crises and surprising geopolitical developments. Nevertheless, Private Banking once again achieved its main objective: preserving and optimising customer assets. This success is based on a well-founded market view supported by our experts' comprehensive analyses. Starting in 2017, Private Banking's broad investment expertise will also be available to additional customer groups of Bank Austria through a new attractive offering of personal asset management services and the flexible UNIVERS service model for investment advisory services with a flat-rate expenses agreement. With a market share of 35%, Private Banking is market leader in business with foundations, serving 1,129 out of a total of about 3,200 private foundations and 460 foundations set up by Austrian federal and regional government agencies. Bank Austria has made a significant contribution, through an initiative focusing on foundations, to the Austrian Non-profit and Charitable Institutions Act.

The core competencies of Schoellerbank, which was founded in 1833 and is one of Austria's leading private banking institutions, include asset management, investment advisory services and retirement planning. "It is better to invest than to speculate" is the motto of Schoellerbank's investment philosophy. Schoellerbank is a wholly-owned subsidiary of UniCredit Bank Austria AG and maintains 10 offices, making it the only private banking institution in Austria with a country-wide presence. Schoellerbank's asset management activities, which were established 25 years ago, generated highly positive results in the challenging market environment of the past few years. This is in large part attributable to Schoellerbank's own investment management company, whose investment funds are regularly recognised for their good performance. Looking back on a long tradition, Schoellerbank uses a highly successful client service approach. This is reflected in the high level of customer satisfaction, the outstanding recognition Schoellerbank gains in various tests of private banking services, and the awards regularly given to it as Austria's best private banking institution.

Corporate & Investment Banking (CIB)

(€ million)	2016	2015	CHANGE	
Operating income	426	453	–27	–6.0%
Operating costs	–205	–210	+5	–2.4%
Operating profit	221	243	–22	–9.2%
Net write-downs of loans	38	25	+13	+54.1%
Net operating profit	259	268	–9	–3.4%
Profit before tax	**147**	**216**	**–69**	**–32.1%**
Loans to customers (avg.)	13,566	13,108	+458	+3.5%
Direct funding (avg.)	10,145	9,907	+238	+2.4%
Risk-weighted assets (avg.)	8,170	8,952	–782	–8.7%
ROE before tax in %	18.3	25.3	–7	–27.4%

● Operating profit
Revenue generated by the CIB business segment in 2016 was slightly lower than in the previous year. Operating income declined by €27 million or 6.0% to €426 million (2015: €453 million) as net fees and commissions were down by €23 million – one of the reasons being large one-off income in 2015 (€12 million) – while net interest exceeded the previous year's level.

● Net write-downs of loans
As in the previous year, the item "Net write-downs of loans and provisions for guarantees and commitments" showed a positive figure of +€38 million in 2016 (2015: +€25 million), reflecting the net release of loan loss provisions based on the excellent quality of the loan portfolio.

● Profit before tax
On account of large one-off effects relating to provisions for **legal risks**, profit before tax was down by €69 million or 32.1%, reaching €147 million in 2016.

● Customer loans and customer deposits (averages)
Total loans increased by 3.5% to €13.6 billion (2015: €13.1 billion) and direct funding rose by 2.4% to €10.1 billion (2015: €9.9 billion).

Corporate & Investment Banking (CIB) enables its customers to benefit from its capital market expertise, its market position within the UniCredit Group network and a presence in all major financial centres around the world as well as affording

Segment report (CONTINUED)

them access to our core regions in Western, Central and Eastern Europe and 50 other countries worldwide – giving Bank Austria essential competitive advantages.

The CIB business segment further expanded its leading market position in the segment of multinational companies. In addition to providing intensive services to Austrian multinational companies, CIB continued to cultivate the extended core markets of Scandinavia, Spain and Portugal in 2016 on a sustainable basis. The successful conclusion of structured financing transactions with companies of a high credit rating enabled CIB to achieve significant growth in these regions. Based on our leading market positions in Cash Management (#1 Cash Management House in Austria 2016 – Euromoney), Trade Finance (#1 Bank for Trade Finance in Austria 2016 – Global Finance) and Supply Chain Finance (#1 Supply Chain Finance Provider in CEE 2016 – Global Finance), CIB won mandates from highly renowned Austrian and multinational customers. We are steadily expanding UniCredit's position in our markets with our leading position in capital market transactions and syndicated loans, thereby ensuring that our customers benefit from diversified liquidity. Business with institutional customers also developed satisfactorily whereas revenue generated from real estate customer business was intentionally reduced in view of market overheating.

Although the economic environment was difficult, interest rates remained low and yields on government bonds of most of the euro member countries were negative, Treasury activities generated a structurally significant contribution to CIB's overall performance.

Management Report (CONTINUED)

Vienna, 24 February 2017

The Management Board

Robert Zadrazil
CEO Commercial & Private Banking, Support Services
(Chief Executive Officer)

Romeo Collina
COO Chief Operating Officer
(Deputy CEO)

Dieter Hengl
Corporate & Investment Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Resources

Consolidated Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

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Consolidated Income Statement

of the Bank Austria Group for the year ended 31 December 2016

Income statement for the year ended 31 December 2016

(€ million)

	Notes	2016	2015 *)
Interest income and similar revenues	B.1	1,689	1,871
Interest expense and similar charges	B.1	–727	–904
Net interest margin		**962**	**967**
Fee and commission income	B.2	876	930
Fee and commission expense	B.2	–200	–205
Net fees and commissions		**676**	**725**
Dividend income and similar revenue	B.3	8	5
Gains and losses on financial assets and liabilities held for trading	B.4	52	61
Fair value adjustments in hedge accounting	B.5	9	–2
Gains and losses on disposal of:	B.6	16	6
a) loans		–	–
b) available-for-sale financial assets		8	27
c) held-to-maturity investments		–	–
d) financial liabilities		8	–21
Gains and losses on financial assets/liabilities at fair value through profit or loss	B.7	11	4
OPERATING INCOME		**1,735**	**1,766**
Impairment losses on:	B.8	–5	–12
a) loans		–36	4
b) available-for-sale financial assets		–12	–17
c) held-to-maturity investments		–	–7
d) other financial assets		42	8
Net income from financial activities		**1,730**	**1,754**
Administrative costs:		–2,065	–1,316
a) staff expense	B.9	–1,093	–412
b) other administrative expense	B.10	–972	–904
Net provisions for risks and charges	B.11	–145	–126
Impairment/write-backs on property, plant and equipment	B.12	–95	–80
Impairment/write-backs on intangible assets	B.13	–6	–6
Other net operating income	B.14	164	88
OPERATING COSTS		**–2,147**	**–1,440**
Profit (loss) on equity investments	B.15	47	159
Gains and losses on tangible and intangible assets measured at fair value		–1	–1
Gains and losses on disposal of investments	B.16	17	15
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**–354**	**486**
Tax expense (income) related to profit or loss from continuing operations	B.17	–58	111
Total profit or loss after tax from continuing operations		**–413**	**598**
Total profit or loss after tax from discontinued operations	B.18	1,141	635
NET PROFIT OR LOSS FOR THE YEAR		**729**	**1,232**
Attributable to:			
Non-controlling interests from continuing operations		63	12
from discontinued operations		25	–104
Non-controlling interests		**88**	**–92**
Owners of the parent company from continuing operations		–476	586
from discontinued operations		1,116	739
Owners of the parent company		**641**	**1,325**
Earnings per share (in €, basic and diluted) from continuing operations	B.19	–2.06	2.53
from discontinued operations		4.83	3.20

*) The comparative figures for 2015 were adjusted. To ensure comparability, the effects of the CEE demerger were taken into account.

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the year ended 31 December 2016

Statement of comprehensive income

(€ million)

	1 JAN. – 31 DEC. 2016	1 JAN. – 31 DEC. 2015 *)
Total profit or loss after tax from continuing operations	**–413**	**597**
Total profit or loss after tax from discontinued operations	**1,141**	**635**
PROFIT OR (–) LOSS FOR THE PERIOD	**729**	**1,232**
OTHER COMPREHENSIVE INCOME	**–58**	**134**
Items that will not be reclassified to profit or loss	**–218**	**757**
Actuarial gains or (–) losses on defined benefit pension plans	–291	1,009
Share of other recognised income and expense of entities accounted for using the equity method	0	2
Income tax relating to items that will not be reclassified	73	–254
Items that may be reclassified to profit or loss	**160**	**–623**
Foreign currency translation	147	–626
Cash flow hedges [effective portion]	–46	–61
Available-for-sale financial assets	45	–113
Non-current assets and disposal groups held for sale	29	180
Share of other recognised income and expense of entities accounted for using the equity method	–11	–40
Income tax relating to items that may be reclassified to profit or (–) loss	–3	38
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**671**	**1,366**
Comprehensive income after tax from continuing operations	**–636**	**642**
Comprehensive income after tax from discontinued operations	**1,308**	**724**
Thereof attributable to		
Non-controlling interests from continuing operations	62	–10
from discontinued operations	20	98
Non-controlling interests	**83**	**89**
Owners of the parent from continuing operations	–699	652
from discontinued operations	1,287	625
Attributable to owners of the parent	**589**	**1,277**

Earnings per share (in €, basic and diluted)

(€)

	1 JAN. – 31 DEC. 2016	1 JAN. – 31 DEC. 2015
Earnings per share from comprehensive income after tax from continuing operations	–3.02	2.82
Earnings per share from comprehensive income after tax from discontinued operations	5.57	2.70

*) The comparative figures for 2015 were adjusted. To ensure comparability, the effects of the CEE demerger were taken into account.

Statement of Financial Position

of the Bank Austria Group at 31 December 2016

Assets

(€ million)

	Notes	31 DEC. 2016	31 DEC. 2015
Cash and cash balances	C.1	165	2,146
Financial assets held for trading	C.2	1,113	3,013
Financial assets at fair value through profit or loss	C.3	14	89
Available-for-sale financial assets	C.4	15,791	24,810
Held-to-maturity investments	C.5	236	484
Loans and receivables with banks	C.6	20,762	32,214
Loans and receivables with customers	C.7	60,926	116,377
Hedging derivatives	C.8	2,661	3,290
Changes in fair value of portfolio hedged items (+/–)	C.9	–36	41
Investments in associates and joint ventures	C.10	1,777	4,741
Property, plant and equipment	C.11	695	2,132
of which held for investment		*303*	*827*
Intangible assets	C.12	11	221
Tax assets		320	448
a) current tax assets		55	94
b) deferred tax assets	C.13	265	353
Non-current assets and disposal groups classified as held for sale	C.14	900	2,467
Other assets	C.15	450	1,167
TOTAL ASSETS		**105,785**	**193,638**

Liabilities and equity

(€ million)

	Notes	31 DEC. 2016	31 DEC. 2015
Deposits from banks	C.16	13,939	23,432
Deposits from customers	C.17	56,239	110,346
Debt securities in issue	C.18	17,394	28,802
Financial liabilities held for trading	C.19	1,107	2,642
Financial liabilities at fair value through profit or loss	C.20	399	547
Hedging derivatives	C.21	2,153	2,782
Changes in fair value of portfolio hedged items (+/–)	C.22	–196	–101
Tax liabilities		54	214
a) current tax liabilities		33	46
b) deferred tax liabilities	C.23	21	169
Liabilities included in disposal groups classified as held for sale	C.24	123	1,977
Other liabilities	C.25	2,469	2,773
Provisions for risks and charges	C.26	4,212	4,830
a) post-retirement benefit obligations		3,855	3,697
b) other provisions		357	1,133
Equity	C.27	7,892	15,394
of which non-controlling interests (+/–)		*88*	*238*
TOTAL LIABILITIES AND EQUITY		**105,785**	**193,638**

Statement of Changes in Equity

of the Bank Austria Group for the year ended 31 December 2016

(€ million)

		CHANGES DURING THE PERIOD						
			SHAREHOLDERS' EQUITY TRANSACTIONS					
	BALANCE AS AT 1 JAN. 2015	ALLOCATION OF PROFIT FROM PREVIOUS YEAR	CHANGES IN RESERVES	CHANGES IN SCOPE OF CONSOLIDATION	OTHER	TOTAL	COMPREHENSIVE INCOME	SHAREHOLDERS' EQUITY GROUP AS AT 31 DEC. 2015
Issued capital: a) ordinary shares	1,681					–		**1,681**
b) other shares	–					–		**–**
Share premium	6,058				9	9		**6,067**
Reserves: a) other reserve	10,566	1,383		111	−963	−852		**11,098**
b) foreign currency reserve	−3,980			−197		−197	−620	**−4,797**
Cash flow hedge reserve	347					–	−42	**305**
Available-for-sale reserve	721					–	93	**814**
Cash flow hedge and AFS reserve associates and joint ventures	71					–	−50	**21**
Pension and similar liabilities IAS 19	−2,116					–	757	**−1,359**
Net profit or loss for the period	1,383	−1,383	1,325			–		**1,325**
Shareholders' Equity Group	**14,732**	**–**	**1,325**	**−86**	**−954**	**−1,040**	**138**	**15,155**
Shareholders' Equity minorities	193	−34	−93	176	–	176	−4	238
Total Shareholders' Equity	14,925	−34	1,232	90	−954	−864	134	15,394

		CHANGES DURING THE PERIOD						
			SHAREHOLDERS' EQUITY TRANSACTIONS					
	BALANCE AS AT 1 JAN. 2016	ALLOCATION OF PROFIT FROM PREVIOUS YEAR	CHANGES IN RESERVES	CHANGES IN SCOPE OF CONSOLIDATION	OTHER	TOTAL	COMPREHENSIVE INCOME	SHAREHOLDERS' EQUITY GROUP AS AT 31 DEC. 2016
Issued capital: a) ordinary shares	1,681					–		**1,681**
b) other shares	–					–		**–**
Share premium	6,067		−1,934		–	–		**4,133**
Reserves: a) other reserve	11,098	1,325		−10,364		−10,364		**2,059**
b) foreign currency reserve	−4,797			4,646		4,646	152	**1**
Cash flow hedge reserve	305			−80		−80	−34	**192**
Available-for-sale reserve	814			−288		−288	111	**638**
Cash flow hedge and AFS reserve associates and joint ventures	21			79		79	−65	**36**
Pension and similar liabilities IAS 19	−1,359					–	−218	**−1,577**
Net profit or loss for the period	1,325	−1,325	641			–		**641**
Shareholders' Equity Group	**15,155**	**–**	**−1,293**	**−6,006**	**–**	**−6,006**	**−53**	**7,803**
Shareholders' Equity minorities	238	−12	87	−221	–	−221	−5	88
Total Shareholders' Equity	15,394	−12	−1,205	−6,227	–	−6,227	−58	7,892

Statement of Cash Flows

of the Bank Austria Group for the year ended 31 December 2016

(€ million)

	2016	2015
NET PROFIT OR LOSS	**729**	**1,232**
Non-cash items included in net profit, and adjustments to reconcile net profit to cash flows from operating activities		
Depreciation, amortisation, net write-downs of loans, and changes in fair values	730	1,318
Increase in staff-related provisions and other provisions	894	–787
Increase/decrease in other non-cash items	–122	–417
Interest income/interest expenses from investing activities	187	110
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	–22	–59
SUB-TOTAL	**2,396**	**1,397**
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	–155	108
Loans and receivables with banks and customers	–2,403	–4,242
Other asset items	–473	1,443
Financial liabilities held for trading	–749	–903
Deposits from banks and customers	2,474	7,135
Debt securities in issue	–344	–2,760
Other liabilities items	–101	–293
CASH FLOWS FROM OPERATING ACTIVITIES	**645**	**1,885**
Proceeds from disposal of		
investments	2,092	9,516
property, plant and equipment, intangible assets and investment property	63	131
Payments for purchases of		
investments	–3,233	–11,905
property, plant and equipment, intangible assets and investment property	–100	–430
Proceeds from sales (less cash disposed of) of subsidiaries	25	217
Payments for acquisition (less cash acquired) of subsidiaries	0	–34
Other changes	0	0
CASH FLOWS FROM INVESTING ACTIVITIES	**–1,153**	**–2,505**
Proceeds from capital increase	1,000	0
Dividends paid	0	0
Proceeds from issues of subordinated liabilities	0	935
Payments for repayment of subordinated liabilities	–291	–134
CASH FLOWS FROM FINANCING ACTIVITIES	**709**	**801**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**2,197**	**2,027**
Cash flows from operating activities	645	1,885
Cash flows from investing activities	–1,153	–2,505
Cash flows from financing activities	709	801
Effects of changes in scope of consolidation	–2,233	0
of which: CEE demerger	–2,233	0
of which: other changes in scope of consolidation	0	0
Effects of exchange rate changes	0	–11
CASH AND CASH EQUIVALENTS AT END OF PERIOD *)	**165**	**2,197**
Payments for taxes, interest and dividends		
Income taxes paid from operating activities	–14	–128
Interest received from operating activities	1,458	5,670
from investing activities	238	588
Interest paid from operating activities	–364	–2,319
from investing activities	–447	–770
Dividends received from investing activities	40	101

*) Cash and cash equivalents include cash in the amount of €111 million (2015: €1,197 million) and the balance with central banks in the amount of €54 million (2015: €1,000 million).

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Note
In this report, “Bank Austria” and “the Bank Austria Group” refer to the Group. To the extent that information relates to the parent company’s separate financial statements, “UniCredit Bank Austria AG” is used.
In adding up rounded figures and calculating the percentage rates of changes, slight differences may result compared with totals and rates arrived at by adding up component figures which have not been rounded off.

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A – Accounting policies (CONTINUED)

A.1 – Information on the company

UniCredit Bank Austria AG, Schottengasse 6 – 8, A-1010 Vienna, Austria, ("Bank Austria" or "BA") is a universal bank conducting banking business within the meaning of Section 1 (1) of the Austrian Banking Act. It is registered under no. FN 150714p in the Austrian Register of Firms. The Bank Austria Group as part of the UniCredit group offers a complete range of banking and other financial services, such as corporate finance, foreign trade financing, project finance, capital markets and money market services, securities and foreign exchange trading, investment banking, consumer credit and mortgage lending, savings accounts, asset management, leasing and factoring. The bank continues to operate in the market under the "Bank Austria" brand name. Until 30 September 2016, the geographical focus of the Group's operations was on Austria, Central and Eastern Europe (CEE), and Turkey and Russia. After the transfer of CEE business to UniCredit S.p.A. on 1 October 2016, the geographical focus of the Group's operations is predominantly on Austria.

A.2 – Basis for the preparation of the financial statements

The consolidated financial statements of Bank Austria for the year ended 31 December 2016 and the comparative information have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), including the interpretation documents issued by the SIC and IFRIC, and endorsed by the European Commission up to 31 December 2016, pursuant to EU Regulation 1606/2002. The additional disclosure requirements according to Section 245a UGB (Austrian Business Code) and Section 59a of the Austrian Banking Act as well as the disclosure requirements specified in the Accounting Manual of UniCredit S.p.A., the ultimate parent company, required to be applied throughout the Group were taken into account in the preparation of the consolidated financial statements.

The following documents have been used to interpret and support the application of IFRS, even though they have not all been endorsed by the European Commission:
- Framework for the Preparation and Presentation of Financial Statements issued by the IASB in 2010;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or the IFRS Interpretations Committee supplementing the IFRS;
- ESMA (European Securities and Markets Authority) and Consob documents on the application of specific IFRS provisions;
- Interpretative documents on the application of IFRS in Austria prepared by the Austrian Financial Reporting and Advisory Committee (AFRAC).

The consolidated financial statements comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows (compiled using the indirect method for operating cash flows) and the notes to the consolidated financial statements, and are accompanied by the management report.

The consolidated financial statements are prepared in euros, the presentation currency of the Group. Unless indicated otherwise, all figures are in millions of euros (€).

These consolidated accounts have been prepared on the assumption that the business is a going concern in accordance with IAS 1, as there is no uncertainty as to the company's ability to continue its business operations. The measurement criteria adopted are consistent with this assumption and with the principles of accrual based accounting, the relevance and materiality of accounting information, and the prevalence of economic substance over legal form. These criteria have not changed with respect to the previous year.

Risk and uncertainty due to use of estimated figures

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the consolidated financial statements, as well as the disclosure concerning contingent assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities for which evidence of value is not readily available from other sources.

A – Accounting policies (CONTINUED)

The parameters and information used to check the above-mentioned figures in the statement of financial position, the income statement and the statement of comprehensive income are therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying amounts cannot be ruled out.

Estimates and assumptions are regularly reviewed. Any changes resulting from these reviews are recognised in the period in which these reviews are carried out, provided that the change only concerns that period. If the revision concerns both current and future periods, it is recognised accordingly in both current and future periods.

Uncertainty affecting estimates is generally inherent in the measurement of:
- fair value of financial instruments not listed in active markets (A.7);
- loans and receivables, investments and, in general, any other financial assets/liabilities (C);
- post-employment benefit obligations and other employee benefits (A.6.8);
- provisions for risks and charges (A.6.8, C.26), contingent liabilities and contingent assets (F.12);
- goodwill and other intangible assets (A.6.3, C.12) as well as
- deferred tax assets (C.13).

This is because the measurement of these items is mainly dependent on both the evolution of socio-economic conditions and the performance of the financial markets, which affect interest rates, securities prices, actuarial assumptions and, more generally, the creditworthiness of borrowers and counterparties.

A more detailed description of the relevant estimates and assumptions used in the consolidated financial statements of the Bank Austria Group as well as quantitative sensitivity analyses are disclosed in detail in the relevant notes to the consolidated financial statements.

A.3 – Consolidation principles

This section outlines the consolidation criteria and principles used to prepare the consolidated accounts at 31 December 2016.

Consolidated Accounts

The financial information in the consolidated financial statements includes that of the parent company, UniCredit Bank Austria AG, together with its subsidiaries as at 31 December 2016.

Amounts in foreign currencies are converted at closing exchange rates in the statement of financial position, whereas the average exchange rate for the year is used for the income statement.

The accounts and the explanatory notes of the main consolidated subsidiaries prepared under IFRS are subject to audit by leading audit companies.

Subsidiaries

Subsidiaries are entities which the parent company controls in accordance with IFRS 10. An investor controls an entity when it is exposed, or has rights, to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

The carrying amount of an ownership interest in a fully consolidated entity held by the parent company or another group company is eliminated – against the recognition of the assets and liabilities of the investee – as an offsetting entry to the corresponding portion of equity of the subsidiary due to the Group.

Intragroup balances, off-balance sheet transactions, income and expenses and gains/losses between consolidated companies are eliminated in full.

A – Accounting policies (CONTINUED)

A subsidiary's income and expenses are included in the consolidation from the date the parent acquires control. On disposal of a subsidiary, its income and expenses are consolidated up to the date of disposal, i. e., until the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and the carrying amount of its net assets is recognised in the item "Gains and losses on disposal of investments" in profit or loss.

Minority interests are recognised in the item "Non-controlling interests" in the consolidated statement of financial position separately from liabilities and parent shareholders' equity. Minority interests in the profit or loss of the group are separately disclosed under the item "Non-controlling interests" of the consolidated income statement.

The fair value of identifiable assets acquired and liabilities assumed, when a subsidiary is included in consolidation for the first time, is measured at the acquisition date.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, which is usually structured in the legal form of a separate vehicle.

Investments in jointly controlled companies are accounted for under the equity method, if they are material for the Bank Austria Group. At present, there is no case in the Bank Austria Group where proportionate consolidation, which IFRS 11 permits only in exceptional cases, is applied.

Associates

These are entities over which an investor has significant influence and which are not subsidiaries or joint ventures. It is presumed that:
- the investor has significant influence if the investor holds, directly or indirectly, at least 20 per cent of the voting power of an investee;
- is able to exercise significant influence through:
  - representation on the board of directors or equivalent governing body of the investee;
  - participation in policy-making process, including participation in decisions about dividends or other distributions;
  - material transactions between the investor and the investee;
  - interchange of managerial personnel;
  - provision of essential technical information.

Investments in associates are recognised using the equity method. The carrying amount includes goodwill (less any impairment loss). The investor's share of the profit and loss of the investee after the date of acquisition is recognised in the item "Profit (Loss) on equity investments" in the income statement. Distributions received from an investee reduce the carrying amount of the investment.

The changes in the revaluation reserves of associates, which are recorded as a contra item to changes in value of assets and liabilities that are relevant to this purpose, are reported separately in the Statement of Comprehensive Income.

A – Accounting policies (CONTINUED)

A.4 – Application of amended and new financial reporting standards

A.4.1 – First-time application of amended and new financial reporting standards and accounting methods

Except for the changes described below, the accounting policies applied are consistent with those of the previous financial year.

New and amended financial reporting standards adopted in 2016
The Group has adopted the following new standards and amendments to standards, with a date of initial application of 1 January 2016.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
In May 2014, the IASB issued amendments to IAS 16 and IAS 38, clarifying that the use of revenue-based depreciation methods for property, plant and equipment is not appropriate, and significantly limiting the use of revenue-based depreciation methods for intangible assets. The amendments were endorsed by the EU in December 2015; they have been applied since 1 January 2016. These amendments have no effects on the Bank Austria Group.

Amendment to IFRS 11 Joint Arrangements
This amendment clarifies the accounting for acquisitions of interests in joint operations if these constitute a business. The amendment was published on 6 May 2014 and became effective on 1 January 2016; it was endorsed by the EU in November 2015. Effects on the Bank Austria Group will only result if such a transaction is made in the future.

Amendments to IAS 1 Presentation of Financial Statements
On 18 December 2014 the IASB, under its Disclosure Initiative, published amendments to IAS 1 concerning various clarifications and additional disclosure requirements. The amendments became effective on 1 January 2016; they were endorsed by the EU in December 2015. The amendments result in additional information to be given by the Bank Austria Group in the notes to the consolidated financial statements.

Amendments to IAS 16 and IAS 41 concerning bearer plants
In June 2014, the IASB issued amendments to IAS 16 and IAS 41 concerning bearer plants. They became effective on 1 January 2016 and were endorsed by the EU in November 2015. These amendments have no effect on the Bank Austria Group.

Amendment to IAS 27 Separate Financial Statements
On 12 August 2014 the IASB issued an amendment to IAS 27 concerning use of the equity method in separate financial statements. This amendment became effective on 1 January 2016; it was endorsed by the EU in December 2015. It has no effect on the Bank Austria Group's consolidated financial statements.

Amendments to IFRS 10, IFRS 12, IAS 28
On 11 September 2014 the IASB issued amendments to IFRS 10 and IAS 28 concerning the sale or contribution of assets between an investor and its associate or joint venture. In February 2015, the European Financial Reporting Advisory Group (EFRAG) recommended that the EU endorsement process in respect of these amendments be suspended until further notice because a conflict with IAS 28.32 was identified; in the meantime, the IASB has confirmed that a conflict exists. In December 2015, the IASB therefore decided to defer the effective date of the amendments to these Standards indefinitely.

A – Accounting policies (CONTINUED)

On 18 December 2014 the IASB issued amendments to IFRS 10, IFRS 12 and IAS 28 concerning a consolidation exception for investment entities. These amendments became effective on 1 January 2016; they were endorsed by the EU in September 2016. They have no effect on the Bank Austria Group.

Amendments resulting from "Annual Improvements to IFRS 2012–2014 Cycle"
On 25 September 2014 the IASB issued amendments under the Annual Improvements to IFRS project. These amendments relate to minor adjustments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, with regard to changes in methods of disposal; amendments to IFRS 7 Financial Instruments: Disclosures, in connection with the application to servicing contracts; more specific information in IAS 19 Employee Benefits with regard to the currency of the discount rate to be applied; and clarifications with regard to wordings in IAS 34 Interim Financial Reporting. The amendments became effective on 1 January 2016; they were endorsed by the EU in December 2015. The clarifications have no effects on the Bank Austria Group.

A.4.2 – New and amended financial reporting standards not yet adopted by the Group

IFRS 9 Financial Instruments – disclosure according to IAS 8 paragraphs 30/31 and EDTF report December 2016
With particular reference to the accounting standards which will be effective in future periods, we highlight that IFRS 9:
- will introduce significant changes to classification and measurement of financial instruments based on the "business model" assessment and on the characteristics of the cash flows of the financial instrument (SPPI – Solely Payments of Principal and Interests criteria), which may require a different classification and measurement method for the financial instrument compared to IAS 39;
- will introduce a new accounting model for impairment, based on expected losses approach against the incurred losses approach currently in force under IAS 39 and will introduce the concept of lifetime expected losses, which may require an anticipation and increase of the structural provisioning with particular reference to credit losses; and
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS 39 hedge accounting rules until the IASB has completed the project on definition of macrohedging rules.

In addition to that IFRS 9 changes also the accounting treatment of "own credit", in other words changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit risk. The new accounting standard requires that these changes shall be recognised in a specific equity reserve, rather than to the income statement, as required under IAS 39, therefore removing a volatility source from the economic results.

The mandatory effective date of IFRS 9 will be 1 January 2018, as per Regulation (EU) 2016/2067 issued on 22 November 2016 (published on 29 November 2016). Due to the entry into force of IFRS 9 a revision of prudential rules for the calculation of the capital absorption on expected credit losses is also awaited. The terms of such review are not yet known. At the date of first time application, the main impacts of IFRS 9 on UniCredit Group are expected to come from the application of the new model for impairment based on an expected losses approach, that will result in an increase of write-downs on not impaired assets (especially loans and receivables with customers), as well as the application of the new transfer logic between the different "Stages" provided for by the new standard.

A – Accounting policies (CONTINUED)

In particular it is expected that greater volatility in the financial results between different reporting periods will be generated, due to the dynamic changes between different "Stages" of the financial assets recognised in the financial statements (especially between "Stage 1", which will include the new positions originated as well as all performing loans, and "Stage 2", which will include positions in financial instruments that have suffered a credit deterioration from the initial recognition). Adjustments to the carrying value of financial instruments due to IFRS 9 transition will be accounted for through equity as of 1 January 2018.

On 10 November 2016, the EBA issued a report that synthesises the main results of the impact analysis realised on a sample of 50 European banks (including UniCredit).

With reference to the qualitative component of the questionnaire, the authority has pointed out that the sample of relevant banks has indicated an operational complexity, in particular concerning the aspects linked to data quality, and technology for the introduction of the new principle. The report also pointed out that the change in the impairment model would result, in the sample of banks surveyed, in an average growth of provision IAS 39 of approximately 18 % as well as an impact on the Common equity tier 1 and Total capital equal to 59 and 45 basis points, respectively.

A Group project was set up in 2015 with a view to implementing IFRS 9. An appropriate project plan has been drawn up. The project is managed by the parent company and implemented across the Group. At the Austrian level, the project covers all business areas and all subsidiaries of UniCredit Bank Austria AG and other companies in which it holds equity interests. The current project status is on schedule.

IFRS 15 Revenue from Contracts with Customers

On 28 May 2014, the IASB issued IFRS 15, which specifies when and how revenue from contracts with customers is to be recognised in all lines of business. The Standard supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. All IFRS users are required to apply IFRS 15, which applies to almost all contracts with customers; the main exceptions are lease contracts, financial instruments and insurance contracts. The IASB has deferred the date of first-time mandatory application to 1 January 2018. On 12 April 2016 it issued clarifications concerning various requirements of IFRS 15 and providing additional transition relief for companies implementing the new Standard. IFRS 15 was endorsed by the EU in September 2016; the clarifications are expected to be endorsed in the second quarter of 2017. The Group is currently analysing the potential effects of this Standard.

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The main idea behind the new Standard is to recognise in the lessee's statement of financial position all leases and the related contractual rights and obligations. In the future the lessee will not need to make a distinction between finance leases and operating leases, which has so far been required under IAS 17. Application of the new rules is required for financial years beginning on or after 1 January 2019; they will then supersede the currently applicable rules of IAS 17 Leases and the related interpretations. Earlier application is permitted if IFRS 15 is also applied. Endorsement of the Standard by the EU is expected for the first half of 2017. The Group will perform a detailed analysis of the potential effects of this Standard. Such effects relate to the Group's role as lessee rather than its role as lessor. In some cases, the effects may involve additionally recognising rights of use under rent agreements in the statement of financial position, thereby increasing total assets.

A – Accounting policies (CONTINUED)

Amendments to IAS 12 Income Taxes
On 19 January 2016 the IASB issued amendments to IAS 12 Income Taxes in connection with the recognition of deferred tax assets for unrealised losses. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2017. Endorsement of the amendments by the EU is expected for the second quarter of 2017. The amendments are clarifications and are of relevance only in countries where tax law distinguishes between capital gains and ordinary gains; they relate only to deferred tax assets resulting from securities holdings which are measured at fair value. For this reason these amendments have no effect on the relevant deferred tax assets of the Group.

Amendments to IAS 7 Statement of Cash Flows
On 26 January 2016 the IASB issued amendments to IAS 7 Statement of Cash Flows with the objective of improving information on changes in liabilities arising from financing activities. The amendments are required to be applied for annual periods beginning on or after 1 January 2017. Endorsement of the Standard by the EU is expected for the second quarter of 2017. The Standard will involve minor adjustments to the presentation of the Group's statement of cash flows in respect of liabilities arising from financing activities.

Amendments to IFRS 2 Share-based Payment
On 20 June 2016 the IASB issued amendments to IFRS 2 to clarify the classification and measurement of share-based payment transactions. These amendments include clarifications of the treatment of vesting conditions for cash-settled share-based payment transactions and a clarification concerning modifications of such payment transactions from cash-settled to equity-settled. The amendments are effective for financial years beginning on or after 1 January 2018. Earlier application is permitted. Endorsement of the Standard by the EU is expected for the second quarter of 2017. The effects on the Group are being analysed.

Amendments to IFRS 4 Insurance Contracts
On 12 September 2016 the IASB issued amendments to IFRS 4, the existing insurance contracts Standard. The objective of the amendments is to reduce the effects resulting from different dates of first-time application of IFRS 9 and IFRS 17, the Standard which will supersede IFRS 4, primarily for companies with extensive insurance activities. Endorsement of the Standard by the EU is expected for 2017. This has no effect on the Bank Austria Group.

Amendments resulting from "Annual Improvements to IFRS 2014–2016 Cycle"
On 8 December 2016 the IASB issued amendments under the Annual Improvements to IFRS project. These amendments relate to the deletion of exemptions in IAS 1 which are no longer relevant, a clarification of disclosure requirements in accordance with IFRS 12 Disclosure of Interests in Other Entities and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and clarifications with regard to the election by certain investment companies to measure at fair value certain equity investments in accordance with IAS 28 Investments in Associates and Joint Ventures. Endorsement of the Standard by the EU is expected for the second half of 2017. The effect on the Group will probably be limited to occasional cases in the application of IFRS 5.

IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration
On 8 December 2016 the IASB issued IFRIC 22, which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation will become effective on 1 January 2018. Endorsement by the EU is expected for the second half of 2017. The Interpretation will probably have no significant effect on the Group as it is of relevance only for advance payments in a foreign currency for non-monetary items.

Amendments to IAS 40 Investment Property
On 8 December 2016 the IASB also issued amendments to IAS 40 which contain clarifications with regard to cases where the classification as "investment property" may be changed, especially if property is under construction. The Interpretation will become effective on 1 January 2018. Endorsement by the EU is expected for the second half of 2017. These amendments will probably have an effect on the Group only in some cases on specific occasions.

A – Accounting policies (CONTINUED)

A.5 – Significant accounting policies

A.5.1 – Business Combinations

A business combination is a transaction through which an entity obtains control of a company or of a business segment, thus bringing together different businesses into one reporting entity.

A business combination may result in a parent-subsidiary relationship in which the acquirer is the parent and the acquiree a subsidiary of the acquirer. A business combination may involve the purchase of the net assets of another entity – in which case goodwill can arise – or the purchase of the equity of the other entity (mergers).

IFRS 3 requires that all business combinations shall be accounted for by applying the purchase method, which involves the following steps:
- identifying the acquirer;
- determining the acquisition date;
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- recognising and measuring goodwill or a gain from a bargain purchase.

After initial recognition, goodwill is tested for impairment at least annually.

If the consideration transferred exceeds the purchase price for the acquiree, the acquirer shall reassess the fair values and recognise immediately any excess remaining after that reassessment in profit or loss.

If the acquisition concerns a percentage less than 100% of the assets of the acquired company, non-controlling interests are recognised.
At the acquisition date, non-controlling interests are valued:
- either at fair value ("full goodwill method") or
- as a proportion of non-controlling interests in the assets, liabilities and identifiable contingent liabilities of the acquired company.

A decision on the method applied in the case of an acquisition will be made on a case-by-case basis.

Business combinations under common control (e.g. transfers of entities to and from other subsidiaries of UniCredit S.p.A. outside the Bank Austria Group) are accounted for using the predecessor basis of accounting, with any effects directly recognised in equity. The CEE demerger was carried out using this method.

A reduction of a stake from a controlled entity to an entity with significant influence accounted for under the equity method is accounted for as a sale without any proportionate elimination of the result of deconsolidation regarding the percentage of ownership retained. The fair value of the retained investment is the base value for the purpose of subsequent accounting.

A.5.2 – Foreign currency translation

The consolidated financial statements are prepared in euros, the presentation currency of the Group.

Various entities in the Group use a different functional currency, the currency of the primary economic environment in which the entity operates.

A – Accounting policies (CONTINUED)

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation when items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange of the European Central Bank effective at the balance sheet date. Any resulting exchange differences are included in the income statement under "gains and losses on financial assets and liabilities held for trading".

Non-monetary assets and liabilities recognised at historical cost in a foreign currency are translated into the functional currency using the exchange rate at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

The exchange differences on a non-monetary item are recognised in other comprehensive income if the gain or loss on a non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a monetary item is recognised in the income statement if the gain or loss on the monetary item is recognised in the income statement.

For consolidation purposes assets, liabilities and equity of foreign operations, the functional currency of which is not euro, are translated into the Group's presentation currency at the closing rate of exchange of each period. Items of income and expenses are translated at the average rate of exchange for the reporting period. Differences arising from the use of spot and weighted average exchange rates and from the remeasurement of a foreign operation's net assets at the closing rate of the period are recognised in the revaluation reserves.

The exchange differences arising on the translation of the financial statements of a foreign operation are recognised in other comprehensive income and accumulated in a separate component of equity. The amount attributable to any non-controlling interests is allocated to and recognised as part of non-controlling interests.

Goodwill and intangible assets recognised on acquisition of foreign subsidiaries (brands, customer relationships) and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of a foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

On the disposal of a foreign subsidiary and associate, which results in the loss of control or loss of significant influence of that operation, all the exchange differences accumulated in a separate component of equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In case of a partial disposal of a foreign operation that does not result in the loss of control, the proportionate share of the accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Exchange rates used for foreign currency translation (Exchange rate in currency/€)

Exchange rates used for foreign currency translation

(Exchange rate in currency/€)

		2016		2015		CHANGE IN %	
		AVERAGE	END OF REPORTING PERIOD	AVERAGE	END OF REPORTING PERIOD	AVERAGE	END OF REPORTING PERIOD
Convertible mark	BAM	1.9558	1.9558	1.9558	1.9558	0.00%	0.00%
Bulgarian lev	BGN	1.9558	1.9558	1.9558	1.9558	0.00%	0.00%
Czech crown	CZK	27.0343	27.0210	27.2792	27.0230	–0.90%	–0.01%
Croatian kuna	HRK	7.5333	7.5597	7.6137	7.6380	–1.06%	–1.03%
Hungarian forint	HUF	311.4380	309.8300	309.9960	315.9800	0.47%	–1.95%
Polish zloty	PLN	4.3632	4.4103	4.1841	4.2639	4.28%	3.43%
Romanian leu	RON	4.4904	4.5390	4.4454	4.5240	1.01%	0.33%
Serbian dinar	RSD	123.1060	123.4030	120.6870	121.4513	2.00%	1.61%
Russian rouble	RUB	74.1446	64.3000	68.0720	80.6736	8.92%	–20.30%
Turkish lira	TRY	3.3433	3.7072	3.0255	3.1765	10.50%	16.71%
Ukrainian hryvnia	UAH	28.2849	28.7386	24.2814	26.1587	16.49%	9.86%
US dollar	USD	1.1069	1.0541	1.1095	1.0887	–0.24%	–3.18%

A – Accounting policies (CONTINUED)

A.5.3 – Financial instruments

A.5.3.1 – General definitions in the context of financial instruments

Initial recognition and measurement

A financial instrument is any contract giving rise to a financial asset at one company and a financial liability or equity instrument at another company. In accordance with IAS 39, all financial assets and liabilities, including derivative financial instruments, have to be recognised in the statement of financial position and measured in accordance with their assigned classification. As regards the date of initial recognition, IAS 39 specifies that an entity may use either trade date accounting or settlement date accounting. In the entire UniCredit Group, initial recognition is at the settlement date as required by the Bank of Italy.

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

The group classifies its financial instruments into the following categories:
- at fair value through profit or loss
  - held for trading
  - designated under the "fair value option"
- available for sale (AfS)
- held to maturity (HtM)
- loans and receivables

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss.

Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of allocating the interest income or interest expense over the life of a financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Commissions forming an integral part of the effective interest rate include loan drawdown fees or underwriting fees relating to a financial asset not designated at fair value, e.g., fees received as compensation for the assessment of the issuer's or borrower's financial situation, for valuation and registration of security, and generally for the completion of the transaction (management fees).

Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Impairment of financial assets

At each balance sheet date an entity assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A – Accounting policies (CONTINUED)

Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to our attention about the following loss events:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower which the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; however, the disappearance of an active market due to the fact that a company's financial instruments are no longer traded publicly is no evidence of impairment; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  – adverse changes in the payment status of borrowers in the group; or
  – national or local economic conditions that correlate with defaults on the assets in the group.

Objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment may not be recovered.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss is recognised in the profit and loss item "Impairment losses".

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Objective evidence of impairment is initially assessed individually; however, if it is determined that there is no objective evidence of individual impairment, the asset is included in a group of financial assets with similar credit risk characteristics and assessed collectively.

Formula-based approaches and statistical methods are used to assess impairment losses on a group of financial assets. Models used incorporate the time value of money, and consider cash flows over the entire residual life of the asset (not just the following year) and do not give rise to an impairment loss on initial recognition of a financial asset. They take into account losses already sustained but not manifest in the group of financial assets at the time of measurement, on the basis of past experience of losses on assets having a similar credit risk to the group of assets being measured.

A – Accounting policies (CONTINUED)

Reversals of impairment losses
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's creditworthiness), the previously recognised impairment loss is reversed and the amount of the reversal is recognised in profit and loss item "Impairment losses" except in the case of AfS equity instruments (see section 5.3.2 below).

The reversal shall not result – at the date the impairment is reversed – in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

Derecognition
Derecognition is the removal of a previously recognised financial asset or financial liability.

Before evaluating whether, and to what extent, derecognition is appropriate, under IAS 39 an entity should determine whether the relevant conditions apply to a financial asset in its entirety or to a part of a financial asset. The standard is applied to a part of financial assets being transferred if, and only if, the part being considered for derecognition meets one of the following conditions:
- the part comprises only specifically identified cash flows from a financial asset (or a group of assets), e. g. interest cash flows from an asset;
- the part comprises a clearly identified percentage of the cash flows from a financial asset, e.g., a 90 per cent share of all cash flows from an asset;
- the part comprises only a fully proportionate (pro rata) share of specifically identified cash flow, e.g. a 90 per cent share of interest cash flows from an asset.
- In all other cases, the standard is applied to the financial asset in its entirety (or to the group of similar financial assets in their entirety).

A financial asset must be derecognised when the contractual rights to the cash flows from the financial asset expire or the contractual rights to receive the cash flows of the financial asset are transferred to a non-Group counterparty. Rights to cash flow are considered to be transferred even if contractual rights to receive the asset's cash flow are retained but there is an obligation to pay this cash flow to one or more entities and all the following conditions are fulfilled (pass-through agreement):
- there is no obligation on the Group to pay amounts not received from the original asset;
- sale or pledge of the original asset is not allowed, unless it secures the obligation to pay cash flow;
- the Group is obliged to transfer forthwith all cash flows received and may not invest them, except for liquidity invested for the short period between the date of receipt and that of payment, provided that the interest accrued in that period is paid on.

Derecognition is also subject to verification of effective transfer of all the risks and rewards of ownership of the financial asset. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the asset (or group of assets) and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

Conversely, if the entity substantially retains all the risks and rewards of ownership of the asset (or group of assets), the entity shall continue to recognise the transferred asset(s). In this case it is necessary to recognise a liability corresponding to the amount received under the transfer and subsequently recognise all income accruing on the asset or expense accruing on the liability.

The main transactions that do not allow, under the above rules, derecognition of a financial asset are securitisations, repurchase (sell and buybacks) and stock lending transactions.

In the case of securitisations the Group does not derecognise the financial asset on purchase of the equity tranche or provision of other forms of support of the structure which result in the Group retaining the credit risk of the securitised portfolio.

A – Accounting policies (CONTINUED)

In the case of repurchase transactions and stock lending, the assets transacted are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

Lastly, it should be noted that securities lending transactions collateralised by other securities or not collateralised were recorded as off-balance sheet items.

A.5.3.2 – Categories of financial instruments

Financial assets and financial liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as at fair value through profit or loss upon initial recognition.

Financial assets and financial liabilities held for trading (HfT)

A financial asset is classified as held for trading if it is:
- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for derivatives which constitute financial guarantees, see Section 5.3.3, and derivatives designated as hedging instruments – see Section 5.3.3).

Like other financial instruments, on initial recognition, at settlement date, a held-for-trading financial asset is measured at its fair value, usually equal to the amount paid, excluding transaction costs and income, which are recognised in profit and loss even when directly attributable to the financial assets.

After initial recognition these financial assets are measured at their fair value through profit or loss. An exception is represented by derivatives settled by delivery of an unlisted equity instrument whose fair value cannot be reliably measured, and which is therefore measured at cost.

All changes in fair value are recognised as part of "Gains and losses on financial assets and liabilities held for trading" in the income statement. Interest income and expenses are reported under "net interest".

A gain or loss arising from sale or redemption or a change in the fair value of an HfT financial instrument is recognised in the income statement item "Gains and losses on financial assets and liabilities held for trading".
Financial assets held for trading include securities held for trading and positive market values of derivative financial instruments, recognised at their fair values. The item financial liabilities held for trading shows negative market values of derivative financial instruments and short positions held in the trading portfolio.

Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (usually called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative is separated from the host contract and recognised as a derivative if:
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (combined) instrument is not measured entirely at fair value through profit or loss.

A – Accounting policies (CONTINUED)

If it is necessary to separate an embedded derivative from its host contract, but it is not possible to measure the embedded derivative separately either at acquisition or at a subsequent financial reporting date, the entire combined contract is treated as a financial asset or financial liability at fair value through profit or loss.

When an embedded derivative is separated, the host contract is recognised according to its accounting classification.

Some derivatives are traded on organised exchanges where the terms of the contracts are standardised and quoted prices for the instruments are generally available publicly. Non-exchange traded derivatives, commonly referred to as over-the-counter (OTC) derivatives, are transacted directly between market counterparties with the terms of the contracts often tailored to the parties' specific requirements. These trades are usually governed by general terms published by the International Swaps and Derivatives Association (ISDA) and may be accompanied by a Credit Support Annex (CSA), which details the requirements for the posting of collateral.

All derivatives are initially measured at fair value.

Subsequent to initial recognition all derivatives are measured at fair value with changes in fair value recognised in profit or loss.

Financial instruments at fair value through profit or loss (fair value option)
Any financial instrument may be designated as a financial instrument measured at fair value through profit and loss on initial recognition, in accordance with the provisions of IAS 39, except for the following:
- investments in equity instruments for which there is no price quoted in active markets and whose fair value cannot be reliably determined.

Financial assets and liabilities classified in this category are those that have been designated by management upon initial recognition under the so-called "fair value option". Management may only designate an instrument at fair value through profit and loss upon initial recognition when the following criteria are met:
- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains and losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets and liabilities, which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value; changes in fair value are recorded in the item "Net change in financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or interest expense using the effective interest rate.

FlaFV includes financial assets and liabilities:
(i) not belonging to the regulatory trading book, whose risk is:
  - connected with debt positions measured at fair value
  - and managed by the use of derivatives not treatable as accounting hedges.

(ii) represented by hybrid (combined) instruments containing embedded derivatives that otherwise should have been separated from the host contract.

FlaFV are accounted for in a similar manner to HfT financial instruments (see above), however gains and losses, whether realised or unrealised, are recognised in item "Gains (losses) on financial assets and liabilities measured at fair value".

Available-for-sale financial assets (AfS)
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments, financial assets held for trading or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and can meet the need to ensure liquidity and face changes in interest rates, exchange rates and prices.

A – Accounting policies (CONTINUED)

AfS financial assets are money market instruments, other debt instruments or equity instruments; they include shares held as non-controlling interests where these do not constitute controlling or associate interests, or joint control.

On initial recognition, at settlement date, an AfS financial asset is measured at fair value, which is usually equal to the consideration of the transaction, plus transaction costs and income directly attributable to the instrument. In subsequent periods AfS assets are measured at fair value, the interest on interest-bearing instruments being recognised at amortised cost in the income statement.

Equity instruments (shares) not listed in an active market and whose fair value cannot be reliably determined are valued at cost. If there is objective evidence of an impairment loss on an available-for-sale financial asset, the cumulative loss that had been recognised directly in the equity item "Revaluation reserves", is removed from equity and recognised in profit or loss under the item "Impairment losses (b) available-for-sale financial assets".

The loss of value is normally considered lasting if fair value falls to less than 50% of the carrying amount or if fair value is lower than the carrying amount for more than 18 months.

If however the fall in the fair value of the instrument is over 20% but less than or equal to 50% or continues for no less than 9 months but no longer than 18 months, further market indicators are used for a review. If the results of the review are such as to prejudice the recovery of the amount originally invested, a lasting loss of value is recognised. The amount taken to profit and loss is the difference between the carrying amount (value of initial recognition less any impairment loss already recognised in profit or loss) and current fair value. Given the low volume of available-for-sale equity instruments, there is currently no material case in which this is applied in the Bank Austria Group. Where instruments are valued at amortised cost, the amount of the loss is determined as the difference between their carrying value and the present value of estimated future cash flows, discounted at the current market yield on similar financial assets.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss, but recognised in equity.

In respect of debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties which could prejudice the collection of the principal or interest, represent an impairment loss. A lasting loss of value of equity instruments is assessed on the basis of indicators such as fair value below the carrying amount and adverse changes in the environment in which the company operates, as well as the issuer's debt service difficulties.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event such as an improvement in the debtor's credit worthiness occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in the same profit or loss item. The reversal cannot result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised.

Held-to-maturity investments (HtM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, for which there is the positive intention and ability to hold them to maturity.

If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining HtM financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as HtM investments for the two following financial years, unless the sales or reclassifications:
- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments;
- are attributable to an isolated event that is beyond the reporting entity's control, is non-recurring and could not have been reasonably anticipated.

A – Accounting policies (CONTINUED)

After initial recognition at its fair value, which will usually be the price paid including transaction costs and income directly attributable to the acquisition or provision of the financial asset (even if not yet settled), a held-to-maturity investment is measured at amortised cost using the effective interest method. A gain or loss is recognised in profit or loss in the item "Gains and losses on disposal of held-to-maturity investments" when the financial asset is derecognised.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised on the date of contract signing, which normally coincides with the date of disbursement to the borrower.

These items include debt instruments with the above characteristics or those subject to portfolio reclassification in accordance with the rules of IAS 39 (see Section A.7.5) and the net value of finance leases of assets under construction or awaiting lease, provided the leases have the characteristics of contracts entailing the transfer of risk.

After initial recognition at fair value, which is usually the price paid including transaction costs and income directly attributable to the acquisition or issuance of the financial asset (even if not yet paid), a loan or receivable is measured at amortised cost, which can be adjusted to take account of any write-downs/write-backs resulting from the valuation process.

A gain or loss on loans and receivables is recognised in profit or loss:
- when a loan or receivable is derecognised: in the item "Gains and losses on disposal";

or:
- when a loan or receivable is impaired (or the impairment loss previously recognised is reversed): in the item "Impairment losses (a) loans and receivables".

Interest on loans and receivables is recognised in profit or loss on an accrual basis by using the effective interest rate method under the item "Interest income and similar revenue".

Delay interest is taken to the income statement on collection or receipt.

Loans and receivables are reviewed in order to identify those that, following events occurring after initial recognition, show objective evidence of possible impairment. These impaired loans are reviewed and analysed periodically at least once a year.

A loan or receivable is deemed impaired when it is considered that it will probably not be possible to recover all the contractually agreed amounts.

Allowances for impairment of loans and receivables are based on the present value of expected cash flows of principal and interest; in determining the present value of future cash flows, the basic requirement is the identification of estimated collections, the timing of payments and the rate used.

The amount of the loss on non-performing exposure – classified as "bad loans" and "unlikely to pay" as specified below – is the difference between the carrying value and the present value of estimated cash flows discounted at the original interest rate of the financial asset. If the original rate is not immediately available, or if obtaining it is too burdensome, its best approximation will be applied.

For all fixed rate positions the interest rate so determined is kept constant also in subsequent financial years, while for floating rate positions the interest rate is updated with respect to the floating component used as a reference while keeping the spread originally set constant.

Recovery times are estimated on the basis of business plans or forecasts based on historical recovery experience observed for similar classes of loans, taking into account the customer segment, the type of loan, the type of security and any other factors considered relevant.

Any subsequent change vis-à-vis initial expectations of the amount or timing of expected cash flows of principal and interest causes a change in allowances for impairment and is recognised in profit or loss in the item "Impairment losses (a) loans and receivables".

A – Accounting policies (CONTINUED)

In the notes to the financial statements, write-downs of impaired loans are classified as specific in the relevant income statement item even when the calculation is flat-rate or statistical, as indicated below.

When the reasons for the impairment no longer exist, and this assessment is objectively attributable to an event such as an improvement in the debtor's creditworthiness occurred after the impairment, a reversal is made in the same profit or loss item, within the amount of the amortised cost that there would have been if there had been no impairments.

Derecognition of a loan or receivable in its entirety is made when the rights under the loan have failed to produce the expected results, the loan or receivable is deemed to be irrecoverable or is written off. Write-offs are recognised directly in profit or loss under the item "Impairment losses (a) loans and receivables" and reduce the amount of the principal of the loan or receivable. Reversals of all or part of amounts previously written off are recognised in the same item.

According to UniCredit Group guidelines, non-performing loans and receivables are classified in the following categories:
- **Bad loans:** credit exposures, considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained. A realisation procedure is usually applied to such exposures. The impairment loss assessment is performed in general on an analytical basis. Details are given in the "Provisioning process" section.
- **Unlikely to pay:** on-balance sheet and off-balance sheet exposures which do not meet the conditions to be classified as "bad loans". The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness, without actions such as realisation of collateral, to fully repay his/her credit obligation (principal and/or interest). The classification within the "unlikely to pay" category is not necessarily related to the explicit presence of anomalies (repayment failure) but rather is tied to the existence of evidence of a debtor's risk of default. The classification is performed regardless of days of default. The impairment loss assessment is performed in general on an analytical basis. Details are given in the "Provisioning process" section.
- **Past due:** on-balance sheet exposures other than those classified among "bad loans" or "unlikely to pay", which at the reference date have amounts that are 90 days past due or over limits. Non-performing past-due amounts can be determined by reference to the individual debtor or to the individual transaction.

In respect of loans and receivables on which no specific write-downs have been made, any impairment losses which have been incurred as at the end of the reporting period but have not yet been identified by the bank are covered by a portfolio-based write-down. In this context we use the Loss Confirmation Period Method. The Loss Confirmation Period is the period between the occurrence of a loss event or the default of a borrower and the time when the bank identifies the loss. The Loss Confirmation Period is determined on a differentiated basis for various loan portfolios. The loss which has been incurred but has not yet been identified is estimated by using parameters determined under Basel 2 (expected loss – with a one-year time horizon) for the differentiated loan portfolios and the respective loss confirmation period.

Allowances for impairment reduce the loan or receivable's carrying amount. The risk inherent in off-balance-sheet items, such as loan commitments, losses due to impairment of guarantees and comparable credit derivatives under IAS 39, is recognised in profit or loss under the item "Impairment losses (d) other financial assets", offsetting the item "Other liabilities".

A 5.3.3 Further definitions in the context of financial instruments

Factoring

Loans acquired in factoring transactions with recourse are recognised to the extent of the advances granted to customers on their consideration. Loans acquired without recourse are recognised.

Guarantees and credit derivatives in the same class

Guarantees and credit derivatives in the same class measured under IAS 39 (i.e. contracts under which the issuer makes pre-established payments in order to compensate the guaranteed party or buyer of protection for losses sustained due to default by a debtor on the maturity of a debt instrument) are initially and subsequently (on remeasurement following impairment losses) recognised in the item "Other liabilities".

A – Accounting policies (CONTINUED)

On first recognition guarantees given are recognised at fair value, which usually corresponds to the amount received when the guarantee is issued. After initial recognition, guarantees given are recognised at the greater of the initially recognised value, net of any amortised portion, and the estimated amount required to meet the obligation. The effects of valuation, related to any impairment of the underlying, are recognised in the item “Write-downs and write-backs due to impairment of other financial transactions” in the income statement.

Finance leases
Finance leases effectively transfer all the risks and benefits of ownership of an asset to the lessee; ownership of the asset is transferred to the lessee, however not necessarily at contractual maturity.
The lessee acquires the economic benefit of the use of the leased asset for most of its useful life, in exchange for a commitment to pay to the lessor an amount approximately equivalent to the fair value of the asset and related finance costs.

Recognition in the lessor’s accounts is as follows:
- in assets, the value of the loan, less the principal of lease payments due and paid by the lessee;
- in profit or loss, interest received.

See the sections on “Property, plant and equipment” and “Intangible assets” below for the treatment of the lessee’s assets.

Forbearance
Forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. If such measures involve a loss, they will lead to the recognition of an impairment loss in accordance with IAS 39. For further information on forbearance see section E.2 in the risk report.

Hedge accounting
Hedging instruments are those created to hedge market risks (interest-rate, currency and price) to which the hedged positions are exposed.

Hedging derivatives are initially recognised at the settlement date and are valued at their fair value.

A hedging relationship qualifies for hedge accounting if there is formal designation and documentation of the hedging relationship including the risk management objective, the strategy for undertaking the hedge, and how the hedging instrument’s prospective and retrospective effectiveness will be assessed. It is necessary to assess the hedge’s effectiveness, at inception and in subsequent periods, in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk.

A hedge is regarded as highly effective if, at the inception of the hedge and in subsequent periods, it is determined prospectively to remain highly effective, and the retrospectively verified that the hedge ratio (i.e. the changes in fair value of hedged items and hedging instruments) is within a range of 80–125 per cent. The hedge is assessed on an ongoing basis and thus must prospectively remain highly effective throughout the financial reporting periods for which the hedge has been designated.

The assessment of effectiveness is made at each balance-sheet date or other reporting date.
If the assessment does not confirm the effectiveness of the hedge, from that time on hedge accounting is discontinued in respect of the hedge and the hedging derivative is reclassified as a held-for-trading instrument.

In addition, the hedging relationship ceases when the hedging instrument expires or is sold, terminated or exercised; the hedged item is sold, expires or is repaid; or it is no longer highly probable that the forecast transaction will occur.

Hedging instruments are so designated when identifiable with an ultimate counterparty outside the Group.

A – Accounting policies (CONTINUED)

Hedging derivatives are measured at fair value. Specifically:

- **Micro fair value hedging** – an effective fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument (e.g. interest rate swaps, swaptions, caps, floors) at fair value is recognised through profit or loss in the item "Fair value adjustments in hedge accounting"; the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss in the same item. If the hedging relationship is terminated for reasons other than the sale of the hedged item, this is measured according to the original criterion dictated by the accounting standard applied to the relevant portfolio. In the case of interest-bearing instruments, the difference between the carrying amount of the hedged item on termination of the hedging and the carrying amount it would have had if the hedge had never existed, is recognised through profit or loss in interest receivable or payable over the residual life of the original hedge. The difference in fair value of the hedging derivative since the latest effectiveness testing date is recognised in profit or loss under the item "Fair value adjustments in hedge accounting". If the hedged item is sold or repaid, the portion of fair value which is still unamortised is at once recognised through profit or loss in the item "Gains and losses on disposal or repurchase".
- **Cash flow hedging** – hedging instruments are valued at fair value. A change in the fair value of a hedging instrument (e.g. cross-currency swaps, interest rate swaps) that is considered effective is recognised in the equity item "Revaluation reserves". The ineffective portion of the gain or loss is recognised through profit or loss in the item "Fair value adjustments in hedge accounting". If a cash flow hedge is determined to be no longer effective or the hedging relationship is terminated, the cumulative gain or loss on the hedging instrument that remains recognised in "Revaluation reserves" from the period when the hedge was effective remains separately recognised in "Revaluation reserves" until the forecast hedged transaction occurs or is determined to be no longer possible; in the latter case gains or losses are transferred through profit or loss to "Fair value adjustments in hedge accounting". The fair value changes recorded in item "Revaluation reserves" are also disclosed in the Statement of Comprehensive Income.
- **Portfolio fair value hedge for financial assets (liabilities)** – IAS 39 allows a fair-value item hedged against interest rate fluctuations to be not only a single asset or liability but also a monetary position contained in a number of financial assets or liabilities (or parts of them); accordingly, a group of derivatives can be used to offset fair-value fluctuations in hedged items due to changes in market rates. Macro hedging may not be used for net positions resulting from the offsetting of assets and liabilities. As for fair value micro hedging, macro hedging is considered highly effective if, at the inception of the hedge and in subsequent periods, changes in the fair value attributable to the hedged position are offset by changes in fair value of the hedging instrument and if the hedge ratio is retrospectively assessed falling within the range of 80–125 per cent. Net changes – gains or losses – in the fair value of the macro-hedged assets and liabilities attributable to the hedged risk are recognised in special line items on the asset or liability side and offset the profit and loss item "Fair value adjustments in hedge accounting". The ineffectiveness of the hedging arises to the extent that the change in the fair value of the hedging item differs from the change in the fair value of the hedged monetary position. The extent of hedge ineffectiveness is in any case recognised in the profit and loss item "Fair value adjustments in hedge accounting". If the hedging relationship is terminated, for reasons other than the sale of the hedged items, a cumulative gain or loss in the balance sheet line items is recognised through profit or loss in interest income or expenses, along the residual life of the hedged financial assets or liabilities. If the latter are sold or repaid, unamortised fair value is at once recognised through profit and loss in the item "Gains and losses on disposal or repurchase".

A portfolio fair value hedge is also used by Bank Austria for fixed-rate exposures. The bank uses interest rate swaps and cross-currency interest rate swaps with fixed legs, which hedge fixed exposures resulting from transactions on the assets side or liabilities side – depending on the currency – in euro or foreign currency. In this context Bank Austria applies the EU carve-out because it also includes replication portfolios of sight deposits in the portfolio of hedged items. The group cash flow hedge previously applied was terminated at the end of October 2014; the cash flow hedge reserve is maintained until the hedged items affect profit or loss, and will be gradually released in the coming years.

Cash flow hedges are used by Bank Austria for protecting future variable cash flows against changes in market rates. They hedge the exposure to variability in cash flows which result from assets or liabilities or from planned transactions and have an effect on profit or loss. Changes in the fair values of derivatives designated as hedging instruments are divided into a portion that is determined to be an effective hedge, and into an

A – Accounting policies (CONTINUED)

ineffective portion. The effective portion of any gain or loss on the hedging instrument is included in the cash flow hedge reserve and recognised in profit or loss in the same period in which the change in the value of the hedged item is recognised in profit or loss. This neutralises the effect on profit or loss. The effectiveness of cash flow hedges is measured on a regular basis in accordance with IAS 39.

Equity investments
The principles governing the recognition and measurement of equity investments under IFRS 10 and IFRS 11 are given in detail in Part A.3 – Consolidation principles. Remaining interests other than subsidiaries, associates and joint ventures, and interests recognised in items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale" are classified as AfS financial assets or financial assets at fair value through profit and loss and treated accordingly.

Repo transactions and securities lending
Securities received in a transaction that entails a contractual obligation to sell them at a later date or delivered under a contractual obligation to repurchase are neither recognised nor derecognised. In respect of securities purchased under an agreement to resell, the consideration is recognised as a loan to customers or banks, or as an asset held for trading. In respect of securities held in a repurchase agreement, the liability is recognised as due to banks or customers, or as an HfT financial liability. Revenue from these loans, being the coupons accrued on the securities and the difference between the sale/purchase and resale/repurchase prices, is recognised in profit or loss through interest income and expenses on an accrual basis.

These transactions can only be offset if, and only if, they are carried out with the same counterparty and provided that such offset is provided for in the underlying contracts.

The same rules apply to securities lending transactions. Counterparty risk related to such securities lending or borrowing transactions is shown in the tables in section "E.2 – Credit risk".

Liabilities, debt securities in issue and subordinated loans
The items "Deposits from banks", "Deposits from customers" and "Debt securities in issue" are used for all forms of third-party funding other than trading liabilities or those valued at fair value through profit and loss.

These financial liabilities are recognised on the settlement date principle initially at fair value, which is normally the consideration received less transaction costs directly attributable to the financial liability. Subsequently these instruments are measured at amortised cost using the effective interest method.

Hybrid debt instruments relating to equity instruments, foreign exchange, credit instruments or indexes, are treated as structured instruments. The embedded derivative is separated from the host contract and recognised as a derivative, provided that separation requirements are met, and recognised at fair value. Any subsequent changes in fair value are recognised in the profit and loss item "Gains and losses on financial assets and liabilities held for trading".

The difference between the total amount received and the initial fair value of the embedded derivative is attributed to the host contract. Instruments convertible into treasury shares imply recognition, at the issuing date, of a financial liability and of the equity part, recognised in the item "Equity instruments", any time contractual terms provide for physical delivery settlement. The equity part is initially measured at the residual value, i.e., the overall value of the instrument less the separately determined value of a financial liability with no conversion clause and the same cash flow. The financial liability is initially recognised at amortised cost using the effective interest method. Within the Bank Austria Group, only the subsidiary Bank Austria Wohnbaubank AG has issued debt instruments theoretically involving convertibility to equity instruments, because this feature is required for providing tax advantages for the holder of the instruments. However, in line with practice in the Austrian banking sector, the embedded call options are deemed to have a fair value of zero upon issuance as a conversion into equity does virtually never occur.

A – Accounting policies (CONTINUED)

Securities in issue are recognised net of repurchased amounts; the difference between the carrying value of the liability and the amount paid to repurchase it is taken to profit and loss under the item "Gains and losses on repurchases of financial liabilities". Subsequent disposal by the issuer is considered as a new issue which does not produce gains or losses.

Loan securitisations
Loans and receivables also include loans securitised which cannot be derecognised under IAS 39.

Corresponding amounts received for the sale of securitised loans net of the amount of any issued securities and any other type of credit enhancement held in portfolio (retained risk) are recognised in the liability items "Deposits from banks" and "Deposits from customers", respectively.

Both assets and liabilities are measured at amortised cost and interest received is recognised through profit or loss. Impairment losses on securitised assets sold but not derecognised are reported in item "Impairment losses (a) loans and receivables".

Asset encumbrance
The term "asset encumbrance" refers to assets pledged as security for a company's own liabilities and commitments. Such assets continue to be recognised in the financial statements as long as the Bank Austria Group retains beneficial ownership. For information on assets pledged as security see section F.8.

A.5.4 – Impairment test of investments in subsidiaries, associates and other companies

The impairment test of investments in subsidiaries and associates was based on the Standard UniCredit Group Discounted Cash Flow Valuation Model (3-phase model):

- Phase 1: planning period (2017–2019):
  The 2017 budget figures for net profit and risk-weighted assets were used for 2017, and currently available multi-year planning figures were used for subsequent years.

- Phase 2 (2020–2024):
  In this phase the growth rates of net profit and risk-weighted assets converge towards 2%.

- Phase 3 – perpetual annuity:
  Calculation of the present value of a perpetual annuity on the assumption of a long-term growth rate which takes the sustained long-term economic growth expected by UniCredit Bank Austria AG for the euro area into account (2%).

The expected cash flows for banks are determined on the basis of CET1 capital ratios sought to be achieved in the long term while complying with regulatory requirements. Unless the specific circumstances or the business model result in a higher value, UniCredit Bank Austria AG uses a target CET1 capital ratio of 11.5%. The cash flows are discounted using the rate of cost of capital which is determined on the basis of the long-term risk-free interest rate, the market risk premium according to Damodaran (which is within the range of recommendations issued by the Austrian Chamber of Public Accountants and Tax Consultants) and an appropriate beta. The discount rate is a nominal rate after taxes. For investments in Austrian banks, the rate of cost of capital in 2016 is 8%, with some deviations for specialised institutions and other industries reflecting the different risk content.

Less significant investments in other companies are valued using models which are adapted to the object of business.

As the parameters and data used to test carrying amounts for impairment are significantly influenced by the overall economic environment and by market conditions, which may be subject to rapid unpredictable changes, the results of future impairment tests may differ from those which were used for the 2016 financial statements.

A.6 – Information on other financial statement line items

A.6.1 – Cash and cash equivalents

The amount of cash and cash equivalents stated in the statement of cash flows includes the cash holdings (cash and demand deposits with central banks). In addition to the cash and cash equivalents shown in the item "Cash and cash balances" in the statement of financial position, cash and cash equivalents also include those in the item "Non-current assets and disposal groups classified as held for sale".

A – Accounting policies (CONTINUED)

A.6.2 – Property, plant and equipment; investment property

The item includes:
- land;
- buildings;
- furniture and fixtures;
- plant and machinery;
- other machinery and equipment;

and is divided between
- assets used in the business and
- assets held as investments

Assets used in the business are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used during more than one period. This category also includes assets to be let or under construction and to be leased under a finance lease, only for those finance leases which provide for retention of risk by the lessor until the acceptance of the asset by the lessee and the start of rentals under the finance lease (see also section "loans and receivables" for finance leases with risk transfer).

The item includes assets used by the Group as lessee under a finance lease, or let/hired out by the Group as lessor under an operating lease.

Property, plant and equipment also include leasehold improvements relating to assets which can be which can be separately identified. They are classified according to the specific sub-items relating to the asset type (e.g. plants). Leasehold improvements are usually borne in order to make leased premises fit for the expected use. Improvements and additional expenses relating to property, plant and equipment identifiable but not separable are recognised in the item "Other assets".

Assets held for investment purposes ("Investment Property") are properties covered by IAS 40, i.e. properties held (owned or under a finance lease) in order to derive rentals and/or a capital gain.

Property, plant and equipment are initially recognised at cost including all costs directly attributable to bringing the asset into use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the desired location. installation costs and dismantling costs).

Subsequent costs are added to the carrying amount or recognised as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses borne at a later time (e.g. normal maintenance costs) are recognised in the year they are incurred in profit and loss items:
- "General and administrative expenses", if they refer to assets used in the business; or:
- "Other net operating income", if they refer to property held for investment.

After being recognised as an asset, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any cumulative impairment losses.

Exceptions are made for property investments underlying liabilities whose yield is linked to their fair value. For these latter assets the fair value model as per IAS 40.32A is used.

An item with a finite useful life is subject to straight-line depreciation.

As in the previous year, useful life continues to be assessed in Bank Austria as follows:

PROPERTY, PLANT AND EQUIPMENT (TANGIBLE ASSETS)	USEFUL LIFE
Buildings	max. 50 years
Movables	max. 25 years
Electronic equipment	max. 15 years
Other	max. 10 years

A – Accounting policies (CONTINUED)

Land and buildings are recognised separately, even if acquired together. Land is not depreciated since it usually has an indefinite useful life. Buildings, conversely, have a finite useful life and are therefore subject to depreciation.

The estimate of the useful life of an asset is reviewed at least at each accounting period-end on the basis inter alia of the conditions of use of the asset, of maintenance conditions and expected obsolescence, and, if expectations differ from previous estimates, the depreciation amount for the current and subsequent financial years is adjusted accordingly.

If there is objective evidence that an asset has been impaired the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i.e., the present value of future cash flow expected to originate from the asset. Any value adjustment is recognised in profit and loss item "Impairment/write-backs on property, plant and equipment".

If the value of a previously impaired asset is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there had been no losses recognised on the prior-year impairment.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or sale in the future and any difference between sale proceeds or recoverable value and carrying value is recognised in the profit and loss item "Gains and losses on disposal of investments".

A.6.3 – Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance which is expected to be used during more than one period, and from which future economic benefits are probable.

Intangible assets are principally goodwill, software, brands and customer-related intangible assets.

Intangible assets other than goodwill are recognised at purchase cost, i.e. including any cost incurred to bring the asset into use, less accumulated amortisation and impairment losses.

An intangible asset with a finite life is subject to straight-line amortisation over its estimated useful life.

Useful life is usually assessed as follows:
- software: maximum 7 years
- other intangible assets: maximum 20 years
- customer base: maximum 20 years

If there is objective evidence that an asset has been impaired, the carrying amount of the asset is compared with its recoverable value, equal to the greater of its fair value less selling cost and its value in use, i. e. the present value of future cash flows expected to originate from the asset. Any impairment loss is recognised in the profit and loss item "Impairment/write-backs on intangible assets".

For an intangible asset with an indefinite life even if there are no indications of impairment, the carrying amount is compared annually with its recoverable value. If the carrying amount is greater than the recoverable value, the difference is recognised in the profit and loss item "Impairment/write-backs on intangible assets".

If the value of a previously impaired intangible asset, other than goodwill is restored, its increased carrying amount cannot exceed the net carrying amount it would have had if there were no losses recognised on the prior-year impairment.

A.6.4 – Non-current assets held for sale

Non-current assets or groups of associated assets/liabilities (i.e. so-called "disposal groups", which may also be cash-generating units) whose sale is highly probable, are recognised in the item "Non-current assets and disposal groups classified as held for sale" and in the item "Liabilities included in disposal groups classified as held for sale", respectively, at the lesser of the carrying amount and fair value net of disposal costs.

A – Accounting policies (CONTINUED)

If a disposal group constitutes a separate material line of business or geographical operation, it is referred to as a "discontinued operation". The balance of revenue and expense relating to discontinued operations and the measurement as determined above of discontinued operations, net of current and deferred tax, is recognised in the item "Total profit or loss after tax from discontinued operations".

The revaluation reserves relating to "Non-current assets held for sale", which are recorded as a contra item in other comprehensive income within equity, are reported separately in the Statement of Comprehensive Income.

A.6.5 – Income tax

Tax assets and tax liabilities are recognised in the consolidated balance sheet in the item "Tax assets" and in the item "Tax liabilities", respectively.

In compliance with the "balance sheet liability method", current and deferred tax items are:
- current tax assets, i.e. the amount of tax paid in excess of income tax due in accordance with local tax regulations;
- current tax liabilities, i.e. the amount of corporate tax due in accordance with local tax regulations;
- deferred tax assets, i.e. the amounts of income tax recoverable in future fiscal years and attributable to:
  - deductible temporary differences;
  - the carryforward of unused tax losses; and
  - the carryforward of unused tax credits
- deferred tax liabilities, i.e. the amounts of income tax due in future fiscal years in respect of taxable temporary differences.

Current and deferred tax assets and tax liabilities are calculated in accordance with local tax regulations and are recognised in profit or loss on an accrual basis.

In general, deferred tax assets and liabilities arise when there is a difference between the accounting treatment and the tax treatment of the carrying amount of an asset or liability.

Deferred tax assets and liabilities are recognised applying tax rates that at the balance sheet date are expected to apply in the period when the carrying amount of the asset will be recovered or the liability will be settled on the basis of tax regulations in force, and are periodically reviewed in order to reflect any changes in regulations.

Furthermore, deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profit will be generated by the entity. In accordance with the provisions of IAS 12, the probability that sufficient future taxable profit against which the deferred tax assets can be utilised will be available is reviewed periodically. The carrying amount of deferred tax assets should be reduced to the extent that it is not probable that sufficient taxable profit will be available.

Deferred tax assets and deferred tax liabilities are offset in the consolidated financial statements if the conditions specified in IAS 12.74 are met.

Current and deferred taxes are recognised in profit and loss item "Tax expense (income) related to profit or loss from continuing operations", except for tax relating to items that in the same or in another fiscal year are credited or charged directly to equity, such as those relating to gains or losses on available-for-sale financial assets and those relating to changes in the fair value of cash flow hedging instruments, whose changes in value are recognised, net of tax, directly in the Statement of Comprehensive Income – valuation reserves.

Pursuant to the group taxation rules introduced in Austria in 2005, Bank Austria has formed a group of companies. Profit and loss transfer agreements have been concluded with 16 group members (2015: 23), tax compensation agreements have been reached with 37 companies (2015: 42) and there is one joint control arrangement. These agreements and arrangements do not include foreign companies.

A.6.6 – Other assets

The components of this item are accounts receivable from deliveries of goods and the performance of services, tax claims and deferred tax assets unless these relate to income tax.

A – Accounting policies (CONTINUED)

A.6.7 – Deposits from banks/customers, debt securities in issue

These financial liabilities are recognised initially at fair value, net of transaction costs incurred. Subsequently these instruments are measured at amortised cost using the effective interest rate method.

A.6.8 – Provisions for risks and charges and contingent liabilities

A.6.8.1 – Long-term employee benefits

For retirement provisions – i.e. provisions for employee benefits payable after the completion of employment – a distinction is made between defined-contribution plans and defined-benefit plans according to the economic nature of the plan.

In detail:
- Defined-benefit plans provide a series of benefits depending on factors such as age, years of service and compensation policies. Under this type of plan actuarial and investment risks are borne by the company;
- Defined-contribution plans are plans under which the company makes fixed contributions. Benefits are the result of the amount of contributions paid and return on contributions invested. The employer bears no actuarial and/or investment risks connected with this type of plans as it has no legal or implicit obligation to make further contributions, should the plan not be sufficient to provide benefit to all employees.

Defined-benefit plans are present-valued by an external actuary using the projected unit credit method. This method distributes the cost of benefits uniformly over the employee's working life. Obligations are the present value of average future benefits pro rata to the ratio of years of service to theoretical seniority at the time of benefit payment.

The amount recognised as a liability in the item "Provisions for risks and charges – (a) post-retirement benefit obligations" is the present value of the obligation at the balance sheet date. The UniCredit Bank Austria AG sub-group currently does not have any plan assets. Pursuant to IAS 19, actuarial gains and losses are not recognised in profit or loss but directly in equity. Such gains and losses are stated in the table "Other comprehensive income".

Under a commitment to provide defined benefits, UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective, and – as a special feature of UniCredit Bank Austria AG's staff regulations – for the future benefits, equivalent to those under mandatory insurance, earned by active employees and pensioners for whom UniCredit Bank Austria AG has assumed the obligations of the mandatory pension insurance scheme pursuant to Section 5 of the Austrian General Social Insurance Act (ASVG) if these persons signed a pension agreement not later than 29 February 2016 and if they leave the company to take retirement by 31 December 2016.

In the past, UniCredit Bank Austria AG assumed the obligations of the mandatory social insurance scheme for a number of its employees, especially with regard to pension obligations. In December 2015, UniCredit Bank Austria AG and the Employees' Council made an agreement to the effect that for almost all of the employees who have rights to future benefits (essentially the active employees covered by the bank's own pension scheme) the bank's own pension system is terminated and the rights to future pension benefits will consequently be transferred to the state scheme under the Austrian General Social Insurance Act. The employees concerned will receive compensation, in the form of one-off lump-sum payments, for any disadvantages resulting from this transfer. In addition, UniCredit Bank Austria has to make a payment, defined by law, to the state scheme under the Austrian General Social Insurance Act for the transfer of the rights to future pension benefits. The amount of this payment was determined in the best possible manner based on the legal situation applicable as at 31 December 2015 and a liability was recognised for it.

The agreement with the Employees' Council was signed with legal effect in December 2015 and terminated the bank's own pension system for the employees concerned upon expiry of 29 February 2016. The employees concerned are automatically, by operation of law, taken over by the state scheme under the Austrian General Social Insurance Act. While the entitlements will not be transferred, and the payments will not be made, until the first quarter of 2016, the effect of this plan curtailment and the related reduction of the present value of the pension obligation had to be recognised in the financial statements in accordance with IAS 19 already in 2015.

The Austrian legislator subsequently passed an amendment to the Austrian General Social Insurance Act, which was published in the Austrian Federal Law Gazette No. 18/2016 on 13 April 2016 and became effective retroactively so that the above-mentioned transfers are covered by the amendment. The Austrian Federal Minister of Labour, Social Affairs and Consumer Protection has stated by way of regulation that the European Commission does not see the transferred amount as state aid under the new Section 311a of the Austrian General Social Insurance Act. In effect, this ASVG amendment puts the transfer to the ASVG scheme of rights to future pension benefits on a separate legal basis while also increasing the amount to be transferred to the Austrian state pension system. After receipt of the relevant official notices issued to UniCredit Bank Austria AG, the liability was adjusted accordingly as at 31 December 2016.

A – Accounting policies (CONTINUED)

The present value of pension obligations and severance-payment obligations as well as anniversary bonuses is determined with due regard to internal service regulations, on the basis of the following actuarial assumptions:

- Discount rate/Austria: 1.60% p.a. (2015: 2.05% p.a.)
  This percentage is the rounded percentage according to the Mercer Yield Curve (MYC) as at 31 December 2016 based on the cash flows determined for the pension plan for active employees and pensioners. The duration applicable to the pension plan is 13.07 years (2015: 12.55 years); the weighted duration for the pension, severance payment and anniversary bonus plans is 12.8 years (2015: 12 years).
- Increases under collective bargaining agreements: 2.05% p.a. (2015: 2.05% p.a.)
  (Assumption of increases for employees and non-Bank Austria ASVG pensioners; the percentage rate applied for Bank Austria ASVG was 1.4%, unchanged compared with the previous year.)
- Career trends include regular salary increases under the current collective bargaining agreement for employees of Austrian banks and the effects of the transitional rules under the 2005 reform of Bank Austria's staff regulations. The rate applied in calculating non-regular salary increases was 0.25% p.a. (2015: 0.25% p.a.) (assumption of increases for active employees).
- Pension increase (Bank Austria ASVG): 1.40% p.a. (2015: 1.40% p.a.).
- Pension increase (others): 2.05% p.a., (2015: 2.05% p.a.).
- No discount for staff turnover.
- Retirement age: as a basis for calculation in respect of employees enjoying "permanent tenure" status in accordance with the internal agreement dated 30 December 1999 (as amended on 1 May 2007) on the payment of a Bank Austria ASVG pension equivalent, the age of 60 for men and 55 for women, with a transition to the retirement age of 65, has been taken into account. For all other employees, the new retirement age of 65 for men and women has been taken into account in accordance with the applicable rules (2003 pension reform including transitional rules). If the corridor pension rule results in a lower retirement age, the lower age was used as retirement age.
- 2008-P statistical tables of Aktuarverein Österreich (life-expectancy tables for salaried staff).

Sensitivity analysis (€ million)

		EFFECT ON DEFINED BENEFIT OBLIGATION	
		31 DEC. 2016	31 DEC. 2015
Discount rate	–0.25%	124	111
	0.25%	–118	–106
Salary increase rate	–0.25%	–8	–11
	0.25%	8	11
Pension increase rate	–0.25%	–110	–96
	0.25%	116	100

No provisions are made for defined-contribution plans. Payments agreed to be made to a pension fund for defined-contribution plans are recognised as an expense.

The resulting adjustment of –€219 million (2015: €757 million) (after tax) to the measurement of the defined benefit obligation was recognised directly in equity in accordance with IAS 19.

A.6.8.2 – Other provisions

Provisions for risks and charges are recognised when
- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amounts recognised as provisions are the best estimate of the expenditure required to settle the present obligation. The risks and uncertainties that inevitably surround the relevant events and circumstances are taken into account in reaching the best estimate of a provision.

Where the effect of the time value of money is significant, the amount of the provision should be the present value of the best estimate of the cost required to settle the obligation. The discount rate used reflects the current market assessments.

Provisions are reviewed periodically and adjusted to reflect the current best estimate. If it becomes clear that it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A – Accounting policies (CONTINUED)

Provisions are used only for expenses for which they were originally recognised. Allocations made in the year are recognised in profit or loss and include increases due to the passage of time; they are also net of any reversal.

"Other provisions" also include obligations relating to benefits due to agents, specifically supplementary customer portfolio payments, merit payments, contractual payments and payments under non-competition agreements, which are measured as per defined benefit plans; accordingly these obligations are calculated using the projected unit credit method (see above under retirement payments and similar obligations).

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of Bank Austria, or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of resources, or because the amount of obligation cannot be reliably measured.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the probability of settlement is low.

A.6.8.3 – Share-based payments

Equity-settled payments made to employees in consideration of services rendered, using equity instruments comprise:
- Stock options;
- Performance shares (i.e. awarded on attainment of certain objectives);
- Restricted shares (i.e. subject to a lock-up period).

Considering the difficulty of reliably measuring the fair value of the services acquired against equity-settled payments, reference is made to the fair value of the instruments themselves, measured at the date of the allocation.

This fair value is recognised as cost in the profit and loss item "Administrative costs – staff expense" offsetting the shareholders' equity item "Reserves", on an accrual basis over the period in which the services are acquired.

The fair value of a cash-settled share-based payment, the services acquired and the liability incurred are measured at the fair value of the liability, recognised in the item "Other liabilities". The fair value of the liability, as long as it remains unsettled, is remeasured at each balance sheet date and all changes in fair value are recognised in the profit and loss item "Administrative costs".

A.6.8.4 – Other long-term employee benefits

Long-term employee benefits – e.g. long-service bonuses, paid on reaching a predefined number of years' service – are recognised in the item "Other liabilities" on the basis of the measurement at the balance sheet date of the liability, also in this case determined by an external actuary using the projected unit credit method (see section "Provisions for risks and charges – post-employment benefits").

Gains (losses) on this type of benefit are recognised at once through profit or loss.

A.6.9 – Equity

Equity is composed of paid-in capital, i.e., capital made available to the company by shareholders (subscribed capital plus capital reserves), other reserves (retained earnings, profit carried forward from the previous year and net profit), foreign currency translation reserves, IAS 39 reserves and actuarial gains/losses. The IAS 39 reserves include gains and losses on available-for-sale financial assets (available-for-sale reserve), which are not recognised in income, and those components of hedge accounting in accordance with IAS 39 which are not included in income (cash flow hedge reserve), after adjustment for deferred taxes.

Treasury shares held by subsidiaries are deducted from equity. The difference between the price on a later sale of treasury shares and the related post-tax repurchase cost is recognised directly in equity.

A – Accounting policies (CONTINUED)

A.6.10 – Net interest

Interest income and expense and similar income and expense items relate to monetary items – i.e. liquidity and debt, financial instruments held for trading, measured at fair value through profit or loss or available for sale, HtM financial assets, loans and receivables, deposits, and securities in issue.

Interest income and expense are recognised through profit or loss with respect to all instruments measured at amortised cost, using the effective interest method.

Interest also includes the net credit or debit balance of differentials and margins on financial derivatives:
- hedging interest-bearing assets and liabilities;
- HfT but linked for business purposes to assets and liabilities designated as measured at fair value (fair value option);
- linked for business purposes to HfT assets and liabilities paying differentials or margins on different maturities.

As a result of the currently low interest rate levels, interbank business has partly led to expenses for financial assets and income from financial liabilities. Expenses relating to loans and receivables (assets) are included in "Interest income and similar revenues". Income received for deposits (liabilities) is included in "Interest expense and similar charges".

A.6.11 – Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment managing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Fee and commission income and fee and commission expense over a specific period of time are accounted for on an accrual basis.

A.6.12 – Dividends

Dividends are recognised in profit or loss in the financial year in which their distribution has been approved.

A.6.13 – Gains and losses on disposals of financial instruments

This item shows the results from disposals of loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial liabilities. Gains and losses on disposal of financial assets held for trading and on financial instruments at fair value through profit or loss are not included.

A.6.14 – Gains and losses on financial assets/liabilities at fair value through profit or loss

This item includes gains and losses on financial assets and financial liabilities as well as the results from the measurement of these items at their fair values.

A.6.15 – Impairment losses on loans/Impairment losses on other financial transactions

These items include write-downs of loans, write-offs and additions to provisions for guarantees and commitments, and income from write-backs as well as recoveries of loans previously written off.

A – Accounting policies (CONTINUED)

A.6.16 – Impairment/write-backs on property, plant and equipment and on intangible assets

Write-downs on assets held under finance leases are part of this item.

A.6.17 – Profit (loss) on equity investments

The investor's share of profit or loss of the investee after the date of acquisition is recognised in this item.

A.6.18 – Gains and losses on disposal of investments

This item includes gains/losses on the disposal of investments in property and other assets.

A.7 – Information on fair value

A.7.1 – General overview

This section presents a disclosure of reclassified financial instruments according to IAS 39 and information on fair value as required by IFRS 13.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments listed in active markets, fair value is determined on the basis of official prices in the principal market to which the Group has access (Mark to Market).

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from a pricing service, dealer, broker, agency that determines prices or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

If the observable prices in an active market for the identical item held by another party as an asset, or other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset are not available, the Group should use another valuation technique, such as:

(i) an income approach (e.g. a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset);

(ii) a market approach (e.g. using quoted prices for similar liabilities or equity instruments held by other parties as assets).

The Group uses valuation models (Mark to Model) in keeping with the methods generally accepted and used by the market. Valuation models include techniques based on the discounting of future cash flows and on volatility estimates, and they are subject to revision both during their development and periodically in order to ensure their consistency with the objectives of the valuation.

These methods use inputs based on prices set in recent transactions for the instrument being valued and/or prices/quotations for instruments having similar characteristics in terms of risk profile.

Indeed, these prices/quotations are relevant for determining significant parameters in terms of the credit risk, liquidity risk and price risk of the instrument being valued.

Reference to these "market" parameters makes it possible to limit the discretionary nature of the valuation, and ensures that the resulting fair value can be verified.

A – Accounting policies (CONTINUED)

If for one or more risk factors it is not possible to refer to market data, the valuation models employed use estimates based on historical data as inputs.

As a further guarantee of the objectivity of valuations derived from valuation models, the Group employs:
- independent price verifications (IPVs);
- fair value adjustments (FVAs).

Independent price verification requires that the valuation parameters for prices for trading positions be verified at least monthly, tested and validated by Risk Management units of the holding company; these are independent of the units that assume the risk exposure. This verification calls for comparing and adjusting the daily price in line with valuations obtained from independent market participants.

For instruments not quoted in active markets, the above verification process uses prices contributed by information providers as a reference, and assigns a greater weighting to those prices that are considered representative of the instrument being valued.

This valuation includes the "executability" of the transaction at the price observed, the number of contributors, the degree of similarity of the financial instruments, the consistency of prices from different sources, and the process followed by the information provider to obtain the information.

Independent price verification is supplemented by the calculation of fair-value adjustments, which are also recognised for accounting purposes, to take into account risks mainly associated with both the limited liquidity of the positions, the valuation models used and counterparty risk.

A.7.2 – Fair value hierarchy

IFRS 13 calls for classifying instruments being measured at fair value as a function of the ability to observe the inputs used for pricing.

To be specific, three levels are specified:
- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets;
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed in active markets;
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that primarily use inputs that cannot be observed in active markets.

The following tables show a breakdown of financial assets and liabilities designated at fair value according to the above-mentioned levels, as well as the annual changes of Level 3 assets or liabilities.

Accounting portfolios – Breakdown by fair value levels (€ million)

FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	31 DEC. 2016			31 DEC. 2015		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	1	1,075	37	134	2,810	69
Financial assets at fair value through profit or loss	–	–	14	–	72	16
Available-for-sale financial assets	14,342	1,260	131	19,648	4,070	1,030
Hedging derivative assets	–	2,661	–	–	3,284	6
Property, plant and equipment (measured at fair value)	–	–	23	–	–	69
TOTAL	**14,343**	**4,996**	**205**	**19,782**	**10,236**	**1,190**
Financial liabilities held for trading	–	1,088	18	34	2,578	30
Financial liabilities at fair value through profit or loss	–	397	2	–	544	3
Hedging derivative liabilities	–	2,153	–	–	2,761	21
TOTAL	**–**	**3,638**	**20**	**34**	**5,883**	**54**

A – Accounting policies (CONTINUED)

Annual changes in assets at fair value level 3

(€ million)

	2015				
	ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**72**	**57**	**1,133**	**20**	**70**
Increases	**518**	**11**	**699**	**4**	**1**
Purchases	491	–	431	3	–
Profits recognised in:					
Income statement	25	9	77	–	–
of which unrealised gains [1]	*3*	*4*	–	–	–
Equity [2]	x	x	77	–	–
Transfers from other levels	–	–	201	–	–
Other increases	2	2	–10	1	1
Decreases	**–520**	**–51**	**–802**	**–18**	**–2**
Sales	–490	–38	–221	–18	–
Redemptions	–28	–13	–89	–	–
Losses recognised in:					
Income statement	–1	–	–	–	–2
of which unrealised losses [3]	–	–	–	–	*–2*
Equity [4]	x	x	–22	–	–
Transfers to other levels	–	–	–316	–	–
Other decreases	–1	–1	–154	–	–1
Closing balances	**69**	**16**	**1,030**	**6**	**69**
	2016				
	ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**69**	**16**	**1,030**	**6**	**69**
Increases	**2**	**2**	**129**	**–**	**1**
Purchases	2	–	64	–	–
Profits recognised in:					
Income statement	–	2	–	–	–
of which unrealised gains [1]	–	*2*	–	–	–
Equity [2]	x	x	7	–	–
Transfers from other levels	–	–	35	–	–
Other increases	–	1	24	–	1
Decreases	**–33**	**–5**	**–1,028**	**–6**	**–47**
Sales	–7	–	–74	–3	–
Redemptions	–	–5	–2	–	–
Losses recognised in:					
Income statement	–2	–	–10	–	–1
of which unrealised losses [3]	–	–	–	–	*–1*
Equity [4]	x	x	–10	–	–
Transfers to other levels	–	–	–11	–	–
Other decreases [5]	–24	–	–921	–3	–45
Closing balances	**37**	**14**	**131**	**–**	**23**

1), 3) Increases/decreases in financial assets are recognised in the income statement in the following items:
- Gains and losses on financial assets held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial assets at fair value through profit or loss.

2), 4) Gains or losses arising out of changes in fair value are recognised in the equity item "Revaluation reserves" – except losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognised under "Impairment losses on available-for-sale financial assets" and "Gains and losses on financial assets and liabilities held for trading", respectively – until the financial asset is sold, at which time cumulative gains and losses presented in revaluation reserves are recognised in profit or loss in "Gains (losses) on disposal or repurchase of available-for-sale financial assets".

5) Of which –€918 million resulted from changes in the consolidation perimeter.

A – Accounting policies (CONTINUED)

Annual changes in financial liabilities at fair value level 3

(€ million)

	2015		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**117**	**5**	**12**
Increases	**30**	**23**	**9**
Issuance	13	–	9
Losses recognised in:			
Income statement	17	–	–
of which unrealised losses [1]	*8*	–	–
Equity	x	x	–
Transfers from other levels	–	–	–
Other increases	–	23	–
Decreases	**–118**	**–25**	**–**
Redemptions	–117	–	–
Purchases	–	–	–
Profits recognised in:			
Income statement	–	–	–
of which unrealised gains	–	–	–
Equity	x	x	–
Transfers to other levels	–	–	–
Other decreases	–	–25	–
Closing balances	**30**	**3**	**21**

	2016		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**30**	**3**	**21**
Increases	**4**	**–**	**–**
Issuance	3	–	–
Losses recognised in:			
Income statement	1	–	–
of which unrealised losses	–	–	–
Equity	x	x	–
Transfers from other levels	–	–	–
Other increases	–	–	–
Decreases	**–15**	**–1**	**–21**
Redemptions	–7	–	–21
Purchases	–	–	–
Profits recognised in:			
Income statement	–1	–	–
of which unrealised gains [2]	–	–	–
Equity	x	x	–
Transfers to other levels	–	–	–
Other decreases	–7	–1	–
Closing balances	**18**	**2**	**–**

1), 2) Increases/decreases in financial liabilities are recognised in the income statement in the following items:
- Gains and losses on financial liabilities held for trading;
- Fair value adjustments in hedge accounting;
- Gains and losses on financial liabilities at fair value through profit or loss.

A – Accounting policies (CONTINUED)

Accounting portfolios measured at fair value: transfers between Levels of the fair value hierarchy (Level 1 and Level 2) (€ million)

	31 DECEMBER 2016		31 DECEMBER 2015	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Financial assets				
Financial assets held for trading				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x
Financial assets at fair value through profit or loss				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x
Available-for-sale financial assets				
Transfer from Level 1	x	–	x	–10
Transfer from Level 2	–	x	–199	x
Hedging derivatives assets				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x
Financial liabilities				
Financial liabilities held for trading				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x
Financial liabilities at fair value through profit or loss				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x
Hedging derivatives liabilities				
Transfer from Level 1	x	–	x	–
Transfer from Level 2	–	x	–	x

The level migrations for fixed income securities are mainly due to fluctuations in market liquidity measured by UniCredit Group's bond IPV process on a daily basis. Level migrations between Level 1 and Level 2 in particular are usually due to increasing or decreasing marketability of the relevant financial instrument.

A.7.3 – Day One Profit / Loss

The value at which financial instruments are recognised is equal to their fair value on the same date.
The fair value of financial instruments, other than those designated at fair value through profit or loss, at their recognition date is usually assumed to be equal to the amount collected or paid. For financial instruments held for trading (see Part A.5.3.2 above) and instruments designated at fair value (see Part A.5.3.2 above), any difference from the amount collected or paid is posted under the appropriate items of the income statement.

Under IAS 39, recognition of a Day-One Profit/Loss requires the relevant fair value to be determined by reference to a market price quotation in an active market for an identical asset or an identical liability or on the basis of a valuation technique which uses only observable market data. The latter is ensured through the use of conservative valuation models, the processes described above for revising the models used and related parameters and value adjustments to reflect model risk.

The fair value portion of these instruments which is determined on the basis of subjective (non-observable) parameters is reflected in the carrying amount of these instruments as a fair value adjustment to reflect model risk and is not recognised in the income statement.

Recognition of this portion in the income statement is made only when objective (observable) parameters are applied and therefore the adjustments are derecognised.

The balance of value adjustments to reflect various model risks was €30 million at 31 December 2016 (31 December 2015: €56 million).

A – Accounting policies (CONTINUED)

A.7.4 – Additional information on fair value

We hereby provide information required under IFRS 13 about accounting portfolios measured at fair value on a recurring basis.

Fixed income securities

Fixed income securities are priced in a two-tier process depending on the liquidity in the respective market. Liquid instruments in active markets are marked to market and consequently positions in these instruments are disclosed in reference to the fair value hierarchy under Level 1. Instruments not traded in active markets are marked to model based on implied credit spread curves derived from Level 1 instruments. The model maximises the use of observable input and minimises the use of unobservable inputs. In this respect, depending on the proximity of the credit spread curve applied, the bonds are disclosed as Level 2 or Level 3, respectively; Level 3 is applied in case comparable credit spread curves are not available (and unobservable credit spreads are used), or in the case of complex bonds. Under fair value accounting, fair value adjustments for liquidity and model deficiencies compensate for the lack of market observables for the Level 2 and Level 3 positions.

In the global bond Independent Price Verification (IPV) process, market prices of Level 1 bonds and pricing models for illiquid bonds are regularly verified for accuracy.

Structured financial products

The company determines the fair value of structured financial products using the appropriate derivative valuation methodology given the nature of the embedded derivative. Such instruments are classified as Level 2 or Level 3 depending on the observability of significant inputs to the model.

Asset-backed securities

"Structured Credit Bonds" are covered by the Independent Price Verification (IPV) process.

According to the IPV process the quality of a price is assessed based upon the availability of quotes of independent market players for identical assets. The process relies in the first instance on Markit as reliable collector of market quotes. As a second step "fallback" prices are assessed by benchmarking each security to a pool of similar securities with available market quotes. The Level classification is derived from the Bond IPV process.

OTC derivatives

Fair value of derivatives not traded in an active market is determined using a valuation technique. In such cases, where active markets exist for its component parts, then fair value is determined on the basis of the relevant market prices for the component parts. Valuation techniques that are based on inputs that are observable are referred to as Level 2 valuations. Valuation techniques that use significant unobservable inputs are referred to as Level 3 valuations.

Equity instruments

Equity instruments are assigned to Level 1 when a quoted price is available on an active market and to Level 3 when no quotations are available or quotations have been suspended indefinitely. Equity instruments are disclosed as Level 2 only if the market where the equity is quoted is not considered to be sufficiently active and therefore an adjustment to the quoted prices appears to be required.

Investment funds

The Bank Austria Group holds investments in certain investment funds that calculate the net asset value (NAV) per share, including mutual funds, private equity funds, and real estate funds. The company's investments include co-investments in funds that are managed by the company and investments in funds that are managed by third parties.

Private equity funds

When reliable information for fair value measurements is not available, private equity funds are valued at cost and classified as available for sale ("fixed assets") under IAS 39. An increase in value of the private equity asset does not lead to an increase in book value, while a value increase is only shown at exit via capital gains. A decline of value might give reason for an impairment if certain criteria are met. Objective evidence is given when an adverse effect on the expected future cash flows can be presumed, and quantified reliably, and is significant or prolonged.

A – Accounting policies (CONTINUED)

Other funds

The Bank Austria Group holds investments also in mutual funds and real estate funds.
Mutual funds are usually assigned to Level 1 or Level 2 due to the high level of transparency and traceability of their market and observable inputs.

Real estate funds disclosure as level 2 or level 3 is mainly related to the characteristics of their underlying asset. Regardless of the typology, investment funds are evaluated through an adequate adjustment of the NAV based on the specific features of each fund.

Fair value adjustments

The base fair value assessments have to be adjusted for factors not included in the base NPV that a market participant would consider in order to arrive at the derivative instrument's fair value. Such adjustments, within the Bank Austria Group, include:

- Credit and Debit Valuation Adjustment (CVA/DVA)
- Funding Valuation Adjustment (FundVA)
- Model risk
- Close-out risk
- Market liquidity risk
- Other adjustments

If fair value adjustments are measured on the basis of a net exposure in accordance with IFRS 13.48, such adjustment is apportioned to the individual transactions using consistent algorithms.

Credit and Debit Valuation Adjustment (CVA/DVA)

Credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and UniCredit Bank Austria AG's own credit quality.

UniCredit CVA/DVA methodology is based on the following input:

- Expected exposure profiles derived by simulation techniques.
- PD and sectoral information of customers.
- CDS availability for customers.

In general, a bilateral CVA calculation based on market-implied PDs and LGDs (CDS) is applied. There are exceptions for Specific Wrong Way Risk, which are calculated on a unilateral basis.

For customers with PD=1 (i.e. defaulted customers), an additional CVA/DVA is not calculated in order to avoid double counting with a general or specific loan loss provision.

Funding Valuation Adjustment

Funding valuation adjustments (FundVAs) are incorporated into derivative valuations to reflect the impact of funding especially for uncollateralised derivative transactions.

UniCredit's FundVA methodology is based on the following input:

- Expected exposure profiles derived by simulation techniques.
- PD and sectoral information of customers.
- CDS availability for customers.
- Funding spread.

A – Accounting policies (CONTINUED)

Model risk
Financial models are used for the valuation of the financial instruments if direct market quotes are not readily available. Model risk is represented by the possibility that a financial instrument's evaluation is actually sensitive to the choice of model. It is possible to value the same financial instrument by using alternative models which could provide different results in terms of pricing. The model risk adjustments refer to the risk that the actual fair value of the instrument differs from the value produced by the model. The reserve with regard to structured own issues (own credit spread) is covered under the model risk fair-value adjustment.

Close-out risk
The close-out adjustment accounts for the costs of closing an (aggregated) position measured at fair value. The position could be closed by a sale (or purchase in the case of a short position), or by entering into a new transaction (or several transactions) that offsets (hedges) the open position. The close-out costs are typically derived from the bid/ask spreads observed on the market. It accounts for the fact that a position is valued at mid but can only be closed at bid or ask. Therefore the bid/ask spread determines the adjustment. Moreover a close-out adjustment of the NAV is required when there are some penalties related to position write-off in an investment fund.

Other adjustments
Other fair value adjustments, which are not included in the previous categories, could be taken into consideration to align the evaluation to the current exit price, e.g. adjustments of equity prices whose quotation on the market is not representative of the effective exit price or adjustments of less liquid securities.

Description of the valuation processes used by the entity for fair value measurements categorised within Level 3 of the fair value hierarchy
Fair value measurements of assets and liabilities are determined using various techniques, including, but not limited to, discounted cash flows and internal models. Based on the observability of inputs used, all the financial instruments are classified as Level 1, Level 2 or Level 3 of the fair value hierarchy. When a position involves one or more significant inputs that are not directly observable, additional price verification procedures are applied. These procedures may include reviewing relevant historical data, analysing profit and loss, valuing each component of a structured trade individually, and benchmarking, among others. This approach involves estimation and expert judgment and, therefore, might require valuation adjustments which take into account bid-ask spreads, liquidity and counterparty risk, besides the employed pricing model.

According to Group Market Risk Governance Guidelines, in order to ensure the adequate separation between functions in charge of development activities and functions in charge of validation, all pricing models developed by legal entities' front-office functions are centrally and independently tested and validated by the Holding Company Market Risk functions. The purpose of this independent control framework is to assess model risk arising from models' theoretical soundness, calibration techniques where needed, and the appropriateness of the model for a specific product in a defined market.

In addition to daily marking to market or marking to model, Independent Price Verification (IPV) shall be performed. The Global Bond IPV Project is aimed at supplying a fair value (FV) for any illiquid instrument.

The sensitivity analysis for Level 3 positions with respect to the unobservable model input is based on the following categories of model inputs:

Credit Spreads (SP): For instruments exposed to issuer risk the unobservable input is mainly the issuer credit spread.
Interest Rates (IR): In the absence of liquid interest rate swap markets the term structure of the yield curve is proxied.
Equity (EQ): In the absence of active markets equity prices are proxied.

The reasonable alternative estimate for the model input is disclosed in the column "Range".

A – Accounting policies (CONTINUED)

The sensitivity analysis for the Bank Austria Group reveals that the Level 3 position resides in the regulatory banking book (BB); from a financial reporting perspective the fixed income securities are predominantly booked as available for sale (AfS) and derivatives in the BB are mainly used for hedge accounting. As the portfolio in the Bank Austria Group is rather plain by nature, there are materially no more complex unobservable model inputs applied.

(€ million)

PRODUCT CATEGORIES			FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	UNOBSERVABLE PARAMETERS	RANGE
Derivatives	Financial					
		Equity	37.0	11.0	Underlying	15%
		Foreign Exchange	0.0	0.0	Interest Rate	100 bps
		Interest Rate	0.0	0.0	Swap Rate (bp)	100 bps
	Credit derivatives		0.4	7.4	Credit Spread	10 bps
Debt Securities and Loans		Corporate/ Government/Other	97.4	1.9	Price	10 bps to 300 bps
Equity Securities		Unlisted Equity & Holdings	58,2	0.0	Price	15%
Units in Investment Funds		Real Estate & Other Funds	46,3	0.0	Price	15%

(€ million)

PRODUCT CATEGORIES		FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES	
Derivatives	Financial		
	Equity	+/–	11.4
	Foreign Exchange	+/–	0.0
	Interest Rate	+/–	0.0
	Credit derivatives	+/–	6.9
Debt Securities and Loans	Corporate/ Government/Other	+/–	0.8
Equity Securities	Unlisted Equity & Holdings	+/–	12.7
Units in Investment Funds	Real Estate & Other Funds	+/–	0.0

Description of the valuation technique used to measure the fair value of items categorised in Level 2 or Level 3

Valuation techniques are used to value positions for which a market price is not available from market sources. UniCredit Group uses well known valuation techniques for determining fair values of financial and non-financial instruments that are not actively traded and quoted. The valuation techniques used for Level 2 and Level 3 assets and liabilities are described as follows.

Option pricing model

Option model valuation techniques are generally used for instruments in which the holder has a contingent right or obligation based on the occurrence of a future event, such as the price of a referenced asset going above or below a predetermined strike price. Option models estimate the likelihood of the specified event occurring by incorporating assumptions such as volatility estimates, price of the underlying instrument and expected rate of return.

Discounted cash flow

Discounted cash flow valuation techniques generally consist of developing an estimate of future cash flows that are expected to occur over the life of an instrument. The model requires the estimation of the cash flow and the adoption of market parameters for the discounting: the discount rate or discount margin reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a "present value". The fair value of the contract is given by the sum of the present values of future cash flows.

A – Accounting policies (CONTINUED)

Hazard Rate Model
Unlike bonds, the gain or loss from a CDS position cannot be computed simply by taking the difference between current market quoted price plus the coupons received and the purchase price. To value a CDS we need to use a term structure of default swap spreads, a recovery rate assumption and a model.

Market approach
A valuation technique that uses prices generated by market transactions involving identical or comparable (i. e. similar) assets, liabilities or a group of assets and liabilities, such as a business.

Adjusted NAV
Net asset value is the total value of a fund's assets less liabilities. An increase in net asset value would result in an increase in a fair value measurement.

Description of the unobservable inputs used to measure the fair value of items categorised in Level 3 and of the sensitivity of the fair value measurement to changes in those inputs
The directional sensitivity of the company's Level 3 fair value measurements to changes in essentially – in coordination with the Group – unobservable inputs is provided below. For fair value measurement where significant unobservable inputs are used (Level 3) sensitivity analysis is performed in order to generate a range of reasonably possible alternative valuations. The Group considers that the impact of an unobservable input on the Level 3 fair value measurements depends on the correlation between various inputs used in the valuation process. Furthermore, the effect of a change in an unobservable input impacts the amount and the direction of the fair value measurement depending also on the nature of the instrument and on whether the instrument is held as an asset or as a liability.

Volatility
Volatility is a measure for variation of price of a financial instrument over time. In particular, volatility measures the speed and severity of market price changes for an instrument, parameter or market index given how much the particular instrument, parameter or index changes in value over time, expressed as a percentage of relative change in price. The higher the volatility of the underlying, the riskier the instrument. In general, long option positions (assets) benefit from increases in volatility, whereas short option positions (liabilities) will suffer losses.

There are different types of volatility: volatility of interest rate, inflation volatility, volatility of foreign exchange and volatility of equity stocks, equity or other indices.

Correlation
Correlation is a measure of the relationship between the movements of two variables. When parameters are positively correlated, an increase in correlation results in a higher fair value measurement. On the contrary, given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement. Therefore changes in correlation levels can have a major impact, favourable or unfavourable, on the fair value of an instrument, depending on the type of correlation.

Correlation is a pricing input for a derivative product where the payoff is driven by multiple underlying risks. The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks.

Dividends
The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings and, to a lesser extent, the relevant funding rates applicable to the stock in question. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price.

Interest rate curve
Less liquid currencies' interest curve refers to the rates in currencies for which a market liquidity in terms of tightness, depth and resiliency does not exist. The illiquidity of these input data directly impacts the valuation of bonds or derivatives expressed in illiquid currencies.

A – Accounting policies (CONTINUED)

Credit spreads

Different valuation models, especially for credit derivatives, require an input for the credit spread which reflects the credit quality of the associated credit name. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either U.S. Treasury or LIBOR, and is generally expressed in terms of basis points. The ranges for credit spreads cover a variety of underlyings (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of unobservable inputs.

Loss Given Default (LGD)/recovery rate

LGD, also known as loss severity (the inverse concept is the recovery rate), represents the percentage of contractual cash flows lost in the event of a default, expressed as the net amount of loss relative to the outstanding balance. An increase in the loss severity, in isolation, would result in a decrease in a fair value measurement. Loss Given Default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination.

Price

Where market prices are not observable, comparison via proxy is used to measure a fair value.

Prepayment rate (PR)

The PR is the estimated rate at which forecast prepayments of principal of the related debt instrument are expected to occur. Voluntary unscheduled payments (prepayments) change the future cash flows for the investor and thereby change the fair value of the security. In general, as prepayment speeds change, the weighted average life of the security changes, which impacts the valuation either positively or negatively, depending upon the nature of the security and the direction of the change in the weighted average life.

Probability of Default (PD)

The probability of default is an estimate of the likelihood of not collecting contractual amounts. It provides an estimate of the likelihood that a client of a financial institution will be unable to meet its debt obligations over a particular time horizon. The PD of an obligor not only depends on the risk characteristics of that particular obligor but also on the economic environment and the degree to which it affects the obligor.

Financial instruments not carried at fair value (FV), including “Loans and receivables with customers and banks” and “Deposits from customers and banks”, are not managed on a fair value basis.

For these instruments, fair values are calculated solely in order to comply with disclosure requirements and do not impact the balance sheet nor profit or loss. As these instruments are generally not traded, FV measurement is based on internal parameters partly classified as unobservable inputs.

Loans and receivables

The fair value of loans and receivables with customers and banks measured at amortised cost is mainly determined using a risk-adjusted net present value approach. For some portfolios simplified approaches are applied, taking into consideration their financial features.

Cash flows include capital repayments and interest payments and depend on contractual conditions and market conditions (i.e. interest rates).

The risk-free rate represents the amount of interest the market asks for investments with no risk for a specific maturity.

Credit Spread (CS) represents the excess return a market participant asks for a risky investment. CS for non-quoted products, like commercial instruments, cannot be derived from observable market prices; the bank has therefore estimated the CS based on counterpart/transaction specific factors (i.e. recovery-rate assumptions and probability of default).

For the purpose of defining the level of the fair value hierarchy (Level 2 or Level 3), the bank estimates whether the estimated credit spread has a material effect on the fair value. If the fair value calculated on the basis of a discount rate including the estimated credit spread does not differ materially from a risk-free present value, the loans and receivables are classified as Level 2. Short-term transactions for which fair value is stated

A – Accounting policies (CONTINUED)

as being equal to carrying amount using the approximation rule in accordance with IFRS 7.29 are classified as Level 3. The methods applied in assessing in the best possible manner whether inputs are observable and significant are adjusted to changes in market conditions.

Liabilities
The fair value of liabilities, recorded at amortised cost, is determined using the Discounted Cash Flow model as previously described for loans and receivables. The bank's own credit spread is determined using Bank Austria's subordinated and non-subordinated risk curves.

The classification into the levels of the fair value hierarchy is made according to the same methodology as for loans and receivables.

Held-to-maturity investments
Considering that held-to-maturity investments are mainly composed of securities, fair value for this asset class is determined according to what was previously explained in the section "Additional information on fair value – fixed income securities".

Cash and cash balances
Cash and cash balances are not carried at fair value in the consolidated statement of financial position, but they are carried at book value, due to their short-term nature and generally negligible credit risk.

Debt securities in issue
The fair value of debt securities in issue, recorded at amortised cost, is determined using the Discounted Cash Flow model.

A.7.5 – Transfer between portfolios

In accordance with the amendments to IAS 39 and IFRS 7, Reclassification of Financial Assets, published in October 2008, and in response to the rare circumstances presented by the financial market crisis, we had reclassified asset-backed securities (ABSs/specific securitised assets) from financial assets held for trading into loans and receivables with customers with effect from 1 July 2008 at the fair values determined at that date.

In accordance with IAS 39.50E, bonds included in the available-for-sale category had been reclassified into loans and receivables with banks with effect from 1 August 2011. There is the intention to hold these reclassified bonds until maturity.

The following table shows the effects of this reclassification by item in the statement of financial position and by income statement item as at 31 December 2016:

Reclassified financial assets: carrying amount, fair value and effects on comprehensive income (€ million)

TYPES OF INSTRUMENTS	ACCOUNTING PORTFOLIO BEFORE RECLASSIFICATION	ACCOUNTING PORTFOLIO AFTER RECLASSIFICATION	CARRYING AMOUNT AS AT 31 DEC. 2016	FAIR VALUE AS AT 31 DEC. 2016	INCOME/EXPENSES ABSENT RECLASSIFICATION (BEFORE TAXES)		INCOME/EXPENSES RECOGNISED DURING THE PERIOD (BEFORE TAXES)	
					FROM MEASUREMENT	OTHER	FROM MEASUREMENT	OTHER
Debt securities								
	HFT	AFS	–	–	–	–	–	–
	HFT	HTM	–	–	–	–	–	–
	HFT	Loans to banks	–	–	–	–	–	–
	HFT	Loans to customers	261	258	4	5	2	6
	AFS	Loans to banks	–	–	–	7	–	23
TOTAL			**261**	**258**	**4**	**12**	**2**	**29**

A – Accounting policies (CONTINUED)

A.8 – Group of consolidated companies and changes in the group of consolidated companies of the Bank Austria Group in 2016

Consolidated companies

Investments in subsidiaries (consolidated line by line)

			2016		2015	
NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	HOLDING %	VOTING RIGHTS % *)	HOLDING %	VOTING RIGHTS % *)
AI BETEILIGUNGS GMBH	VIENNA	EUR 35,000	100.00		100.00	
ALLEGRO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 3,576,202	100.00		100.00	
ALLIB LEASING S.R.O.	PRAGUE	CZK 100,000	CEE demerger 01/10/16		99.96	
ALLIB NEKRETNINE D.O.O. ZA POSLOVANJE NEKRETNINAMA	ZAGREB	HRK 20,000	CEE demerger 01/10/16		84.48	
ALMS LEASING GMBH.	VIENNA	EUR 36,337	100.00		100.00	
ALPINE CAYMAN ISLANDS LTD.	GEORGETOWN	EUR 798	100.00		100.00	
ALV IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
AMBASSADOR PARC DEDINJE D.O.O. BEOGRAD	BELGRADE	RSD 2,715,063	CEE demerger 01/10/16		100.00	
ANTARES IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
AO UNICREDIT BANK	MOSCOW	RUR 41,787,805,174	CEE demerger 01/10/16		100.00	
ARANY PENZUEGYI LIZING ZRT.	BUDAPEST	HUF 60,000,000	CEE demerger 01/10/16		100.00	
ARBEITERHEIM FAVORITEN REVITALISIERUNGS KG	VIENNA	–	94.80		Added to scope of consolidation on 30/09/16	
ARNO GRUNDSTUECKSVERWALTUNGS GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
AUSTRIA LEASING GMBH	VIENNA	EUR 36,336	100.00		100.00	
B 03 IMMOBILIEN GMBH & CO KG	VIENNA	EUR 10,000	100.00		100.00	
B A I BAUTRAEGER AUSTRIA IMMOBILIEN GMBH	VIENNA	EUR 730,000	100.00		100.00	
B A I BETEILIGUNGSVERWALTUNGS-GMBH	VIENNA	EUR 730,000	100.00		100.00	
BA ALPINE HOLDINGS, INC.	WILMINGTON	USD 74,435,918	100.00		100.00	
BA BETRIEBSOBJEKTE GMBH	VIENNA	EUR 5,630,000	100.00		100.00	
BA BETRIEBSOBJEKTE GMBH & CO BETA VERMIETUNGS OG	VIENNA	EUR 1,000	100.00		100.00	
BA BETRIEBSOBJEKTE PRAHA, SPOL.S.R.O.	PRAGUE	CZK 100,000	100.00		100.00	
BA CA SECUND LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BA CREDITANSTALT BULUS EOOD	SOFIA	BGN 6,250,000	CEE demerger 01/09/16		99.45	
BA EUROLEASE BETEILIGUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 363,364	100.00		100.00	
BA GEBAEUDEVERMIETUNGSGMBH	VIENNA	EUR 36,336	100.00		100.00	
BA GVG-HOLDING GMBH	VIENNA	EUR 18,168	100.00		100.00	
BA IMMO GEWINNSCHEIN FONDS1	VIENNA	–	99.00		99.00	
BA RI Z-FREMDENVERK GS 1 (UNTERNEHMENGEWINNSCHEINFOND1)	VIENNA	–	100.00		Added to scope of consolidation on 30/09/16	
BA/CA-LEASING BETEILIGUNGEN GMBH	VIENNA	EUR 454,000	100.00		100.00	
BA-CA ANDANTE LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BACA CENA IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BA-CA FINANCE (CAYMAN) II LIMITED	GEORGETOWN	EUR 15,000	100.00		100.00	
BA-CA FINANCE (CAYMAN) LIMITED	GEORGETOWN	EUR 15,000	100.00		100.00	
BACA HYDRA LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BACA KOMMUNALLEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BACA LEASING ALFA S.R.O.	PRAGUE	CZK 110,000	CEE demerger 01/10/16		99.96	
BACA LEASING CARMEN GMBH	VIENNA	EUR 36,500	100.00		100.00	
BA-CA LEASING DREI GARAGEN GMBH	VIENNA	EUR 35,000	100.00		100.00	
BACA LEASING GAMA S.R.O.	PRAGUE	CZK 110,000	Sold on 30/03/16		99.96	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
BA-CA LEASING MAR IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BACA LEASING UND BETEILIGUNGSMANAGEMENT GMBH	VIENNA	EUR 21,936,492	100.00		100.00	
BA-CA MARKETS & INVESTMENT BETEILIGUNG GES. M. B. H.	VIENNA	EUR 127,177	100.00		100.00	
BACA NEKRETNINE DRUSTVO SA OGRANICENOM ODGOVORNOSCU	SARAJEVO	BAM 29,685,557	CEE demerger 28/07/16		100.00	
BA-CA PRESTO LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BA-CA WIEN MITTE HOLDING GMBH	VIENNA	EUR 35,000	100.00		100.00	
BACAL ALPHA DOO ZA POSLOVANJE NEKRETNINAMA	ZAGREB	HRK 20,000	CEE demerger 12/04/16		84.48	
BACAL BETA NEKRETNINE D. O. O. ZA POSLOVANJE NEKRETNINAMA	ZAGREB	HRK 100,000	CEE demerger 24/06/16		84.48	
BACA-LEASING AQUILA INGATLANHASNOSITO KORLATOLT FELELOSSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
BACA-LEASING OMIKRON INGATLANHASZNOSTO KORLATOLT FELELOSSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Sold on 12/04/016		100.00	
BAI WOHNUNGSEIGENTUMSGESELLSCHAFT M. B. H.	VIENNA	EUR 73,000	100.00		100.00	
BAL CARINA IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL DEMETER IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL HESTIA IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL HORUS IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL HYPNOS IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL LETO IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BAL OSIRIS IMMOBILIEN LEASING GESELLSCHAFT M. B. H.	VIENNA	EUR 36,500	100.00		100.00	
BAL SOBEK IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BANK AUSTRIA CREDITANSTALT LEASING IMMOBILIENANLAGEN GMBH	VIENNA	EUR 36,500	100.00		100.00	
BANK AUSTRIA FINANZSERVICE GMBH	VIENNA	EUR 490,542	100.00		100.00	
BANK AUSTRIA HUNGARIA BETA LEASING KORLATOLT FELELOSSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
BANK AUSTRIA LEASING ARGO IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BANK AUSTRIA LEASING HERA IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,337	100.00		100.00	
BANK AUSTRIA LEASING IKARUS IMMOBILIEN LEASING GESELLSCHAFT M. B. H.	VIENNA	EUR 36,500	100.00		100.00	
BANK AUSTRIA LEASING MEDEA IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BANK AUSTRIA REAL INVEST CLIENT INVESTMENT GMBH	VIENNA	EUR 145,500	94.95		94.95	
BANK AUSTRIA REAL INVEST IMMOBILIEN-KAPITALANLAGE GMBH	VIENNA	EUR 5,000,000	94.95		94.95	
BANK AUSTRIA REAL INVEST IMMOBILIEN-MANAGEMENT GMBH	VIENNA	EUR 10,900,500	94.95		94.95	
BANK AUSTRIA WOHNBAUBANK AG	VIENNA	EUR 18,765,944	100.00		100.00	
BAREAL IMMOBILIENTREUHAND GMBH	VIENNA	EUR 35,000	100.00		100.00	
BAULANDENTWICKLUNG GDST 1682/8 GMBH & CO OEG	VIENNA	–	100.00		100.00	
BETEILIGUNGSVERWALTUNGSGESELLSCHAFT DER BANK AUSTRIA CREDITANSTALT LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
BF NINE HOLDING GMBH	VIENNA	EUR 35,000	100.00		100.00	
BREWO GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M. B. H.	VIENNA	EUR 36,337	100.00		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
BUCHSTEIN IMMOBILIENVERWALTUNG GMBH UND CO OG	VIENNA	EUR 18,168	100.00		100.00	
CABET-HOLDING GMBH	VIENNA	EUR 290,909	100.00		100.00	
CABO BETEILIGUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 35,000	100.00		100.00	
CAFU VERMOEGENSVERWALTUNG GMBH & CO OG	VIENNA	EUR 6,719,227	100.00		100.00	
CA-LEASING EURO, S.R.O.	PRAGUE	CZK 100,000	CEE demerger 01/10/16		99.96	
CA-LEASING KAPPA INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Sold on 09/03/16		100.00	
CA-LEASING OVUS S.R.O.	PRAGUE	CZK 100,000	CEE demerger 01/10/16		99.96	
CA-LEASING SENIOREN PARK GMBH	VIENNA	EUR 36,500	100.00		100.00	
CALG 307 MOBILIEN LEASING GMBH	VIENNA	EUR 90,959	100.00		100.00	
CALG 443 GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 36,336	100.00		100.00	
CALG 445 GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 18,168	100.00		100.00	
CALG 451 GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 36,500	100.00		100.00	
CALG ALPHA GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 36,500	100.00		100.00	
CALG ANLAGEN LEASING GMBH	VIENNA	EUR 55,945,753	100.00		100.00	
CALG ANLAGEN LEASING GMBH & CO GRUNDSTUECKVERMIETUNG UND -VERWALTUNG KG	MUNICH	EUR 2,326,378	99.90		99.90	
CALG DELTA GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 13,318,789	100.00		100.00	
CALG GAMMA GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 36,337	100.00		100.00	
CALG GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 36,500	100.00		100.00	
CALG IMMOBILIEN LEASING GMBH	VIENNA	EUR 41,384,084	100.00		100.00	
CALG IMMOBILIEN LEASING GMBH & CO. 1120 WIEN, SCHOENBRUNNER SCHLOSSSTRASSE 38-42 OG	VIENNA	–	100.00		100.00	
CALG IMMOBILIEN LEASING GMBH & CO. PROJEKT ACHT OG	VIENNA	–	Sold on 30/09/16		100.00	
CALG IMMOBILIEN LEASING GMBH & CO. PROJEKT VIER OG	VIENNA	–	100.00		100.00	
CALG MINAL GRUNDSTUECKVERWALTUNG GMBH	VIENNA	EUR 18,286	100.00		100.00	
CAL-PAPIER INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
CARD COMPLETE SERVICE BANK AG	VIENNA	EUR 6,000,000	50.10		50.10	
CARDS & SYSTEMS EDV-DIENSTLEISTUNGS GMBH	VIENNA	EUR 75,000	55.01		55.01	
CASTELLANI LEASING GMBH	VIENNA	EUR 1,800,000	100.00		100.00	
CA-ZETA REAL ESTATE DEVELOPMENT LIMITED LIABILITY COMPANY	BUDAPEST	HUF 3,000,000	100.00		100.00	
CEAKSCH VERWALTUNGS G.M.B.H.(IN LIQ.)	VIENNA	EUR 35,000	Liquidated on 29/11/16		100.00	
CENTAR KAPTOL DOO	ZAGREB	HRK 46,830,400	CEE demerger 01/10/16		84.48	
CHARADE LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
CHEFREN LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
CIVITAS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
COMMUNA - LEASING GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
CONTRA LEASING-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
DBC SP.Z O.O.	WARSAW	PLN 50,000	100.00		100.00	
DC BANK AG	VIENNA	EUR 5,000,000	50.07		50.07	
DC ELEKTRONISCHE ZAHLUNGSSYSTEME GMBH	VIENNA	EUR 35,000	50.10		50.10	
DEBO LEASING IFN S.A.	BUCHAREST	RON 724,400	CEE demerger 01/10/16		95.63	
DINERS CLUB CS, S.R.O.	BRATISLAVA	EUR 995,000	50.07		50.07	
DINERS CLUB POLSKA SP.Z.O.O.	WARSAW	PLN 7,500,000	50.07		50.07	
DIRANA LIEGENSCHAFTSVERWERTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 17,500	100.00		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
DLV IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
DOBLERHOF IMMOBILIEN GMBH & CO KG	VIENNA	EUR 10,000	100.00		100.00	
DONAUMARINA PROJEKTENTWICKLUNG GMBH	VIENNA	EUR 35,000	100.00		100.00	
DONAUTURM AUSSICHTSTURM-UND RESTAURANT-BETRIEBSGESELLSCHAFT M.B.H.	VIENNA	EUR 880,000	Sold on 01/01/16		95.00	
DONAUTURM LIEGENSCHAFTSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 1,820,000	Sold on 01/01/16		94.85	
DR. W. W. DONATH IMMOBILIENVERWALTUNG GMBH	VIENNA	EUR 37,000	100.00		100.00	
DUODEC Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
DV ALPHA GMBH	VIENNA	EUR 35,000	CEE demerger 01/10/16		100.00	
DV BETEILIGUNGSVERWALTUNGS GMBH	VIENNA	EUR 35,000	Liquidated on 19/12/16		100.00	
EKAZENT GEBAEUDEVERMIETUNG GMBH	VIENNA	EUR 1,310,000	100.00		100.00	
EKAZENT IMMOBILIEN MANAGEMENT GMBH	VIENNA	EUR 35,000	100.00		100.00	
EKAZENT REALITAETENGESELLSCHAFT M.B.H.	VIENNA	EUR 4,370,000	100.00		100.00	
EUROGATE BETEILIGUNGSVERWALTUNG GMBH	VIENNA	EUR 35,000	100.00		100.00	
EUROGATE PROJEKTENTWICKLUNG GMBH	VIENNA	EUR 35,000	100.00		100.00	
EUROGATE PROJEKTENTWICKLUNG GMBH & CO AREA BETA KG	VIENNA	EUR 35,000	100.00		100.00	
EUROLEASE AMUN IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
EUROLEASE ANUBIS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
EUROLEASE ISIS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
EUROLEASE MARDUK IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
EUROLEASE RA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
EUROLEASE RAMSES IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 14,398,879	100.00		100.00	
EUROPA BEFEKTETESI ALAPKEZELOE ZRT (EUROPA INVESTMENT FUND MANAGEMENT LTD.)	BUDAPEST	HUF 100,000,000	CEE demerger 01/10/16		100.00	
EUROPE REAL-ESTATE INVESTMENT FUND	BUDAPEST	–	CEE demerger 01/10/16		100.00	
EUROVENTURES-AUSTRIA-CA-MANAGEMENT GESMBH	VIENNA	EUR 36,336	100.00		100.00	
EXPANDA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
FACTORBANK AKTIENGESELLSCHAFT	VIENNA	EUR 3,000,000	100.00		100.00	
FMC LEASING INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
FMZ SAVARIA SZOLGALTATO KORLATOLT FELELOESSEG TARSASAG	BUDAPEST	HUF 3,000,000	75.00		75.00	
FMZ SIGMA PROJEKTENTWICKLUNGS GMBH	VIENNA	EUR 35,000	100.00		100.00	
FOLIA LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 1,981,769	100.00		100.00	
FUGATO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
G.N.E. GLOBAL GRUNDSTUECKSVERWERTUNG GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	Sold on 19/11/16		100.00	
GALA GRUNDSTUECKVERWALTUNG GESELLSCHAFT M.B.H.	VIENNA	EUR 21,872,755	100.00		100.00	
GARAGE AM HOF GESELLSCHAFT M.B.H.	VIENNA	EUR 220,000	92.60		92.60	
GBS GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
GEBAEUDELEASING GRUNDSTUCKSVERWALTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	

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A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
GEMEINDELEASING GRUNDSTUECKVERWALTUNG GESELLSCHAFT M.B.H.	VIENNA	EUR 18,333	100.00		100.00	
GENERAL LOGISTIC SOLUTIONS LLC	MOSCOW	RUB 142,309,444	CEE demerger 01/10/16		100.00	
GRUNDSTUECKSVERWALTUNG LINZ-MITTE GMBH	VIENNA	EUR 35,000	100.00		100.00	
HBF PROJEKTENTWICKLUNG ZWEI GMBH & CO KG	VIENNA	EUR 1,000	100.00		100.00	
HBF PROJEKTENTWICKLUNG DREI GMBH & CO KG	VIENNA	EUR 1,000	100.00		100.00	
HBF PROJEKTENTWICKLUNG EINS GMBH & CO KG	VIENNA	EUR 1,000	100.00		100.00	
HERKU LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
HONEU LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
HUMAN RESOURCES SERVICE AND DEVELOPMENT GMBH	VIENNA	EUR 18,168	100.00		100.00	
HVB LEASING CZECH REPUBLIC S.R.O.	PRAGUE	CZK 49,632,000	CEE demerger 01/10/16		99.96	
HVB-LEASING ATLANTIS INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Sold on 12/08/16		100.00	
HVB-LEASING FORTE INGATLANHASNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-LEASING GARO INGATLANHSZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,100,000	100.00		100.00	
HVB-LEASING HAMLET INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Sold on 04/03/16		100.00	
HVB-LEASING JUPITER INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-LEASING MAESTOSO INGATLANHASZNOSITO KFT.	BUDAPEST	HUF 3,100,000	100.00		100.00	
HVB-LEASING ROCCA INGATLANHASZNOSITO KORLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-LEASING RUBIN KFT.	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-LEASING SMARAGD KFT.	BUDAPEST	HUF 3,000,000	100.00		100.00	
HYPOVEREINS IMMOBILIEN EOOD	SOFIA	BGN 100,000	CEE demerger 01/10/16		99.45	
IMMOBILIEN HOLDING GMBH	VIENNA	EUR 36,336	100.00		100.00	
IMMOBILIEN RATING GMBH	VIENNA	EUR 50,000	95.92		95.92	
IMMOBILIENLEASING GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
IMU IMMOBILIENENTWICKLUNG MUTHGASSE GMBH & CO KG	VIENNA	EUR 2,500	60.00		60.00	
INPROX CHOMUTOV, S.R.O.	PRAGUE	CZK 100,000	CEE demerger 04/08/16		99.96	
INPROX KLADNO, S.R.O.	PRAGUE	CZK 100,000	CEE demerger 04/08/16		99.96	
INPROX POPRAD, SPOL. S.R.O.	BRATISLAVA	EUR 6,639	CEE demerger 01/01/16		99.96	
INPROX SR I., SPOL. S R.O.	BRATISLAVA	EUR 6,639	CEE demerger 01/01/16		99.96	
INTERKONZUM DOO SARAJEVO	SARAJEVO	BAM 18,410,493	CEE demerger 31/05/16		100.00	
INTRO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
INV TOTALUNTERNEHMER GMBH	VIENNA	EUR 35,000	100.00		100.00	
ISB UNIVERSALE BAU GMBH	BERLIN	EUR 6,288,890	100.00		100.00	
IVONA BETEILIGUNGSVERWALTUNG GMBH	VIENNA	EUR 18,168	99.00		99.00	
JAUSERN-LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 2,802,537	100.00		100.00	
JOHA GEBAEUDE- ERRICHTUNGS- UND VERMIETUNGS- GESELLSCHAFT M.B.H.	LEONDING	EUR 37,000	94.03		94.03	
KAISERWASSER BAU- UND ERRICHTUNGS GMBH UND CO OG	VIENNA	EUR 36,336	99.80		99.80	
KLEA TERRAIN- UND BAU-GESELLSCHAFT M.B.H.	VIENNA	EUR 3,650,000	100.00		100.00	
KLEA ZS-IMMOBILIENVERMIETUNG G.M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
KLEA ZS-LIEGENSCHAFTSVERMIETUNG G.M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
KSG KARTEN-VERRECHNUNGS- UND SERVICEGESELLSCHAFT M.B.H.	VIENNA	EUR 44,000	50.10		50.10	

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A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
KUNSTHAUS LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
KUR- UND SPORTHOTEL GESELLSCHAFT M.B.H.	KITZBUHEL	EUR 3,650,000	100.00		100.00	
KUTRA GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
LAGERMAX LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
LAGEV IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
LARGO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
LASSALLESTRASSE BAU-, PLANUNGS-, ERRICHTUNGS- UND VERWERTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
LEASFINANZ BANK GMBH	VIENNA	EUR 5,136,500	100.00		100.00	
LEASFINANZ GMBH	VIENNA	EUR 672,053	100.00		100.00	
LEGATO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
LELEV IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
LINDENGASSE BUROHAUSGESELLSCHAFT M.B.H.	VIENNA	EUR 37,000	100.00		100.00	
LINO HOTEL-LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
LIPARK LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
LIVA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 38,731	100.00		100.00	
LLC UKROTSBUD (IN LIQUIDATION)	KIEV	UAH 150,000,000	CEE demerger 01/10/16		91.36	
LOCAT CROATIA DOO	ZAGREB	HRK 39,000,000	CEE demerger 01/10/16		84.48	
LTD SI&C AMC UKRSOTS REAL ESTATE (IN LIQUIDATION)	KIEV	UAH 7,000,000	CEE demerger 01/10/16		91.36	
M. A. V. 7., BANK AUSTRIA LEASING BAUTRAEGER GMBH & CO.OG.	VIENNA	EUR 3,707	100.00		100.00	
M.A.I.L. BETEILIGUNGSMANAGEMENT GESELLSCHAFT M.B.H. & CO. MCL THETA KG	VIENNA	–	Liquidated on 05/11/16		94.95	
MARTIANEZ COMERCIAL, SOCIEDAD ANONIMA	PUERTO DE LA CRUZ	–	100.00		100.00	
MBC IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
MCL RE LJUBLJANA, POSLOVNI NAJEM NEPREMI NIN, D.O.O.	LJUBLJANA	EUR 7,500	100.00		100.00	
MENUETT GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
MIK 2012 KARLATOLT FELELOESSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Sold on 29/12/16		100.00	
MM OMEGA PROJEKTENTWICKLUNGS GMBH	VIENNA	EUR 35,000	100.00		100.00	
MOEGRA LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
MY DREI HANDELS GMBH	VIENNA	EUR 17,500	100.00		100.00	
NAGE LOKALVERMIETUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
NATA IMMOBILIEN-LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,400	Sold on 18/02/16		57.50	
NOE HYPO LEASING ASTRICTA GRUNDSTUECKVERMIETUNGS GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	95.00		95.00	
NORDBAHNHOF BAUFELD ACHT PROJEKTENTWICKLUNG GMBH	VIENNA	EUR 35,000	Merged on 03/03/16		100.00	
NORDBAHNHOF BAUFELD FUENF PROJEKTENTWICKLUNG GMBH	VIENNA	EUR 35,000	Merged on 03/03/16		100.00	
NORDBAHNHOF BAUFELD SIEBEN PROJEKTENTWICKLUNG GMBH	VIENNA	EUR 35,000	Merged on 03/03/16		100.00	
NORDBAHNHOF PROJEKTE HOLDING GMBH	VIENNA	EUR 35,000	100.00		100.00	
OCT Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H	VIENNA	EUR 36,500	100.00		100.00	
OLG HANDELS- UND BETEILIGUNGSVERWALTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	

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A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
OOO UNICREDIT LEASING	MOSCOW	RUR 149,160,248	CEE demerger 01/10/16		100.00	
PALAIS ROTHSCHILD VERMIETUNGS GMBH & CO OG	VIENNA	EUR 2,180,185	100.00		100.00	
PARZHOF-ERRICHTUNGS- UND VERWERTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
PAYTRIA UNTERNEHMENSBETEILIGUNGEN GMBH	VIENNA	EUR 36,336	100.00		100.00	
PELOPS LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
PIANA LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
PIRTA VERWALTUNGS GMBH	VIENNA	EUR 2,067,138	CEE demerger 01/10/16		100.00	
POLLUX IMMOBILIEN GMBH	VIENNA	EUR 36,500	100.00		100.00	
POMINVEST DD	SPLIT	HRK 17,434,000	CEE demerger 01/10/16	88,95	74.90	88,95
POSATO LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
PRELUDE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
PRIVATE JOINT STOCK COMPANY FERROTRADE INTERNATIONAL (IN LIQU.)	KIEV	UAH 130,673,000	CEE demerger 01/10/16		91.36	
PRO WOHNBAU AG	VIENNA	EUR 23,621,113	100.00		100.00	
PROJEKT-LEASE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
PRVA STAMBENA STEDIONICA DD ZAGREB	ZAGREB	HRK 80,000,000	CEE demerger 01/10/16		84.48	
PUBLIC JOINT STOCK COMPANY UKRSOTSBANK	KIEV	UAH 7,866,182,810	CEE demerger 01/10/16		91.36	
QUADEC Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
QUART Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
QUINT Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H	VIENNA	EUR 36,500	100.00		100.00	
RAMSES IMMOBILIEN GESELLSCHAFT M.B.H. & CO OG	VIENNA	EUR 36,500	99.80		99.80	
RANA-LIEGENSCHAFTSVERWERTUNG GMBH	VIENNA	EUR 72,700	99.90		99.90	
REAL INVEST EUROPE D BA RI KAG	VIENNA	–	75.64		75.64	
REAL INVEST IMMOBILIEN GMBH	VIENNA	EUR 36,400	94.00		94.00	
REAL-LEASE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
REAL-RENT LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 73,000	100.00		100.00	
REGEV REALITAETENVERWERTUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 726,728	100.00		100.00	
RIGEL IMMOBILIEN GMBH	VIENNA	EUR 36,500	100.00		100.00	
RSB ANLAGENVERMIETUNG GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
RVT BAUTRAEGER GESELLSCHAFT M.B.H.	VIENNA	EUR 37,000	100.00		100.00	
SAS-REAL INGATLANUEZEMELTETOE ES KEZELOE KFT. (ENGLISH :SAS-REAL KFT)	BUDAPEST	HUF 750,000,000	CEE demerger 01/10/16		100.00	
SCHOELLERBANK AKTIENGESELLSCHAFT	VIENNA	EUR 20,000,000	100.00		100.00	
SCHOELLERBANK INVEST AG	SALZBURG	EUR 2,543,549	100.00		100.00	
SECA-LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
SEDEC Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
SEXT Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H	VIENNA	EUR 36,500	100.00		100.00	
SIA UNICREDIT INSURANCE BROKER	RIGA	EUR 15,082	CEE demerger 01/10/16		100.00	
SIA UNICREDIT LEASING	RIGA	EUR 15,569,120	CEE demerger 01/10/16		100.00	
SIGMA LEASING GMBH	VIENNA	EUR 18,286	100.00		100.00	
SIRIUS IMMOBILIEN GMBH	VIENNA	EUR 36,500	100.00		100.00	
SONATA LEASING-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	
SPECTRUM GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,336	100.00		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS % *)	2015 HOLDING %	2015 VOTING RIGHTS % *)
STEWE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
SUCCESS 2015 B.V.	AMSTERDAM	–	100.00		100.00	
SUVREMENE POSLOVNE KOMUNIKACIJE D.O.O	ZAGREB	HRK 1,110,000	CEE demerger 01/10/16		84.48	
SVIF UKRSOTSBUD	KIEV	–	Liquidated on 17/02/16		91.36	
TERZ Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
TREDEC Z IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
TREUCONSULT BETEILIGUNGSGESELLSCHAFT M.B.H.	VIENNA	EUR 365,000	94.95		94.95	
TREUCONSULT PROPERTY EPSILON GMBH	VIENNA	EUR 35,000	94.95		Added to scope of consolidation on 30/09/16	
U2 ASPERN BAUPLATZ 1 BETEILIGUNGS-GMBH	VIENNA	EUR 35,000	100.00		100.00	
U2 ASPERN BAUPLATZ 1 GMBH & CO KG	VIENNA	EUR 10,000	100.00		100.00	
UCL NEKRETNINE D.O.O.	SARAJEVO	BAM 10,000	Liquidated on 14/07/16		100.00	
UCLA IMMO-BETEILIGUNGSHOLDUNG GMBH & CO KG	VIENNA	EUR 10,000	100.00		100.00	
UCTAM BALTICS SIA	RIGA	EUR 4,265,585	CEE demerger 01/10/16		100.00	
UCTAM BULGARIA EOOD	SOFIA	BGN 20,000	CEE demerger 01/10/16		100.00	
UCTAM CZECH REPUBLIC SRO	PRAGUE	CZK 45,500,000	CEE demerger 01/10/16		100.00	
UCTAM D.O.O. BEOGRAD	BELGRADE	RSD 564,070,470	CEE demerger 01/10/16		100.00	
UCTAM HUNGARY KFT	BUDAPEST	HUF 10,200,000	CEE demerger 01/10/16		100.00	
UCTAM RO S.R.L.	BUCHAREST	RON 30,257,830	CEE demerger 01/10/16		100.00	
UCTAM RU LIMITED LIABILITY COMPANY	MOSCOW	RUB 4,000,000	CEE demerger 01/10/16		100.00	
UCTAM UKRAINE LLC	KIEV	UAH 1,013,324	CEE demerger 01/10/16		99.99	
UCTAM UPRAVLJANJE D.O.O.	LJUBLJANA	EUR 7,500	CEE demerger 01/10/16		100.00	
UFFICIUM IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,337	100.00		100.00	
UNICOM IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT AURORA LEASING GMBH	VIENNA	EUR 219,000	100.00		100.00	
UNICREDIT BANK A.D. BANJA LUKA	BANJA LUKA	BAM 97,055,000	CEE demerger 01/10/16		98.43	
UNICREDIT BANK AUSTRIA AG	VIENNA	EUR 1,681,033,521	100.00		100.00	
UNICREDIT BANK CZECH REPUBLIC AND SLOVAKIA, A.S.	PRAGUE	CZK 8,754,617,898	CEE demerger 01/10/16		99.96	
UNICREDIT BANK D.D.	MOSTAR	BAM 119,195,000	CEE demerger 01/10/16		83.93	93,31
UNICREDIT BANK HUNGARY ZRT.	BUDAPEST	HUF 24,118,220,000	CEE demerger 01/10/16		100.00	
UNICREDIT BANK S.A.	BUCHAREST	RON 1,101,604,066	CEE demerger 01/10/16		95.66	
UNICREDIT BANK SERBIA JSC	BELGRADE	RSD 23,607,620,000	CEE demerger 01/10/16		100.00	
UNICREDIT BANKA SLOVENIJA D.D.	LJUBLJANA	EUR 20,383,765	CEE demerger 01/10/16		99.99	
UNICREDIT BROKER D.O.O. SARAJEVO BROKERSKO DRUSTVO U OSIGURANJU	SARAJEVO	BAM 7,823	CEE demerger 01/10/16		92.13	
UNICREDIT BROKER S.R.O.	BRATISLAVA	EUR 8,266	CEE demerger 01/10/16		99.96	
UNICREDIT BULBANK AD	SOFIA	BGN 285,776,674	CEE demerger 01/10/16		99.45	
UNICREDIT CENTER AM KAISERWASSER GMBH	VIENNA	EUR 35,000	100.00		100.00	
UNICREDIT CONSUMER FINANCING EAD	SOFIA	BGN 2,800,000	CEE demerger 01/10/16		99.45	
UNICREDIT CONSUMER FINANCING IFN S.A.	BUCHAREST	RON 103,269,200	CEE demerger 01/10/16		47.92	
UNICREDIT FACTORING CZECH REPUBLIC AND SLOVAKIA, A.S.	PRAGUE	CZK 222,600,000	CEE demerger 01/10/16		99.96	
UNICREDIT FACTORING EAD	SOFIA	BGN 1,000,000	CEE demerger 01/10/16		99.45	
UNICREDIT FLEET MANAGEMENT S.R.O.	PRAGUE	CZK 5,000,000	CEE demerger 01/10/16		99.96	
UNICREDIT FLEET MANAGEMENT S.R.O.	BRATISLAVA	EUR 6,639	CEE demerger 01/10/16		99.96	
UNICREDIT FUGGETLEN BIZTOSITASKOEZVETITOE SZOLGALTATO KFT.	BUDAPEST	HUF 5,000,000	CEE demerger 01/10/16		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

			2016		2015	
NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	HOLDING %	VOTING RIGHTS % *)	HOLDING %	VOTING RIGHTS % *)
UNICREDIT GARAGEN ERRICHTUNG UND VERWERTUNG GMBH	VIENNA	EUR 14,383,206	100.00		100.00	
UNICREDIT INGATLANLIZING ZRT	BUDAPEST	HUF 81,000,000	100.00		100.00	
UNICREDIT INSURANCE BROKER EOOD	SOFIA	BGN 5,000	CEE demerger 01/10/16		99.45	
UNICREDIT INSURANCE BROKER SRL	BUCHAREST	RON 150,000	CEE demerger 01/10/16		95.64	
UNICREDIT INSURANCE MANAGEMENT CEE GMBH	VIENNA	EUR 156,905	CEE demerger 01/10/16		100.00	
UNICREDIT JELZALOGBANK ZRT.	BUDAPEST	HUF 3,000,000,000	CEE demerger 01/10/16		100.00	
UNICREDIT KFZ LEASING GMBH	VIENNA	EUR 648,265	100.00		100.00	
UNICREDIT LEASING (AUSTRIA) GMBH	VIENNA	EUR 93,510,420	100.00		100.00	
UNICREDIT LEASING CORPORATION IFN S.A.	BUCHAREST	RON 90,989,013	CEE demerger 01/10/16		95.64	
UNICREDIT LEASING CROATIA D.O.O. ZA LEASING	ZAGREB	HRK 28,741,800	CEE demerger 01/10/16		84.48	
UNICREDIT LEASING CZ, A.S.	PRAGUE	CZK 981,452,000	CEE demerger 01/10/16		99.96	
UNICREDIT LEASING D.O.O.	SARAJEVO	BAM 8,479,356	CEE demerger 01/10/16		83.93	
UNICREDIT LEASING EAD	SOFIA	BGN 2,605,000	CEE demerger 01/10/16		99.45	
UNICREDIT LEASING FLEET MANAGEMENT S.R.L.	BUCHAREST	RON 680,000	CEE demerger 01/10/16		99.56	
UNICREDIT LEASING FUHRPARKMANAGEMENT GMBH	VIENNA	EUR 364,000	100.00		100.00	
UNICREDIT LEASING HUNGARY ZRT	BUDAPEST	HUF 50,000,000	CEE demerger 01/10/16		100.00	
UNICREDIT LEASING IMMOTRUCK ZRT.	BUDAPEST	HUF 50,000,000	100.00		100.00	
UNICREDIT LEASING INSURANCE SERVICES S.R.O.	BRATISLAVA	EUR 5,000	CEE demerger 01/10/16		99.96	
UNICREDIT LEASING KFT	BUDAPEST	HUF 3,100,000	100.00		100.00	
UNICREDIT LEASING LUNA KFT	BUDAPEST	HUF 3,000,000	80.00		80.00	
UNICREDIT LEASING MARS KFT	BUDAPEST	HUF 3,000,000	80.00		80.00	
UNICREDIT LEASING SLOVAKIA A.S.	BRATISLAVA	EUR 26,560,000	CEE demerger 01/10/16		99.96	
UNICREDIT LEASING TECHNIKUM GMBH	VIENNA	EUR 1,435,000	100.00		100.00	
UNICREDIT LEASING URANUS KFT	BUDAPEST	HUF 3,000,000	80.00		80.00	
UNICREDIT LEASING VERSICHERUNGSSERVICE GMBH & CO KG	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT LEASING, LEASING, D.O.O.	LJUBLJANA	EUR 25,039,658	CEE demerger 01/10/16		99.99	
UNICREDIT LUNA LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT MOBILIEN UND KFZ LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT OPERATIV LIZING KFT	BUDAPEST	HUF 3,000,000	CEE demerger 01/10/16		100.00	
UNICREDIT PARTNER D.O.O. BEOGRAD	BELGRADE	RSD 2,001,875	CEE demerger 01/10/16		100.00	
UNICREDIT PARTNER D.O.O. ZA TRGOVINU I USLUGE	ZAGREB	HRK 200,000	CEE demerger 01/10/16		87.58	
UNICREDIT PARTNER LLC	KIEV	UAH 53,557	CEE merged as at 01/10/16		100.00	
UNICREDIT PEGASUS LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT POJISTOVACI MAKLERSKA SPOL.S R.O.	PRAGUE	CZK 510,000	CEE demerger 01/10/16		99.96	
UNICREDIT POLARIS LEASING GMBH	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT RENT D.O.O. BEOGRAD	BELGRADE	RSD 3,285,948,900	100.00		100.00	
UNICREDIT TECHRENT LEASING GMBH	VIENNA	EUR 36,336	100.00		100.00	
UNICREDIT TURN-AROUND MANAGEMENT CEE GMBH	VIENNA	EUR 750,000	CEE demerger 1/10/16		100.00	
UNICREDIT TURN-AROUND MANAGEMENT GMBH	VIENNA	EUR 72,673	CEE demerger 01/10/16		100.00	
UNICREDIT ZAVAROVALNO ZASTOPNISKA DRUZBA D.O.O.	LJUBLJANA	EUR 40,000	CEE demerger 01/10/16		100.00	
UNICREDIT ZEGA LEASING-GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
UNICREDIT-LEASING HOSPES KFT	BUDAPEST	HUF 1,000,000	100.00		100.00	
UNICREDIT-LEASING NEPTUNUS KFT	BUDAPEST	HUF 3,010,000	96.35		96.35	
UNICREDIT-LEASING ORION INGATLANHASZNOSITO KORLATOLT FELELOSSEGUE TARSASAG	BUDAPEST	HUF 3,000,000	Merged on 01/07/16		100.00	
UNIVERSALE INTERNATIONAL REALITAETEN GMBH	VIENNA	EUR 32,715,000	100.00		100.00	
UNO-EINKAUFSZENTRUM-VERWALTUNGSGESELLSCHAFT M.B.H.	LEONDING	EUR 37,000	94.95		94.95	
VAPE COMMUNA LEASINGGESELLSCHAFT M.B.H.	VIENNA	EUR 431,630	100.00		100.00	
VECTIGAL IMMOBILIEN GMBH	VIENNA	EUR 40,000	Merged on 30/12/16		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS %*)	2015 HOLDING %	2015 VOTING RIGHTS %*)
VECTIGAL IMMOBILIEN GMBH & CO KG	VIENNA	EUR 2,470,930	Merged on 25/11/16		100.00	
VIENNA DC BAUTRAEGER GMBH	VIENNA	EUR 18,168	100.00		74.95	
VIENNA DC TOWER 1 LIEGENSCHAFTSBESITZ GMBH	VIENNA	EUR 17,500	100.00		74.95	
VIENNA DC TOWER 2 LIEGENSCHAFTSBESITZ GMBH	VIENNA	EUR 17,500	Merged on 30/12/16		74.95	
WED DONAU-CITY GESELLSCHAFT M.B.H.	VIENNA	EUR 726,728	100.00		74.95	
WED HOLDING GESELLSCHAFT M.B.H.	VIENNA	EUR 72,673	Merged on 29/11/16		59.60	
WED WIENER ENTWICKLUNGSGESELLSCHAFT FUER DEN DONAURAUM AKTIENGESELLSCHAFT	VIENNA	EUR 3,634,368	Merged on 30/12/16		74.95	
WOEM GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	VIENNA	EUR 3,322,141	100.00		100.00	
WOHNBAUERRICHTUNGS-UND-VERWERTUNGS-GMBH	VIENNA	EUR 6,615,700	Merged on 19/12/16		100.00	
WOHNPARK BRANDENBURG-GORDEN GMBH	BRANDENBURG	EUR 51,150	100.00		100.00	
Z LEASING ALFA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING ARKTUR IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING AURIGA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING CORVUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING DORADO IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING DRACO IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING GAMA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING GEMINI IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING HEBE IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING HERCULES IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING IPSILON IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING ITA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING JANUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING KALLISTO IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 263,958	100.00		100.00	
Z LEASING KAPA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING LYRA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING NEREIDE IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING OMEGA IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING PERSEUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 16,134,987	100.00		100.00	
Z LEASING SCORPIUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING TAURUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 73,000	100.00		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2016 HOLDING %	2016 VOTING RIGHTS %*)	2015 HOLDING %	2015 VOTING RIGHTS %*)
Z LEASING VENUS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
Z LEASING VOLANS IMMOBILIEN LEASING GESELLSCHAFT M.B.H.	VIENNA	EUR 36,500	100.00		100.00	
ZABA PARTNER DOO ZA POSREDOVANJE U OSIGURANJU I REOSIGURANJU	ZAGREB	HRK 1,500,000	CEE demerger 01/10/16		84.48	
ZAGREB NEKRETNINE DOO	ZAGREB	HRK 5,000,000	CEE demerger 01/10/16		84.48	
ZAGREBACKA BANKA D.D.	ZAGREB	HRK 6,404,839,100	CEE demerger 01/10/16		84.48	
ZANE BH DOO	SARAJEVO	BAM 131,529	CEE demerger 01/10/16		84.48	
ZAO LOCAT LEASING RUSSIA	MOSCOW	RUR 107,000,000	CEE demerger 01/10/16		100.00	
ZAPADNI TRGOVACKI CENTAR D.O.O.	RIJEKA	HRK 20,000	100.00		100.00	
ZB INVEST DOO	ZAGREB	HRK 4,000,000	CEE demerger 01/10/16		84.48	
ZETA FUENF HANDELS GMBH	VIENNA	EUR 17,500	Merged on 29/11/16		100.00	
ZM REVITALISIERUNGS-UND VERMIETUNGS-GMBH	VIENNA	EUR 2,056,561	Merged on 07/10/16		100.00	

*) Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

Breakdown of non-controlling interests

Non-controlling interests

(€ million)

	31 DEC. 2016	31 DEC. 2015
ZABA Subgroup	–	385
Public Joint Stock Company "Ukrsotsbank"	–	–226
UniCredit Tiriac Bank S. A.	–	29
card complete Service Bank AG	76	25
UniCredit Consumer Financing IFN S. A.	–	25
Other entities	28	45
Consolidation adjustments	–16	–45
TOTAL	**88**	**238**

A – Accounting policies (CONTINUED)

Investments in subsidiaries with material non-controlling interests, 2016

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	FINANCIAL LIABILITIES	SHARE-HOLDERS' EQUITY	SHARE-HOLDERS' EQUITY ATTRIB-UTABLE TO NON CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS %
card complete Service Bank AG	645,150	1	585,805	59,344	204,135	153,093	76,393	49,90

Investments in subsidiaries with material non-controlling interests, 2015

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	FINANCIAL LIABILITIES	SHARE-HOLDERS' EQUITY	SHARE-HOLDERS' EQUITY ATTRIB-UTABLE TO NON CONTROLLING INTERESTS	NON-CONTROLLING INTERESTS %
Zagrebacka banka d.d. (ZABA Subgroup)	13,720,029	668,627	12,736,284	315,118	11,576,281	1,970,106	305,860	15.53
Public Joint Stock Company "Ukrsotsbank"	2,028,603	–	–	2,028,603	–	487,711	–225,688	8.64
UniCredit Bank d.d. (ZABA Subgroup)	2,236,335	296,196	1,890,015	50,124	1,815,969	365,901	58,852	16.07
UniCredit Tiriac Bank S.A.	6,750,593	154,264	6,492,675	103,654	5,982,343	681,676	29,112	4.34
card complete Service Bank AG	535,254	1	492,250	43,003	209,623	50,483	25,190	49.90
UniCredit Consumer Financing IFN S.A.	302,200	–	298,774	3,426	250,730	47,583	25,329	52.08

A – Accounting policies (CONTINUED)

(€ thousand)

NET INTEREST MARGIN	OPERATING INCOME	OPERATING COSTS	TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX FROM DIS-CONTINUED OPERATIONS	NET PROFIT OR LOSS (1)	OCI (2)	COMPREHENSIVE INCOME (3) = (1) + (2)	TOTAL COM-PREHENSIVE INCOME ATTRIB-UTABLE TO NON-CONTROLLING INTERESTS	DIVIDENDS PAID TO NON-CONTROLLING INTERESTS
6,792	84,391	38,826	121,642	121,642	–	121,642	–	121,642	60,699	9,497

(€ thousand)

NET INTEREST MARGIN	OPERATING INCOME	OPERATING COSTS	TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	TOTAL PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	PROFIT (LOSS) AFTER TAX FROM DIS-CONTINUED OPERATIONS	NET PROFIT OR LOSS (1)	OCI (2)	COMPREHENSIVE INCOME (3) = (1) + (2)	TOTAL COM-PREHENSIVE INCOME ATTRIB-UTABLE TO NON-CONTROLLING INTERESTS	DIVIDENDS PAID TO NON-CONTROLLING INTERESTS
344,386	505,829	−226,949	−67,401	−52,470	–	−52,470	10,300	−42,170	−6,547	23,446
–	–	2	−4,572	−4,572	−125,725	−130,297	2,924	−127,373	−11,000	–
76,596	111,487	−60,304	45,657	40,755	–	40,755	−121	40,634	6,530	–
154,244	290,442	−149,378	57,403	48,385	–	48,385	392	48,777	2,117	–
5,991	75,096	−54,534	18,534	18,534	–	18,534	–	18,534	9,248	7,142
22,836	26,852	−10,750	9,068	7,728	–	7,728	–	7,728	4,025	–

A – Accounting policies (CONTINUED)

Investments in associates and joint ventures

NAME	METHOD OF ACCOUNTING	MAIN OFFICE/ OPERATIONAL HQ	NATURE OF RELATIONSHIP	DATE OF PUBLICATION 3)
"MEGAPARK" OOD	At equity	SOFIA	5	31/12/2015
"UNI" GEBAEUDEMANAGEMENT GMBH	At equity	LINZ	2	30/09/2016
ALLIANZ ZB D.O.O. DRUSTVO ZA UPRAVLJANJIE DOBROVOLJNIM MIROVINSKIM FONDOM	At equity	ZAGREB	5	30/11/2015 2)
ALLIANZ ZB D.O.O. DRUSTVO ZA UPRAVLJANJIE OBVEZNIM MIROVINSKIM FONDOM	At equity	ZAGREB	5	30/11/2015 2)
ARWAG HOLDING-AKTIENGESELLSCHAFT	At equity	VIENNA	5	30/09/2014 1)
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	At equity	INNSBRUCK	1	30/09/2016
BARN BV	At equity	AMSTERDAM	2	31/12/2015 2)
BKS BANK AG	At equity	KLAGENFURT	1	30/09/2016
CASH SERVICE COMPANY AD	At equity	SOFIA	5	30/12/2015 2)
CBD INTERNATIONAL SP.ZO.O.	At equity	WARSAW	2	31/12/2016
FIDES LEASING GMBH	Joint venture	VIENNA	2	31/12/2016
GLAMAS BETEILIGUNGSVERWALTUNGS GMBH & CO "BETA" KG	At equity	VIENNA	5	30/09/2014 1)
HETA BA LEASING SUED GMBH	Joint venture	KLAGENFURT	2	31/12/2016
HSG ZANDER GMBH	At equity	VIENNA	5	30/09/2014 1)
KOC FINANSAL HIZMETK AS CONSOLIDATO	Joint venture	ISTANBUL	2	31/12/2015 2)
LISCIV MUTHGASSE GMBH & CO KG	At equity	VIENNA	5	30/09/2014 1)
MARIAHILFERGUERTEL GRUNDSTUECKSVERMIETUNGS GESELLSCHAFT M.B.H.	Joint venture	VIENNA	5	30/09/2014 2)
MARINA CITY ENTWICKLUNGS GMBH	Joint venture 4)	VIENNA	2	30/06/2015 1)
MARINA TOWER HOLDING GMBH	Joint venture 4)	VIENNA	5	30/06/2015 1)
MULTIPLUS CARD DOO ZA PROMIDZBU I USLUGE	At equity	ZAGREB	2	30/11/2015 2)
MUTHGASSE ALPHA HOLDING GMBH	Joint venture	VIENNA	5	30/09/2014 1)
NOTARTREUHANDBANK AG	At equity	VIENNA	1	30/09/2016
OBERBANK AG	At equity	LINZ	1	30/09/2016
OBJEKT-LEASE GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M.B.H.	At equity	VIENNA	2	31/12/2016
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M.B.H.	At equity	VIENNA	1	31/12/2015
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	At equity	VIENNA	1	30/09/2016
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH	At equity	VIENNA	2	31/12/2015
PALATIN GRUNDSTUECKVERWALTUNGS GESELLSCHAFT M.B.H.	At equity	STOCKERAU	2	31/12/2016
PSA PAYMENT SERVICES AUSTRIA GMBH	At equity	VIENNA	2	31/12/2015
PURGE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	At equity	VIENNA	2	31/12/2016
RCI FINANCIAL SERVICES R.S.O.	At equity	PRAHA	2	31/12/2015 2)
REMBRA LEASING GESELLSCHAFT M.B.H.	At equity	VIENNA	2	31/12/2015 2)
SP PROJEKTENTWICKLUNG SCHOENEFELD GMBH & CO.KG	At equity	SCHOENEFELD	5	30/09/2015 2)
VBV DELTA ANLAGEN VERMIETUNG GESELLSCHAFT M.B.H.	At equity	VIENNA	5	30/09/2014 2)
WKBG WIENER KREDITBUERGSCHAFTS- UND BETEILIGUNGSBANK AG	At equity	VIENNA	2	31/12/2015
WWE WOHN- UND WIRTSCHAFTSPARK ENTWICKLUNGSGESELLSCHAFT M.B.H.	At equity	VIENNA	5	30/09/2014 1)
ZS EINKAUFSZENTRE ERRICHTUNGS-UND VERMIETUNGS-AKTIENGESELLSCHATF	Joint venture	VIENNA	5	30/09/2014 1)

1) Reclassification in accordance with IFRS 5 as investments classified as held for sale.
2) Data for 2015 (disposal in 2016).
3) The most recent financial statements used for consolidation.
4) In 2015 accounted for using the equity method.

Nature of relationship:
1 = Banks
2 = Financial entities
3 = Ancillary banking entities services
4 = Insurance enterprises
5 = Non-financial enterprises
6 = Other equity investments

Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

(€ thousand)

2016				2015			
ISSUED CAPITAL	HOLDING %	VOTING RIGHTS %	CARRYING AMOUNT € THSD	ISSUED CAPITAL	HOLDING %	VOTING RIGHTS %	CARRYING AMOUNT € THSD
BGN 50,936,362	49.24			BGN 5,000	43.50		
EUR 18,168	50.00			EUR 18,168	50.00		
	CEE demerger 01/10/16			HRK 15,000,000	41.39	49.00	1,999
	CEE demerger 01/10/16			HRK 90,000,000	41.39	49.00	10,208
EUR 3,000,000	34.38		22.603	EUR 3,000,000	34.38		22,603
EUR 55,000,000	47.39	46.71	531.480	EUR 55,000,000	47.39	46.71	564,071
	CEE demerger 01/10/16			EUR 195,020,000	40.00		41,383
EUR 79,279,200	29.78	30.35	242.676	EUR 72,072,000	32.76	37.10	240,231
	CEE demerger 01/10/16			BGN 12,500,000	20.00		1,397
PLN 100,500	49.75		5.671	PLN 100,500	49.75		5,912
EUR 57,229	50.00		50	EUR 57,229	50.00		23
EUR 10,000	30.00		130	EUR 10,000	30.00		130
EUR 36,500	50.00		1.416	EUR 36,500	50.00		3,264
EUR 363,364	36.00		5.607	EUR 363,364	36.00		5,608
	CEE demerger 01/10/16			TRY 3,011,274,868	50.00		2,898,178
EUR 10,000	30.00		2	EUR 10,000	30.00		2
	Sold on 02/03/16			EUR 660,000	50.00		3,056
EUR 120,000	25.00			EUR 120,000	25.00		
EUR 35,000	25.00		383	EUR 35,000	25.00		383
	CEE demerger 01/10/16			HRK 5,000,000	21.12	25.00	
EUR 35,000	52.94	50.00	20	EUR 35,000	52.94	50.00	20
EUR 8,030,000	25.00		6.846	EUR 8,030,000	25.00		6,411
EUR 105,869,525	27.17	27.29	590.042	EUR 96,299,925	29.76	30.15	540,892
EUR 36,336	50.00		79	EUR 107,912	50.00		244
EUR 11,628,000	50.00		14.621	EUR 11,628,000	50.00		14,204
EUR 130,000,000	49.15		369.869	EUR 130,000,000	49.15		372,897
EUR 36,336	29.30		22	EUR 36,336	29.30		19
EUR 36,336	50.00		267	EUR 36,336	50.00		410
EUR 285,000	24.00		6.206	EUR 285,000	24.00		6,111
EUR 36,336	50.00			EUR 36,336	50.00		
	CEE demerger 01/10/16			CZK 70,000,000	50.00	49.86	15,591
	Liquidated on 15/12/16			EUR 886,336	50.00		25
	Sold on 28/12/16			EUR 102,258	50.00		8,697
	Merged on 09/08/16			EUR 36,336	40.00		4,843
EUR 15,550,309	21.54		7.161	EUR 15,308,027	22.12		7,213
EUR 36,336	25.00		697	EUR 36,336	25.00		698
EUR 7,300,000	50.00		22.128	EUR 7,300,000	50.00		22,128

1) Reclassification in accordance with IFRS 5 as investments classified as held for sale.
2) Data for 2015 (disposal in 2016).
3) The most recent financial statements used for consolidation.
4) In 2015 accounted for using the equity method.

Nature of relationship:
1 = Banks
2 = Financial entities
3 = Ancillary banking entities services
4 = Insurance enterprises
5 = Non-financial enterprises
6 = Other equity investments

Voting rights are disclosed only if different from the percentage of holding.

A – Accounting policies (CONTINUED)

Investments in associates and joint ventures: accounting information 2016

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	FINANCIAL LIABILITIES
Under significant influence					
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	9,845,483	326,532	8,997,579	521,372	8,365,306
BKS BANK AG	7,314,070	404,564	6,702,415	207,091	6,171,388
NOTARTREUHANDBANK AG	1,717,258	6	1,716,802	450	1,687,713
OBERBANK AG	19,079,368	287,263	17,988,986	803,119	16,123,097
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M.B.H.	999,031	997	994,132	3,903	963,382
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	25,764,556	548,898	25,007,037	208,621	23,292,681

A – Accounting policies (CONTINUED)

(€ thousand)

NON-FINANCIAL LIABILITIES	NET EQUITY	TOTAL REVENUES	NET INTEREST MARGIN	IMPAIRMENT/ WRITE-BACKS ON TANGIBLE AND INTANGIBLE ASSETS	OPERATING COSTS	PROFIT (LOSS)	POSITIVE DIFFERENCES	DIVIDENDS RECEIVED
306,415	1,173,762	286,509	140,994	0	−27,412	52,775	0	3,910
200,476	942,206	219,747	164,140	0	−4,879	46,513	0	2,715
2,165	27,380	11,590	12,319	−120	−1,896	7,739	0	1,500
733,306	2,222,965	505,247	365,385	0	−29,362	170,074	0	5,277
6,407	29,242	7,328	4,077	−104	−801	6,527	0	750
1,719,343	752,532	141,645	89,164	0	−11,409	41,823	0	9,840

A – Accounting policies (CONTINUED)

Investments in associates and joint ventures: accounting information 2015

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	TOTAL LIABILITIES	FINANCIAL LIABILITIES
Under joint control						
FIDES LEASING GMBH	48,528	–	48,415	113	48,483	47,428
HETA BA LEASING SUED GMBH	6,539	–	4,509	2,030	9	–
KOC FINANSAL HIZMETLER AS GROUP	29,919,613	292,993	28,815,865	810,755	27,021,435	25,088,173
MARIAHILFERGUERTEL GRUNDSTUECKSVERMIETUNGS-GESELLSCHAFT M.B.H.	7,870	–	–	7,870	1,758	–
MUTHGASSE ALPHA HOLDING GMBH	850	–	–	850	812	–
ZS EINKAUFSZENTER ERRICHTUNGS-UND VERMIETUNGS-AKTIENGESELLSCHAFT	65,411	–	–	65,411	21,155	–
Under significant influence						
ALLIANZ ZB D.O.O. DRUSTVO ZA UPRAVLJANJIE DOBROVOLJNIM MIROVINSKIM FONDOM	6,042	–	5,275	767	1,964	–
ALLIANZ ZB D.O.O. DRUSTVO ZA UPRAVLJANJIE OBVEZNIM MIROVINSKIM FONDOM	24,461	–	18,952	5,510	3,633	–
ARWAG HOLDING-AKTIENGESELLSCHAFT	430,813	–	–	430,813	365,066	–
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	9,322,688	175,264	8,724,990	422,434	8,177,199	7,890,180
BARN BV	654,740	6,123	630,389	18,229	551,283	530,646
BKS BANK AG	6,995,686	225,653	6,624,419	145,614	6,159,068	5,936,379
CASH SERVICE COMPANY AD	7,437	–	–	7,437	457	–
CBD INTERNATIONAL SP.ZO.O.	25,110	–	–	25,110	20,533	–
GLAMAS BETEILIGUNGSVERWALTUNGS GMBH & CO BETA KG	4,812	–	–	4,812	4,377	–
HSG ZANDER GMBH	26,802	–	–	26,802	11,228	–
LISCIV MUTHGASSE GMBH & CO KG	3,690	–	–	3,690	3,683	–
MARINA CITY ENTWICKLUNGS GMBH	12,472	–	–	12,472	12,690	–
MARINA TOWER HOLDING GMBH	1,502	–	–	1,502	35	–
MEGAPARK OOD	69,933	–	–	69,933	105,172	–
MULTIPLUS CARD D.O.O. ZA PROMIDZBU I USLUGE	1,485	–	159	1,326	2,300	1,355
NOTARTREUHANDBANK AG	1,762,110	7	1,761,609	493	1,736,469	1,734,279
OBERBANK AG	18,346,451	225,104	17,365,697	755,650	16,477,446	15,742,575
OBJEKT-LEASE GRUNDSTUECKSVERWALTUNGSGESELLSCHAFT M.B.H.	3,905	–	3,890	15	3,418	3,230
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M.B.H.	1,059,723	998	1,053,708	5,017	1,031,315	1,024,829
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	28,994,104	114,153	28,658,187	221,764	28,263,375	26,675,433
OESTERREICHISCHE WERTPAPIERDATEN SERVICE GMBH	1,849	–	1,159	690	1,784	727
PALATIN GRUNDSTUECKVERWALTUNGS GESELLSCHAFT M.B.H.	2,112	–	2,112	–	1,291	1,245
PSA PAYMENT SERVICE AUSTRIA GMBH	116,955	1	107,167	9,787	91,495	53,965
PURGE GRUNDSTUECKSVERWALTUNGS-GESELLSCHAFT M.B.H.	272	–	272	–	273	271
RCI FINANCIAL SERVICES S.R.O.	98,190	–	96,062	2,129	71,599	68,286
REMBRA LEASING GESELLSCHAFT M.B.H.	69	–	45	25	18	–
SCHULERRICHTUNGSGESELLSCHAFT M.B.H.	–	–	–	–	–	–
SP PROJEKTENTWICKLUNG SCHOENEFELD GMBH & CO.KG	18,912	–	5,145	13,767	1,520	–
UNI GEBAEUDEMANAGEMENT GMBH	1,830	–	–	1,830	1,901	–
VBV DELTA ANLAGEN VERMIETUNG GESELLSCHAFT M.B.H.	23,818	–	–	23,818	11,711	–
WKBG WIENER KREDITBUERGSCHAFTS- UND BETEILIGUNGSBANK AG	32,572	2	30,305	2,265	3,891	–
WWE WOHN- UND WIRTSCHAFTSPARK ENTWICKLUNGSGESELLSCHAFT M.B.H.	2,883	–	–	2,883	92	–

A – Accounting policies (CONTINUED)

(€ thousand)

NON-FINANCIAL LIABILITIES	NET EQUITY	TOTAL REVENUES	NET INTEREST MARGIN	IMPAIRMENT/ WRITE-BACKS ON TANGIBLE AND INTANGIBLE ASSETS	OPERATING COSTS	PROFIT (LOSS)	COMPRE-HENSIVE INCOME	POSITIVE DIFFERENCES	DIVIDENDS RECEIVED
1,055	45	671	68	–	−3	−1	−1	–	–
9	6,530	3,772	–	–	−17	3,739	3,739	–	–
1,933,262	2,898,178	2,881,737	829,625	−23,941	−555,480	349,498	335,040	–	56,966
1,758	6,112	–	–	–	–	0	–	–	–
812	38	–	–	–	–	–	–	–	–
21,155	44,256	–	–	–	–	–	–	–	–
1,964	4,078	5,219	93	−25	−1,565	2,205	2,205	–	876
3,633	20,828	18,378	258	−46	−5,977	9,786	9,786	–	4,152
365,066	65,748	–	–	–	–	–	–	–	–
287,019	1,145,489	402,187	175,294	–	−113,946	156,958	82,009	21,280	3,554
20,637	103,458	84,099	20,560	–	−20,115	5,616	−6,261	–	–
222,689	836,618	275,359	157,706	–	−115,778	57,301	56,592	–	2,715
457	6,981	3,808	–	–	−3,248	504	500	–	92
20,533	4,577	–	–	–	−637	−637	−637	3,632	–
4,377	435	–	–	–	–	–	–	–	–
11,228	15,574	–	–	–	–	–	–	–	–
3,683	8	–	–	–	–	–	–	–	–
12,690	−218	–	–	–	–	–	−213	–	–
35	1,467	–	–	–	–	–	−4	–	–
105,172	−35,239	3,876	–	–	−5,880	−5,880	−5,880	–	–
945	−815	4,600	−142	−72	−4,102	337	337	–	–
2,190	25,641	19,116	17,181	−321	−5,909	7,318	7,318	–	1,802
734,871	1,869,005	702,438	392,309	–	−300,696	155,044	173,428	–	5,277
188	487	47	6	–	−13	−1	−1	–	247
6,485	28,409	27,959	4,199	−89	−2,997	2,790	2,790	–	750
1,587,942	730,729	389,064	86,194	–	−85,630	40,457	40,457	13,743	9,840
1,057	65	5,074	−15	−255	−5,053	5	5	–	–
46	821	7	–	–	0	7	7	–	180
37,530	25,460	194,778	−754	−3,430	−1,255	13,575	13,575	–	2,942
2	–	6	1	–	−2	−6	−6	–	–
3,312	26,592	12,282	4,783	–	−2,021	4,281	4,281	2,297	2,640
18	51	3	−4	–	−55	−86	−86	–	–
–	–	–	–	–	−2	−2	−2	–	183
1,520	17,392	4,899	−48	−88	−4,655	127	127	–	–
1,901	−71	200	–	–	−154	46	46	–	–
11,711	12,107	–	–	–	–	–	–	–	–
3,891	28,681	2,300	1,353	−29	−1,659	−437	−437	–	–
92	2,791	–	–	–	–	–	–	–	–

A – Accounting policies (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in 2016

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**400**	**37**	**437**
Additions	**5**	**0**	**5**
Newly established companies	0	0	0
Acquired companies	1	0	1
Other changes	3	0	3
Changes in UniCredit Group	1	0	1
Disposals	**–122**	**–11**	**–133**
Companies sold or liquidated	–16	–3	–19
Mergers	–13	0	–13
Transfer of CEE companies	–93	–7	–100
Changes in UniCredit Group	0	–1	–1
CLOSING BALANCE	**283**	**26**	**309**

Profit or loss on disposal of companies previously included in consolidation (€ million)

	PROFIT OR LOSS
Mariahilfergürtel Grundstücksvermietungsgesellschaft m.b.H.	1
SP Projektentwicklung Schönefeld GmbH & Co KG	2
NATA Immobilien-Leasing Gesellschaft m.b.H.	1
TOTAL	**4**

Changes in the consolidation perimeter

The CEE Division was demerged from UniCredit Bank Austria AG as at 30 September 2016. Its results for the first nine months are included in overall results for 2016 in the item "Total profit or loss after tax from discontinued operations".

Other changes in the consolidation perimeter mainly relate to sales of real estate companies and further measures to simplify the structure of the UniCredit Bank Austria Group's holdings of equity interests.

A – Accounting policies (CONTINUED)

Effects of changes in the group of consolidated companies in 2016

Assets

(€ million)

	31 DEC. 2016	31 DEC. 2015	CHANGE	OF WHICH: CEE TRANSFER
Cash and cash balances	165	2,146	–1,981	–2,233
Financial assets held for trading	1,113	3,013	–1,900	–1,962
Financial assets at fair value through profit or loss	14	89	–75	–16
Available-for-sale financial assets	15,791	24,810	–9,019	–11,036
Held-to-maturity investments	236	484	–248	–459
Loans and receivables with banks	20,762	32,214	–11,452	–15,937
Loans and receivables with customers	60,926	116,377	–55,451	–59,836
Hedging derivatives	2,661	3,290	–629	–562
Changes in fair value of portfolio hedged items (+/–)	–36	41	–77	–77
Investments in associates and joint ventures	1,777	4,741	–2,964	–3,084
Property, plant and equipment	695	2,132	–1,437	–1,027
Intangible assets	11	221	–210	–232
Tax assets	320	448	–128	–130
Non-current assets and disposal groups classified as held for sale	900	2,467	–1,567	–1,533
Other assets	450	1,167	–717	–589
TOTAL ASSETS	**105,785**	**193,638**	**–87,853**	**–98,715**

Liabilities and equity

(€ million)

	31 DEC. 2016	31 DEC. 2015	CHANGE	OF WHICH: CEE TRANSFER
Deposits from banks	13,939	23,432	–9,493	–20,588
Deposits from customers	56,239	110,346	–54,107	–57,884
Debt securities in issue	17,394	28,802	–11,408	–6,845
Financial liabilities held for trading	1,107	2,642	–1,535	–1,318
Financial liabilities at fair value through profit or loss	399	547	–148	–
Hedging derivatives	2,153	2,782	–629	–677
Changes in fair value of portfolio hedged items (+/–)	–196	–101	–95	–63
Tax liabilities	54	214	–160	–234
Liabilities included in disposal groups classified as held for sale	123	1,977	–1,854	–1,291
Other liabilities	2,469	2,773	–304	–1,326
Provisions for risks and charges	4,212	4,830	–618	–120
Equity	7,892	15,394	–7,502	–8,367
TOTAL LIABILITIES AND EQUITY	**105,785**	**193,638**	**–87,853**	**–98,715**

A – Accounting policies (CONTINUED)

List of subsidiaries and associates not consolidated because the equity investments are not material

NAME	MAIN OFFICE/ OPERATIONAL HQ	HOLDING %
"Cafu" Vermögensverwaltung GmbH	Vienna	100.00
"Megapark 2" E.o.o.d.	Sofia	80.00
"Neue Heimat" Gemeinnützige Wohnungs-und Siedlungsgesellschaft, Gesellschaft mit beschränkter Haftung	Wiener Neustadt	27.00
Alfa Holding Ingatlanszolgaltato Kft.	Györ	95.00
BA WORLDWIDE FUND MANAGEMENT LTD	Tortola	94.95
BACA Investor Beteiligungs GmbH	Vienna	89.26
Bank Austria Immobilien Entwicklungs- und VerwertungsgmbH in Liqu.	Vienna	100.00
Bank Austria Real Invest Asset Management GmbH	Vienna	94.95
Bank Austria-CEE BeteiligungsgmbH	Vienna	100.00
CANDOUR FIVE GmbH & Co KG	Vienna	100.00
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H.	Vienna	30.61
Eventwolken GmbH	Vienna	100.00
FONTANA Hotelverwaltungsgesellschaft m.b.H.	Vienna	100.00
GEWOG Gemeinnützige Wohnungsbau-Gesellschaft m.b.H.	Vienna	25.00
Glamas Beteiligungsverwaltung GmbH	Vienna	30.00
IMU Immobilienentwicklung Muthgasse GmbH	Vienna	60.00
M.A.I.L. Real Estate Management Jota Bratislava s.r.o.	Bratislava	94.95
Megapark Invest GmbH	Vienna	80.00
MY Fünf Handels GmbH	Vienna	50.00
Palais Rothschild Vermietungs GmbH	Vienna	100.00
RAMSES-Immobilienholding GmbH	Vienna	100.00
Real Invest Property GmbH & Co SPB Jota KG	Vienna	0.00
Real(e)value Immobilien BewertungsGmbH	Vienna	100.00
RE-St.Marx Holding GmbH	Vienna	100.00
Sigma Holding Ingatlanszolgaltato Kft.	Budapest	95.00
Soleta Beteiligungsverwaltungs GmbH	Vienna	30.00
STC Immo Beteiligungs- und Management GmbH	Vienna	100.00
THETA Fünf Handels GmbH	Vienna	100.00
Treuconsult Property Alpha GmbH	Vienna	94.95
Treuconsult Property Beta GmbH in Liqu.	Vienna	94.95
Wirtschaftsverein der MitarbeiterInnen der UniCredit Bank Austria e.Gen. in Liquidation	Vienna	52.99

*) Inclusion of companies is based on quantitative criteria (e.g.: total assets < €5 million, possibility of realisation of profit) and qualitative criteria (e.g.: strategic relevance).

A – Accounting policies (CONTINUED)

Exposure towards unconsolidated structured entities

Exposure towards unconsolidated investment funds

Units in investment funds

(€ million)

		31 DECEMBER 2016			31 DECEMBER 2015		
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE	FAIR VALUE	BOOK VALUE	NOMINAL VALUE	FAIR VALUE
Units in investment funds	Fair value option	14	14	14	32	32	44
	Available for sale	33	1	33	138	138	40
	Held for trading	–	–	–	–	–	–
TOTAL		**47**	**15**	**47**	**169**	**169**	**84**

Other exposure towards unconsolidated investment funds

Assets

(€ million)

		31 DECEMBER 2016		31 DECEMBER 2015	
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE	BOOK VALUE	NOMINAL VALUE
Loans	Loans and receivables	155	155	249	249
Credit derivatives	Held for trading	7	408	6	369
Other derivatives	Held for trading	–	–	1	147
Guarantees	Off-balance sheet	–	–	–	–
Credit lines revocable	Off-balance sheet	–	1,624	–	1,748
Credit lines irrevocable	Off-balance sheet	–	661	–	661
TOTAL		**161**	**2,848**	**257**	**3,174**

Liabilities

(€ million)

		31 DEC. 2016	31 DEC. 2015
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	BOOK VALUE
Derivatives	Held for trading	–	–
Deposits	Liabilities	1,222	1,400
Other derivatives (no credit risk)	Liabilities	–	2
TOTAL		**1,222**	**1,402**

Income from unconsolidated structured entities

Fees and commissions earned by the Bank Austria Group from unconsolidated investment funds amounted to €30 million in 2016 (€35 million in 2015).

A – Accounting policies (CONTINUED)

Disclosures of material restrictions

Minimum regulatory capital requirements and other requirements restrict the ability of subsidiaries of our group to pay dividends or redeem capital.

Minimum capital requirements are based on the CRR I and CRD IV. Additional capital requirements have been defined by regulators in some countries.

In addition to the minimum capital requirements, subordinated liabilities can only be repaid with the permission of the national regulator in line with the CRR.

In addition, there is the following significant restriction other than legal or regulatory minimum capital requirements and restrictions that are based on such minimum capital requirements, such as limitations on large exposures:

With regard to card complete Service Bank AG, Vienna, the shareholders have made contractual arrangements for the calculation of the respective share in the dividend distribution until, and including, the 2017 financial year. Under the arrangements, from the 2018 financial year, dividends will again be distributed on a proportionate basis reflecting the respective shareholdings in the company. As at 31 December 2016, the related revenue reserves amounted to €21 million.

B – Notes to the income statement

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B – Notes to the income statement (CONTINUED)

B.1 – Interest income / Interest expense

Interest income and similar revenues

(€ million)

	2016				2015
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	–	–	6	6	13
Financial assets at fair value through profit or loss	–	–	–	–	–
Available-for-sale financial assets	212	–	–	212	229
Held-to-maturity investments	6	–	–	6	7
Loans and receivables with banks	18	31	–	49	105
Loans and receivables with customers	7	1,077	–	1,084	1,142
Hedging derivatives	X	X	326	326	375
Other assets	X	X	6	6	–
TOTAL	**243**	**1,108**	**338**	**1,689**	**1,871**

Within this item, total interest income from financial assets that are not at fair value through profit or loss was €1,357 million (2015: €1,483 million).

The total amount of interest income from impaired financial assets was €28 million (2015: €36 million). Of this total amount, €16 million (2015: €8 million) is included in interest income and similar revenues from loans which relate to interest actually paid. Interest income from the release of provisions as a result of the passage of time is presented in B.8.

Interest expense and similar charges

(€ million)

	2016				2015
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–6	X	–	–6	–5
Deposits from banks	–136	X	–	–136	–145
Deposits from customers	–141	X	–	–141	–266
Debt securities in issue	X	–438	–	–438	–477
Financial liabilities held for trading	–	–	–3	–3	–4
Financial liabilities at fair value through profit or loss	–	–3	–	–3	–4
Other liabilities and funds	X	X	–	–	–4
Hedging derivatives	X	X	–	–	–
TOTAL	**–283**	**–441**	**–4**	**–727**	**–904**

Within this item, total interest expense for liabilities that are not at fair value through profit or loss was €721 million (2015: €897 million).

B – Notes to the income statement (CONTINUED)

B.2 – Fee and commission income/Fee and commission expense

Fee and commission income

(€ million)

	2016	2015
Guarantees given	**30**	**44**
Credit derivatives	**2**	**3**
Management, brokerage and consultancy services:	**360**	**367**
securities trading	–	–
currency trading	5	10
portfolio management	209	202
custody and administration of securities	53	53
custodian bank	34	36
placement of securities	4	6
reception and transmission of orders	19	17
advisory services	–	4
distribution of third party services	36	38
Collection and payment services	**254**	**264**
Securitisation servicing	**–**	**–**
Factoring	**3**	**3**
Tax collection services	**–**	**–**
Management of multilateral trading facilities	**–**	**–**
Management of current accounts	**138**	**144**
Other services	**88**	**105**
TOTAL	**876**	**930**

Fee and commission expense

(€ million)

	2016	2015
Guarantees received	**–68**	**–24**
Credit derivatives	**–**	**–4**
Management, brokerage and consultancy services:	**–63**	**–63**
trading in financial instruments	–2	–3
currency trading	–	–
portfolio management	–12	–14
custody and administration of securities	–31	–29
placement of financial instruments	–	–
off-site distribution of financial instruments, products and services	–18	–17
Collection and payment services	**–107**	**–112**
Other services	**39**	**–2**
TOTAL	**–200**	**–205**

B – Notes to the income statement (CONTINUED)

B.3 – Dividend income and similar revenue

(€ million)

	2016			2015		
	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL	DIVIDENDS	INCOME FROM UNITS IN INVESTMENT FUNDS	TOTAL
Financial assets held for trading	–	–	–	–	–	–
Available-for-sale financial assets	7	–	7	3	–	3
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Other	1	X	1	2	X	2
TOTAL	**8**	**–**	**8**	**5**	**–**	**5**

B.4 – Gains and losses on financial assets and liabilities held for trading

(€ million)

	2016					2015
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	**1**	**1**	**–**	**–**	**2**	**3**
Debt securities	–	1	–	–	1	1
Equity instruments	–	–	–	–	–	1
Units in investment funds	–	–	–	–	–	–
Loans	–	–	–	–	–	–
Other	1	–	–	–	1	1
Financial liabilities held for trading	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	–	–	–	–	–	–
Deposits	–	–	–	–	–	–
Other	–	–	–	–	–	–
Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**28**	**10**
Derivatives	**26**	**–**	**–9**	**–**	**22**	**48**
Financial derivatives	26	–	–9	–	22	48
on debt securities and interest rates	*25*	–	*–1*	–	*24*	*45*
on equity securities and share indices	*1*	–	*–8*	–	*–7*	*–2*
on currency and gold	*X*	*X*	*X*	*X*	*5*	*5*
other	–	–	–	–	–	–
Credit derivatives	–	–	–	–	–	–
TOTAL	**27**	**1**	**–9**	**–**	**52**	**61**

B.5 – Fair value adjustments in hedge accounting

(€ million)

	2016	2015
Gains on:		
Fair value hedging instruments	1,916	835
Hedged asset items (in fair value hedge relationship)	27	121
Hedged liability items (in fair value hedge relationship)	58	–
Cash-flow hedging derivatives	–	–
Total gains on hedging activities	**2,001**	**956**
Losses on:		
Fair value hedging instruments	–1,992	–628
Hedged asset items (in fair value hedge relationship)	–	–
Hedged liability items (in fair value hedge relationship)	–	–330
Cash-flow hedging derivatives	–	–
Total losses on hedging activities	**–1,992**	**–958**
NET HEDGING RESULT	**9**	**–2**

B – Notes to the income statement (CONTINUED)

B.6 – Gains and losses on disposals/repurchases

(€ million)

	2016			2015		
	GAINS	LOSSES	NET PROFIT	GAINS	LOSSES	NET PROFIT
Financial assets						
Loans and receivables with banks	–	–	–	–	–	–
Loans and receivables with customers	–	–	–	–	–	–
Available-for-sale financial assets	19	–11	8	30	–3	27
Debt securities	*18*	*–11*	*7*	*26*	*–2*	*25*
Equity instruments	–	–	–	*1*	*–1*	*–1*
Units in investment funds	–	–	–	*3*	–	*3*
Loans	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
TOTAL ASSETS	**19**	**–11**	**8**	**30**	**–3**	**27**
Financial liabilities						
Deposits from banks	–	–	–	–	–21	–21
Deposits from customers	–	–	–	–	–	–
Debt securities in issue	8	–	8	–	–	–
TOTAL LIABILITIES	**8**	**–**	**8**	**–**	**–21**	**–21**
TOTAL	**27**	**–11**	**16**	**30**	**–24**	**6**

B.7 – Net change in financial assets and liabilities at fair value through profit or loss

(€ million)

	2016					2015
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets	**2**	**–**	**–**	**–**	**2**	**4**
Debt securities	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Units in investment funds	2	–	–	–	2	4
Loans	–	–	–	–	–	–
Financial liabilities	**3**	**2**	**–4**	**–**	**1**	**–7**
Debt securities	3	2	–4	–	1	–7
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Credit and financial derivatives	**9**	**–**	**–**	**–**	**9**	**7**
TOTAL	**13**	**2**	**–4**	**–**	**11**	**4**

In 2016 changes in fair values resulting from changes in UniCredit Bank Austria AG's own credit rating were €1 million (2015: –€2 million).

B – Notes to the income statement (CONTINUED)

B.8 – Impairment losses

(€ million)

	2016						2015
	WRITE-DOWNS			WRITE-BACKS			
	SPECIFIC						
	WRITE-OFFS	OTHER	PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	TOTAL
Impairment losses on loans and receivables	**−20**	**−160**	**−96**	**203**	**37**	**−36**	**4**
Loans and receivables with banks	–	–	–	–	–	–	–
Loans and receivables with customers	−20	−160	−96	203	37	−36	4
Impairment losses on available-for-sale financial assets	**–**	**−12**	**X**	**–**	**X**	**−12**	**−17**
Debt securities	–	–	X	–	X	–	–
Equity instruments	–	−11	X	–	X	−11	−12
Units in investment funds	–	−1	X	–	X	−1	−5
Impairment losses on held-to-maturity investments	**–**	**–**	**–**	**–**	**–**	**–**	**−7**
Debt securities	–	–	–	–	–	–	−7
Impairment losses on other financial transactions	**–**	**−6**	**−5**	**54**	**–**	**42**	**8**
Guarantees given	–	−6	−5	54	–	43	8
Credit derivatives	–	–	–	–	–	–	–
Commitments to disburse funds	–	–	–	–	–	–	–
Other transactions	–	–	–	–	–	–	–
TOTAL	**−20**	**−178**	**−101**	**257**	**37**	**−5**	**−12**

"Write-backs" also include interest from impaired loans in the amount of €13 million (2015: €28 million). Details of impairment losses on loans and receivables with customers are given in the risk report.

B.9 – Payroll

(€ million)

	2016	2015
Employees	**−1,061**	**−404**
Wages and salaries	−509	−561
Social charges	−161	−129
Provision for retirement payments and similar provisions	−242	988
Defined contribution	–	–
Defined benefit	*−242*	*988*
Payments to external pension funds	−20	−10
Defined contribution	*−20*	*−9*
Defined benefit	–	*−1*
Costs related to share-based payments	−6	−2
Other employee benefits	−248	−828
Recovery of compensation *)	125	138
Others	**−32**	**−8**
TOTAL	**−1,093**	**−412**

*) This includes recovery of staff costs relating to Bank Austria employees who are not active within the Group.

B – Notes to the income statement (CONTINUED)

Defined-benefit company retirement funds: total costs

(€ million)

	2016	2015
Pension and similar funds allowances – with defined benefits		
Current service cost	–26	–92
Settlement	–	1,199
Past service cost	–140	–2
Interest cost on the DBO	–76	–116
Interest income on plan assets	–	–
TOTAL RECOGNISED IN PROFIT OR LOSS	**–242**	**988**

Other employee benefits

(€ million)

	2016	2015
Seniority premiums	–5	–13
Compensation for entitlements of employees	–225	–801
Other	–18	–14
TOTAL	**–248**	**–828**

B.10 – Other administrative expenses

(€ million)

	2016	2015
Indirect taxes and duties	**–139**	**–130**
Ex-ante contributions to resolution funds and deposit guarantee schemes	**–54**	**–45**
Contributions based on harmonised EU regulations	–54	–45
Contributions based on existing local regulations	–	–
Miscellaneous costs and expenses	**–779**	**–729**
Advertising, marketing and communication	–46	–48
Expenses related to credit risk	–4	–4
Expenses related to personnel	–11	–12
Information and communication technology expenses	–238	–251
Consulting and professional services	–69	–63
Real estate expenses	–101	–113
Other functioning costs	–310	–237
TOTAL	**–972**	**–904**

Ex-ante contributions to resolution funds and deposit guarantee schemes include contributions based on harmonised EU regulations and contributions based on existing local regulations for those countries where the relevant EU Directives have not yet been transposed into national legislation. Amounts for the previous year were reclassified accordingly.

B.11 – Net provisions for risks and charges

(€ million)

	2016			2015
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Legal disputes	–190	1	–189	–24
Staff costs	–	–	–	–
Other	–14	58	44	–102
TOTAL	**–204**	**59**	**–145**	**–126**

B – Notes to the income statement (CONTINUED)

B.12 – Impairment on property, plant and equipment

(€ million)

	2016				2015
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
Property, plant and equipment					
Owned	**–90**	**–5**	**1**	**–95**	**–80**
used in the business	–83	–1	–	–84	–59
held for investment	–7	–4	1	–11	–21
Finance lease	**–**	**–**	**–**	**–**	**–**
used in the business	–	–	–	–	–
held for investment	–	–	–	–	–
TOTAL	**–90**	**–5**	**1**	**–95**	**–80**

B.13 – Impairment on intangible assets

(€ million)

	2016				2015
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
Intangible assets					
Owned	**–6**	**–**	**–**	**–6**	**–6**
generated internally by the company	–	–	–	–	–
other	–6	–	–	–6	–6
Finance leases	**–**	**–**	**–**	**–**	**–**
TOTAL	**–6**	**–**	**–**	**–6**	**–6**

B.14 – Other net operating income

Other operating expenses

(€ million)

	2016	2015
Costs for operating leases	–	–
Non-deductible tax and other fiscal charges	–2	–1
Write-downs on improvements of goods owned by third parties	–14	–13
Costs related to the specific service of financial leasing	–2	–3
Other	–37	–53
TOTAL OTHER OPERATING EXPENSES	**–54**	**–70**

Other operating income

(€ million)

	2016	2015
Recovery of costs	**1**	**1**
Other gains	**218**	**157**
Revenue from administrative services	39	40
Revenues from rentals of investment property (net of operating direct costs)	6	15
Revenues from operating leases	31	32
Recovery of miscellaneous costs paid in previous years	1	1
Revenues on financial leases activities	1	2
Others	140	67
TOTAL OTHER OPERATING INCOME	**218**	**158**
OTHER NET OPERATING INCOME	**164**	**88**

B – Notes to the income statement (CONTINUED)

B.15 – Profit (Loss) on equity investments

(€ million)

	2016	2015
Joint ventures		
Income	**–**	**2**
Profits of joint ventures	–	2
Net profit	**–**	**2**
Associates		
Income	**122**	**168**
Profits of associates	117	167
Gains on disposal	5	1
Write-backs	–	–
Other gains	–	–
Expense	**–75**	**–10**
Losses of associates	–	–2
Impairment losses *)	–60	–2
Losses on disposal	–15	–6
Other expenses	–	–
Net profit	**47**	**157**
TOTAL	**47**	**159**

*) The item "Impairment losses" includes a write-down of €13.7 million relating to OeKB and a write-down of €46.0 million relating to Bank für Tirol und Vorarlberg.

B.16 – Gains and losses on disposal of investments

(€ million)

	2016	2015
Property		
Gains on disposal	12	10
Losses on disposal	–1	–
Other assets		
Gains on disposal	8	7
Losses on disposal	–1	–2
TOTAL	**17**	**15**

B – Notes to the income statement (CONTINUED)

B.17 – Tax expense (income) related to profit or loss from continuing operations

(€ million)

	2016	2015
Current tax (–)	–18	–23
Adjustment to current tax of prior years (+/–)	–16	–7
Reduction of current tax for the year (+)	23	74
Changes to deferred tax assets (+/–)	–75	260
Changes to deferred tax liabilities (+/–)	28	–194
TAX EXPENSE FOR THE YEAR (–)	**–58**	**111**

As actuarial gains and losses on pension and severance-payment obligations were not recognised in income in the reporting year, deferred tax assets of €72 million (2015: –€252 million) were offset against equity in UniCredit Bank Austria AG.

As a result of the first-time consolidation of the subsidiaries and sub-groups referred to in section A.8, and of foreign currency translation of deferred taxes and direct offsetting against reserves, part of the change in deferred taxes was not reflected in the expense in 2016. The demerger of CEE operations involved the disposal of deferred taxes with no effect on profit or loss.

Reconciliation of theoretical tax charge to actual tax charge

(€ million)

	2016	2015
Total profit or loss before tax from continuing operations	**–354**	**486**
Applicable tax rate	25%	25%
Theoretical tax	**89**	**–122**
Different tax rates	–	–
Non-taxable income	79	307
Non-deductible expenses	–82	–6
Different tax laws	–19	3
Prior years and changes in tax rates	12	–6
a) effects on current tax	12	–6
b) effects on deferred tax	–	–1
Valuation adjustments and non-recognition of deferred taxes	–130	–60
Other differences	–6	–4
RECOGNISED TAXES ON INCOME	**–58**	**111**

B – Notes to the income statement (CONTINUED)

B.18 – Total profit or loss after tax from discontinued operations

(€ million)

	2016	2015
CEE demerger		
Net interest	1,824	2,467
Dividends and income from equity investments	3	4
Net fee and commission income	580	743
Net trading income	232	304
Net other operating income/expenses	124	21
Operating income	**2,763**	**3,538**
Operating costs	**–1,206**	**–1,784**
Operating profit	**1,557**	**1,754**
Net write-downs of loans	–577	–1,109
Net operating profit	**980**	**646**
Provisions for risks and charges	–	–
Net income from investments	315	88
Profit before tax	**1,295**	**734**
Income tax	–192	–204
Profit after tax/CEE demerger	**1,104**	**530**
Other		
Profit after tax/other	**38**	**105**
TOTAL PROFIT OR LOSS AFTER TAX FROM DISCONTINUED OPERATIONS	**1,141**	**635**

B.19 – Earnings per share

Earnings per share

	2016	2015
Net profit or loss attributable to the ordinary shareholders of UniCredit Bank Austria AG in € million	640	1,325
from continuing operations	–476	586
from discontinued operations	1,116	739
Weighted average number of ordinary shares outstanding in the reporting period	231,200,000	231,200,000
Basic/diluted earnings per share in €	**2.77**	**5.73**
from continuing operations	–2.06	2.53
from discontinued operations	4.83	3.20

Comprehensive earnings per share

	2016	2015
Comprehensive income attributable to the ordinary shareholders of UniCredit Bank Austria AG in € million	589	1,277
from continuing operations	–699	652
from discontinued operations	1,287	625
Weighted average number of ordinary shares outstanding in the reporting period	231,200,000	231,200,000
Basic/diluted comprehensive earnings per share in €	**2.55**	**5.52**
from continuing operations	–3.02	2.82
from discontinued operations	5.57	2.70

During the reporting period, no financial instruments with a dilutive effect on the bearer shares were outstanding. Therefore basic earnings per share in accordance with IAS 33 equal diluted earnings per share in accordance with IAS 33. Earnings per share are calculated on the basis of the average number of shares outstanding (2016: 231.2 million shares; 2015: 231.2 million shares).

B.20 – Appropriation of profits

After the release of reserves amounting to €37,889,591.21 the profit or loss of UniCredit Bank Austria AG for the financial year beginning on 1 January 2016 and ending on 31 December 2016 was €0.00. This means that there is no accumulated profit which may be distributed.

C – Notes to the statement of financial position

Assets

C.1 –	Cash and cash balances	120
C.2 –	Financial assets held for trading	120
C.3 –	Financial assets at fair value through profit or loss	120
C.4 –	Available-for-sale financial assets	121
C.5 –	Held-to-maturity investments	122
C.6 –	Loans and receivables with banks	122
C.7 –	Loans and receivables with customers	123
C.8 –	Hedging derivatives (assets)	123
C.9 –	Changes in fair value of portfolio hedged items (assets)	123
C.10 –	Investments in associates and joint ventures	124
C.11 –	Property, plant and equipment	124
C.12 –	Intangible assets	127
C.13 –	Deferred tax assets	128
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C – Notes to the statement of financial position (CONTINUED)

C.1 – Cash and cash balances

(€ million)

	31 DEC. 2016	31 DEC. 2015
Cash	112	1,170
Demand deposits with central banks	54	976
TOTAL	**165**	**2,146**

C.2 – Financial assets held for trading

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial assets (non-derivatives)	**1**	**1**	**–**	**2**	**133**	**51**	**21**	**205**
Debt securities	1	1	–	2	131	51	21	203
Structured securities	–	–	–	–	–	–	–	–
Other debt securities	*1*	*1*	–	*2*	*131*	*51*	*21*	*203*
Equity instruments	–	–	–	–	2	–	–	2
Derivative instruments	**–**	**1,074**	**37**	**1,111**	**1**	**2,759**	**48**	**2,808**
Financial derivatives	–	1,074	37	1,111	1	2,758	48	2,807
Credit derivatives	–	–	–	–	–	1	–	1
TOTAL	**1**	**1,075**	**37**	**1,113**	**134**	**2,810**	**69**	**3,013**

C.3 – Financial assets at fair value through profit or loss

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	–	–	–	–	–	57	–	57
Equity instruments	–	–	–	–	–	–	–	–
Units in investment funds	–	–	14	14	–	15	17	32
Loans	–	–	–	–	–	–	–	–
TOTAL	**–**	**–**	**14**	**14**	**–**	**72**	**17**	**89**
COST	**–**	**–**	**14**	**14**	**–**	**71**	**16**	**87**

This item shows assets in respect of which Bank Austria used the option to designate financial instruments as at fair value through profit or loss in order to avoid inconsistencies in the valuation of assets and liabilities which are connected with each other. Most of these assets are complex structures with embedded derivatives.

C – Notes to the statement of financial position (CONTINUED)

Financial assets at fair value through profit or loss: annual changes (€ million)

	2015			
	DEBT SECURITIES	EQUITY INSTRUMENTS	UNITS IN INVESTMENT FUNDS	TOTAL
Opening balance	**77**	**–**	**33**	**110**
Increases	**63**	**–**	**11**	**74**
Purchases	56	–	3	59
Positive changes in fair value	–	–	6	6
Other increases	7	–	2	9
Decreases	**–83**	**–**	**–12**	**–95**
Sales	–35	–	–5	–40
Redemptions	–47	–	–5	–52
Negative changes in fair value	–	–	–2	–2
Other decreases	–1	–	–	–1
CLOSING BALANCE	**57**	**–**	**32**	**89**

	2016			
	DEBT SECURITIES	EQUITY INSTRUMENTS	UNITS IN INVESTMENT FUNDS	TOTAL
Opening balance	**57**	**–**	**32**	**89**
Increases	**–**	**–**	**2**	**2**
Purchases	–	–	–	–
Positive changes in fair value	–	–	2	2
Other increases	–	–	–	–
Decreases	**–57**	**–**	**–20**	**–77**
Sales	–	–	–	–
Redemptions	–	–	–5	–5
Negative changes in fair value	–	–	–	–
Other decreases	–57	–	–15	–72
CLOSING BALANCE	**–**	**–**	**14**	**14**

C.4 – Available-for-sale financial assets

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	14,342	1,233	98	15,673	19,647	4,016	909	24,572
Structured securities	*–*	*–*	*14*	*14*	*–*	*96*	*68*	*164*
Other	*14,342*	*1,233*	*84*	*15,659*	*19,647*	*3,920*	*841*	*24,408*
Equity instruments	–	27	58	85	–	53	151	204
Measured at fair value	*–*	*27*	*33*	*60*	*–*	*53*	*121*	*174*
Carried at cost	*–*	*–*	*25*	*25*	*–*	*–*	*30*	*30*
Units in investment funds	–	–	33	33	–	1	33	34
TOTAL	**14,342**	**1,260**	**189**	**15,791**	**19,647**	**4,070**	**1,093**	**24,810**

C – Notes to the statement of financial position (CONTINUED)

C.5 – Held-to-maturity investments

(€ million)

	31 DEC. 2016					31 DEC. 2015				
	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	BOOK VALUE	FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Debt securities	236	245	7	224	14	484	491	114	377	–
Loans	–	–	–	–	–	–	–	–	–	–
TOTAL	**236**	**245**	**7**	**224**	**14**	**484**	**491**	**114**	**377**	**–**

Held-to-maturity investments: annual changes

(€ million)

	2016	2015
Opening balance	**484**	**572**
Increases	**–**	**252**
Purchases	–	241
Write-backs	–	–
Transfers from other portfolios	–	–
Other changes and positive exchange differences	–	11
Decreases	**–248**	**–341**
Sales	–	–3
Redemptions	–26	–290
Write-downs	–	–7
Transfers to other portfolios	–	–
Other changes and negative exchange differences	–222	–42
CLOSING BALANCE	**236**	**484**

C.6 – Loans and receivables with banks

(€ million)

	31 DEC. 2016	31 DEC. 2015
Loans to central banks	**3,055**	**11,455**
Time deposits	–	3,380
Compulsory reserves	3,026	6,012
Reverse repos	–	1,702
Other	29	361
Loans to banks	**17,707**	**20,759**
Current accounts and demand deposits	1,187	3,753
Time deposits	4,568	6,052
Other loans	9,472	8,475
Reverse repos	*7,812*	*5,434*
Other	*1,660*	*3,041*
Debt securities	2,480	2,479
TOTAL (CARRYING AMOUNT)	**20,762**	**32,214**
TOTAL (FAIR VALUE)	**20,814**	**32,076**
Fair value – Level 1	–	–
Fair value – Level 2	16,809	21,249
Fair value – Level 3	4,005	10,827
Loan loss provisions deducted from loans and receivables	4	18

C – Notes to the statement of financial position (CONTINUED)

C.7 – Loans and receivables with customers

(€ million)

	31 DEC. 2016			31 DEC. 2015		
	NOT IMPAIRED	IMPAIRED	TOTAL	NOT IMPAIRED	IMPAIRED	TOTAL
Loans	**59,478**	**1,151**	**60,629**	**111,208**	**4,531**	**115,739**
Current accounts	6,465	298	6,763	9,368	345	9,713
Reverse repos	–	–	–	222	–	222
Mortgages	11,678	44	11,722	24,058	1,077	25,135
Credit cards and personal loans, including wage assignment loans	1,037	10	1,047	3,541	60	3,601
Finance leases	2,799	119	2,918	5,669	308	5,977
Factoring	1,537	6	1,543	2,255	54	2,309
Other loans	35,962	673	36,635	66,095	2,686	68,781
Debt securities	**278**	**19**	**297**	**630**	**8**	**638**
TOTAL (CARRYING AMOUNT)	**59,756**	**1,170**	**60,926**	**111,838**	**4,539**	**116,377**
TOTAL (FAIR VALUE)	**60,303**	**1,204**	**61,507**	**113,508**	**4,540**	**118,048**
Fair value – Level 1			–			–
Fair value – Level 2			23,169			42,367
Fair value – Level 3			38,338			75,681
Loan loss provisions deducted from loans and receivables	428	1,732	2,160	849	5,842	6,691

Finance leases: customers

(€ million)

	31 DEC. 2016		31 DEC. 2015	
	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS	MINIMUM LEASE PAYMENTS	PRESENT VALUE OF MINIMUM LEASE PAYMENTS
Amounts receivable under finance leases:				
Up to 12 months	544	544	1,677	1,640
From 1 to 5 years	1,299	1,299	2,782	2,700
Over 5 years	1,074	1,074	1,660	1,638
GROSS/NET INVESTMENT IN THE LEASE	**2,918**	**2,918**	**6,119**	**5,978**
Of which: unguaranteed residual value	*114*	*114*	*2,752*	*2,752*
Unearned finance income	–	X	–142	X
PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE (NET INVESTMENT IN THE LEASE)	**2,918**	**2,918**	**5,978**	**5,978**

C.8 – Hedging derivatives (assets)

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**–**	**2,661**	**–**	**2,661**	**–**	**3,284**	**6**	**3,290**
Fair value hedge	–	2,577	–	2,577	–	2,895	3	2,898
Cash flow hedge	–	84	–	84	–	389	3	392
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**2,661**	**–**	**2,661**	**–**	**3,284**	**6**	**3,290**

C.9 – Changes in fair value of portfolio hedged items (assets)

(€ million)

	31 DEC. 2016	31 DEC. 2015
Positive changes	136	74
Negative changes	–171	–33
TOTAL	**–36**	**41**

C – Notes to the statement of financial position (CONTINUED)

C.10 – Investments in associates and joint ventures

(€ million)

	2016	2015
Opening balance	**4,741**	**4,644**
Increases	**117**	**526**
Purchases	–	–
Write–backs	–	–
Profit/loss for the year	117	526
Decreases	**–3,081**	**–429**
Sales	–3	–
Write–downs	–60	–2
Other changes	**–3,018**	**–427**
CLOSING BALANCE	**1,777**	**4,741**

C.11 – Property, plant and equipment

(€ million)

	31 DEC. 2016	31 DEC. 2015
Assets for operational use	**392**	**1,305**
Owned	**392**	**1,261**
Land	38	84
Buildings	130	622
Office furniture and fittings	66	91
Electronic systems	18	80
Others	140	384
Leased	**–**	**44**
Land	–	13
Buildings	–	30
Office furniture and fittings	–	–
Electronic systems	–	–
Others	–	1
Held-for-investment assets	**303**	**827**
Owned	**303**	**827**
Land	148	219
Buildings	155	608
TOTAL	**695**	**2,132**

Property, plant and equipment held for investment

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	BOOK VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	BOOK VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Assets carried at cost	**280**	**–**	**45**	**227**	**759**	**–**	**105**	**696**
Owned	**280**	**–**	**45**	**227**	**759**	**–**	**105**	**696**
Land	148	–	12	136	219	–	21	209
Buildings	132	–	33	91	540	–	84	487
Assets measured at fair value	**23**	**–**	**–**	**23**	**68**	**–**	**–**	**69**
Owned	**23**	**–**	**–**	**23**	**68**	**–**	**–**	**69**
Land	–	–	–	–	–	–	–	–
Buildings	23	–	–	23	68	–	–	69
TOTAL	**303**	**–**	**45**	**250**	**827**	**–**	**105**	**765**

C – Notes to the statement of financial position (CONTINUED)

Property, plant and equipment used in the business

(€ million)

	2015					
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	TOTAL
Gross opening balance	**85**	**1,012**	**469**	**400**	**481**	**2,447**
Total net reduction in value	–	–340	–324	–321	–212	–1,197
Net opening balance	**85**	**672**	**145**	**80**	**269**	**1,251**
Increases	**26**	**70**	**19**	**44**	**257**	**416**
Purchases	5	31	18	31	182	267
Capitalised expenditure on improvements	–	1	–	–	–	1
Write-backs	–	1	–	–	–	1
Positive exchange differences	–	2	–	–	1	3
Transfer from property, plant and equipment held for investment	–	1	–	–	–	1
Other changes	21	35	1	13	74	144
Reductions	**–14**	**–91**	**–73**	**–43**	**–141**	**–362**
Disposals	–3	–4	–2	–2	–22	–33
Depreciation	–	–29	–15	–31	–83	–158
Impairment losses	–	–4	–	–	–	–4
Negative exchange differences	–	–8	–	–1	–1	–10
Transfers	–10	–12	–	–	–	–22
property, plant and equipment held for investment	*–9*	*–10*	–	–	–	*–19*
assets held for sale	*–1*	*–3*	–	–	–	*–4*
Other changes	–	–33	–55	–9	–35	–132
NET FINAL BALANCE 31 DEC. 2015	**97**	**652**	**91**	**80**	**385**	**1,305**
Total net reduction in value	–	–299	–204	–301	–239	–1,043
GROSS CLOSING BALANCE	**97**	**951**	**294**	**381**	**623**	**2,346**
	2016					
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	TOTAL
Gross opening balance	**97**	**951**	**294**	**381**	**623**	**2,346**
Total net reduction in value	–	–299	–204	–301	–239	–1,043
Net opening balance	**97**	**652**	**91**	**80**	**385**	**1,305**
Increases	**–**	**7**	**28**	**7**	**57**	**99**
Purchases	–	5	28	6	56	95
Capitalised expenditure on improvements	–	–	–	–	–	–
Write-backs	–	–	–	–	–	–
Positive exchange differences	–	–	–	–	–	–
Transfer from property, plant and equipment held for investment	–	–	–	–	–	–
Other changes	–	2	–	–	1	3
Reductions	**–60**	**–528**	**–53**	**–69**	**–301**	**–1,011**
Disposals	–1	–3	–	–	–16	–20
Depreciation	–	–15	–33	–11	–24	–83
Impairment losses	–	–1	–	–	–	–1
Negative exchange differences	–	–	–	–	–	–
Transfers	–18	–141	–1	–	–	–160
property, plant and equipment held for investment	–	–	–	–	–	–
assets held for sale	*–18*	*–141*	*–1*	–	–	*–160*
Other changes	–40	–369	–19	–57	–261	–746
NET FINAL BALANCE 31 DEC. 2016	**38**	**130**	**66**	**18**	**140**	**392**
Total net reduction in value	–	–93	–163	–122	–56	–434
GROSS CLOSING BALANCE	**38**	**223**	**228**	**139**	**197**	**825**

C – Notes to the statement of financial position (CONTINUED)

Tangible assets held for investment: annual changes

(€ million)

	2015		
	LAND	BUILDINGS	TOTAL
Gross opening balances	**222**	**836**	**1,058**
Total net reduction in value	–	–161	–161
Opening balances	**222**	**675**	**896**
Increases	**22**	**70**	**92**
Purchases	3	28	31
Capitalised expenditure on improvements	–	1	1
Increases in fair value	–	–	–
Write-backs	–	–	–
Positive exchange differences	–	2	2
Transfer from property, plant and equipment used in the business	9	10	19
Other changes	10	29	39
Reductions	**–25**	**–137**	**–162**
Disposals	–9	–60	–69
Depreciation	–	–22	–22
Reductions in fair value	–	–2	–2
Impairment losses	–3	–10	–13
Negative exchange differences	–1	–2	–3
Transfers to	–1	–13	–14
properties used in the business	–	*–1*	*–1*
non-current assets classified as held for sale	*–1*	*–12*	*–13*
Other changes	–11	–28	–39
CLOSING BALANCES	**219**	**608**	**827**
Total net reduction in value	–	–226	–226
Gross closing balances	**219**	**834**	**1,053**
MEASURED AT FAIR VALUE	**230**	**640**	**870**
	2016		
	LAND	BUILDINGS	TOTAL
Gross opening balances	**219**	**834**	**1,053**
Total net reduction in value	–	–226	–226
Opening balances	**219**	**608**	**827**
Increases	**5**	**19**	**24**
Purchases	–	3	3
Capitalised expenditure on improvements	–	–	–
Increases in fair value	–	–	–
Write-backs	–	1	1
Positive exchange differences	–	–	–
Transfer from property, plant and equipment used in the business	–	–	–
Other changes	5	15	20
Reductions	**–76**	**–472**	**–548**
Disposals	–19	–8	–27
Depreciation	–	–14	–14
Reductions in fair value	–	–1	–1
Impairment losses	–1	–4	–5
Negative exchange differences	–	–	–
Transfers to	–19	–250	–269
properties used in the business	–	–	–
non-current assets classified as held for sale	*–19*	*–250*	*–269*
Other changes	–37	–195	–232
CLOSING BALANCES	**148**	**155**	**303**
Total net reduction in value	**–**	**–91**	**–91**
Gross closing balances	**148**	**246**	**394**
MEASURED AT FAIR VALUE	**148**	**147**	**295**

C – Notes to the statement of financial position (CONTINUED)

C.12 – Intangible assets

(€ million)

	31 DEC. 2016	31 DEC. 2015
Goodwill	**–**	**–**
Other intangible assets	**11**	**221**
Assets carried at cost	11	221
Intangible assets generated internally	*–*	*81*
Other assets	*11*	*139*
Assets valued at fair value	–	–
TOTAL	**11**	**221**

Intangible assets – annual changes

(€ million)

	2015		
	OTHER INTANGIBLE ASSETS		
	GENERATED INTERNALLY	OTHER	TOTAL
Gross opening balance	**71**	**960**	**1,031**
Net reductions	–35	–824	–859
Net opening balance	**35**	**136**	**171**
Increases	**63**	**72**	**135**
Purchases	36	62	98
Increases in intangible assets generated internally	22	–	22
Write-backs	–	–	–
Positive exchange differences	–	3	3
Other changes	4	6	10
Reductions	**–17**	**–69**	**–86**
Disposals	–	–6	–6
Write-downs	–7	–45	–52
Amortisation	–6	–45	–51
Write-downs	–1	–	–1
Transfers to non-current assets held for sale	–	–	–
Negative exchange differences	–4	–9	–13
Other changes	–6	–9	–15
NET CLOSING BALANCE	**81**	**139**	**220**
Total net write down	–37	–813	–850
CLOSING BALANCE	**118**	**953**	**1,071**
	2016		
Gross opening balance	**118**	**953**	**1,071**
Net reductions	–37	–813	–850
Net opening balance	**81**	**139**	**220**
Increases	**–**	**3**	**3**
Purchases	–	2	2
Increases in intangible assets generated internally	–	–	–
Write-backs	–	–	–
Positive exchange differences	–	–	–
Other changes	–	1	1
Reductions	**–81**	**–131**	**–212**
Disposals	–	–1	–1
Write-downs	–	–6	–6
Amortisation	–	–6	–6
Write-downs	–	–	–
Transfers to non-current assets held for sale	–	–	–
Negative exchange differences	–	–	–
Other changes	–81	–125	–206
NET CLOSING BALANCE	**–**	**11**	**11**
Total net write down	–	–519	–519
CLOSING BALANCE	**–**	**530**	**530**

C – Notes to the statement of financial position (CONTINUED)

C.13 – Deferred tax assets

(€ million)

	31 DEC. 2016	31 DEC. 2015
Assets/liabilities held for trading	52	111
Other financial instruments	145	215
Property, plant and equipment/intangible assets	1	9
Provisions	573	562
Write-downs on loans	32	43
Other assets/liabilities	107	151
Loans and receivables with banks and customers	3	91
Tax losses carried forward	14	57
Other	5	10
Effect of netting gross deferred tax position	–667	–896
TOTAL	**265**	**353**

The assets include deferred tax assets arising from the carryforward of unused tax losses in the amount of €14 million (2015: €57 million). Most of the tax losses carried forward can be used without time restriction.

In respect of tax losses carried forward in the amount of €1,912 million (2015: €2,840 million), no deferred tax assets were recognised because, from a current perspective, a tax benefit is unlikely to be realised within a reasonable period. On the basis of an initial assessment, tax losses carried forward which are attributable to the demerged CEE operations were not included.

At the end of the 2016 financial year, the company reported tax losses carried forward which were subject to restrictions on loss set-off. No deferred tax assets were recognised for such tax losses to the extent that they are unlikely to be utilised against future taxable profits.

No deferred tax assets were recognised for the following items (gross amounts):

(€ million)

	31 DEC. 2016	31 DEC. 2015
Tax losses carried forward	1,912	2,840
Deductible temporary differences	148	357
TOTAL	**2,060**	**3,197**

Of the tax loss carryforwards for which no deferred tax assets were recognised, €47 million (2015: €48 million) will cease to be usable in the period to 2021.

The major part of tax losses carried forward comes from companies in Austria and can be carried forward without time restriction. In Austria, the annual set-off of losses carried forward is limited to 75% of the relevant taxable profit.

C – Notes to the statement of financial position (CONTINUED)

C.14 – Non-current assets and disposal groups classified as held for sale

(€ million)

	31 DEC. 2016	31 DEC. 2015
Individual assets		
Financial assets	–	9
Equity investments	–	1
Tangible assets	193	16
Intangible assets	–	–
Non current – Other	1	–
Total	**194**	**26**
of which at cost	*161*	*25*
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*33*	*1*
Asset groups		
Financial assets held for trading	–	–
Financial assets designated at fair value	–	–
Available-for-sale financial assets	–	–
Held-to-maturity investments	–	–
Loans and receivables with banks	–	210
Loans and receivables with customers	–	1,368
Equity investments	–	60
Tangible assets	–	135
Intangible assets	–	36
Other assets	706	632
Total	**706**	**2,441**
of which at cost	–	–
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*706*	*2,441*
ASSETS	**900**	**2,467**

Individual assets

The item essentially includes companies which are held for sale: Lassallestraße Bau-, Planungs-, Erricht.- u. Verw.ges.m.b.H. (€117 million) and RAMSES Immobilien Gesellschaft m.b.H. & Co OG (€39 million) as well as individual assets of UNIVERSALE International Realitäten GmbH (€16 million) and of DBC Sp.z.o.o. (€18 million).

Asset groups classified as held for sale

The total amount of asset groups classified as held for sale relates to Immobilien Holding GmbH group (assets of €706 million which have not yet been sold and liabilities of €122 million).

The changes in assets and liabilities compared with 2015 are mainly due to Public Joint Stock Company "Ukrsotsbank" including subsidiaries, which were disposed of as part of the CEE demerger.

C – Notes to the statement of financial position (CONTINUED)

C.15 – Other assets

(€ million)

	31 DEC. 2016	31 DEC. 2015
Gold, silver and precious metals	11	12
Accrued income other than capitalised income	3	42
Interest and charges to be debited	5	12
Items in processing	189	205
Items deemed definitive but not attributable to other items	–	156
Adjustments for unpaid bills and notes	9	11
Other taxes	8	19
Inventories	6	109
Leasehold improvements	53	100
Other items	166	501
TOTAL	**450**	**1,167**

C.16 – Deposits from banks

(€ million)

	31 DEC. 2016	31 DEC. 2015
Deposits from central banks	**1,340**	**4,363**
Deposits from banks	**12,599**	**19,069**
Current accounts and demand deposits	1,012	2,435
Time deposits	3,967	4,299
Loans	7,246	10,981
Repos	–	*259*
Other	*7,246*	*10,722*
Other liabilities	374	1,354
TOTAL	**13,939**	**23,432**
TOTAL FAIR VALUE	**14,073**	**23,449**
Fair value – Level 1	–	–
Fair value – Level 2	5,244	8,803
Fair value – Level 3	8,829	14,646

C – Notes to the statement of financial position (CONTINUED)

C.17 – Deposits from customers

(€ million)

	31 DEC. 2016	31 DEC. 2015
Current accounts and demand deposits	40,244	64,908
Time deposits	9,907	40,826
Loans	6,031	753
Repos	*425*	*338*
Other	*5,606*	*416*
Liabilities in respect of commitments to repurchase treasury shares	–	–
Other liabilities	57	3,859
TOTAL	**56,239**	**110,346**
TOTAL FAIR VALUE	**56,577**	**111,162**
Fair value – Level 1	–	–
Fair value – Level 2	5,722	21,633
Fair value – Level 3	50,855	89,529

C.18 – Debt securities in issue

(€ million)

	31 DEC. 2016					31 DEC. 2015				
	CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	CARRYING AMOUNT	TOTAL FAIR VALUE	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3
Securities										
Bonds	17,242	*18,170*	7,888	10,282	–	28,651	*29,711*	8,073	21,513	125
Structured	*693*	*673*	–	*673*	–	*886*	*881*	–	*881*	–
Other	*16,549*	*17,497*	*7,888*	*9,609*	–	*27,765*	*28,830*	*8,073*	*20,632*	*125*
Other securities	152	*160*	–	146	14	151	*150*	–	146	4
Structured	–	–	–	–	–	–	–	–	–	–
Other	*152*	*160*	–	*146*	*14*	*151*	*150*	–	*146*	*4*
TOTAL	**17,394**	**18,329**	**7,888**	**10,427**	**14**	**28,802**	**29,862**	**8,073**	**21,660**	**129**

C.19 – Financial liabilities held for trading

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial liabilities	**–**	**–**	**–**	**–**	**34**	**–**	**–**	**34**
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	–	–	–	–	34	–	–	34
Derivative instruments	**–**	**1,088**	**19**	**1,107**	**–**	**2,578**	**30**	**2,608**
Financial derivatives	–	1,088	11	1,099	–	2,570	30	2,600
Credit derivatives	–	–	8	8	–	8	–	8
TOTAL	**–**	**1,088**	**19**	**1,107**	**34**	**2,578**	**30**	**2,642**

C – Notes to the statement of financial position (CONTINUED)

C.20 – Financial liabilities at fair value through profit or loss

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Debt securities	–	397	2	399	–	544	3	547
Structured	–	*397*	–	*397*	–	*544*	–	*544*
Other	–	–	*2*	*2*	–	–	*3*	*3*
TOTAL	**–**	**397**	**2**	**399**	**–**	**544**	**3**	**547**

Of the changes in fair values in 2016, income of €1 million (2015: an expense of €2 million) related to changes in UniCredit Bank Austria AG's own credit risk. In the valuation as at 31 December 2016, the portion relating to changes in the bank's own credit risk was cumulative income of €6 million (31 December 2015: €5 million). The repayable amount of liabilities as at 31 December 2016 was €371 million (31 December 2015: €506 million).

C.21 – Hedging derivatives (liabilities)

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL	FAIR VALUE LEVEL 1	FAIR VALUE LEVEL 2	FAIR VALUE LEVEL 3	TOTAL
Financial derivatives	**–**	**2,153**	**–**	**2,153**	**–**	**2,761**	**21**	**2,782**
Fair value hedge	–	2,051	–	2,051	–	2,288	21	2,309
Cash flow hedge	–	102	–	102	–	473	–	473
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**2,153**	**–**	**2,153**	**–**	**2,761**	**21**	**2,782**

C.22 – Changes in fair value of portfolio hedged items (liabilities)

(€ million)

	31 DEC. 2016	31 DEC. 2015
Positive changes to financial liabilities	2,580	449
Negative changes to financial liabilities	–2,776	–549
TOTAL	**–196**	**–101**

C.23 – Deferred tax liabilities

(€ million)

	31 DEC. 2016	31 DEC. 2015
Loans and receivables with banks and customers	28	138
Assets/liabilities held for trading	65	151
Other financial instruments	442	559
Property, plant and equipment/intangible assets	4	26
Other assets/liabilities	149	144
Deposits from banks and customers	–	–
Other	–	47
Effect of netting gross deferred tax position	–667	–896
TOTAL	**21**	**169**

Pursuant to IAS 12.39, no deferred tax liabilities were recognised for temporary differences in connection with investments in domestic subsidiaries amounting to €990 million (2015: €1,254 million) because from a current perspective, they are not intended to be sold.

C – Notes to the statement of financial position (CONTINUED)

C.24 – Liabilities included in disposal groups classified as held for sale

(€ million)

	31 DEC. 2016	31 DEC. 2015
Liabilities associated with assets classified as held for sale		
Deposits	–	2
Securities	–	–
Other liabilities	1	4
Total	**1**	**6**
of which at cost	*1*	*6*
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	–	–
Liabilities included in disposal groups classified as held for sale		
Deposits from banks	–	221
Deposits from customers	–	1,013
Debt securities in issue	–	2
Financial liabilities held for trading	–	–
Financial liabilities designated at fair value	–	–
Reserve	–	498
Other liabilities	122	237
Total	**122**	**1,971**
of which at cost	–	–
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*122*	*1,971*
LIABILITIES	**123**	**1,977**

C.25 – Other liabilities

(€ million)

	31 DEC. 2016	31 DEC. 2015
Liabilities in respect of financial guarantees issued	–	–
Impairment of financial guarantees issued, of credit derivatives, of irrevocable commitments to distribute funds	113	232
Accrued expenses other than those to be capitalised for the financial liabilities concerned	33	115
Share-based payments classified as liabilities under IFRS 2	–	–
Other liabilities due to employees *)	790	1,006
Other liabilities due to other staff	1	9
Other liabilities due to directors and statutory auditors	–	1
Interest and amounts to be credited to customers and banks	15	44
Items in transit between branches and not yet allocated to destination accounts	–	–
Available amounts to be paid to others	795	64
Items in processing	467	599
Entries related to securities transactions	–	1
Items deemed definitive but not attributable to other lines	45	298
Liabilities for miscellaneous entries related to tax collection service	–	–
Tax items different from those included in tax liabilities	17	42
Other entries	193	362
TOTAL	**2,469**	**2,773**

*) The amount of €545 million was transferred from provisions to long-term liabilities in respect of those employees who have already concluded an exit agreement under the "Bank Austria Reloaded" project (of the total amount, disbursements will be €207 million in 2017, €116 million in 2018, €58 million in 2019 and €164 million in subsequent years until 2026). Liabilities arising from the transfer to the ASVG pension scheme of active employees' rights to future pension benefits (including financial compensation which employees will receive for any disadvantages) were shown at €852 million at the end of the reporting period.

C – Notes to the statement of financial position (CONTINUED)

C.26 – Provisions for risks and charges

(€ million)

	31 DEC. 2016	31 DEC. 2015
Pensions and other post-retirement benefit obligations	**3,855**	**3,697**
Other provisions for risks and charges	**357**	**1,133**
Legal disputes	246	124
Staff expenses	35	806
Other	76	203
TOTAL	**4,212**	**4,830**

Provisions for risks and charges: annual changes

(€ million)

	2015		
	PENSIONS AND POST-RETIREMENT BENEFIT OBLIGATIONS	OTHER PROVISIONS	TOTAL
Opening balance	**5,665**	**411**	**6,076**
Increases	**228**	**1,038**	**1,266**
Current service cost	95	X	95
Interest cost	116	X	116
Past service cost	2	X	2
Remeasurements	1	X	1
Provisions for the reporting period	X	1,018	1,018
Other increases	14	20	20
Decreases	**–2,196**	**–316**	**–2,512**
Settlement	–1,199	X	–1,199
Payments/uses in the reporting period	–949	–291	–1,240
Remeasurements	–46	X	–46
Other decreases	–2	–25	–27
CLOSING BALANCE	**3,697**	**1,133**	**4,830**
	2016		
	PENSIONS AND POST-RETIREMENT BENEFIT OBLIGATIONS	**OTHER PROVISIONS**	**TOTAL**
Opening balance	**3,697**	**1,133**	**4,830**
Increases	**534**	**341**	**875**
Current service cost	26	X	26
Interest cost	76	X	76
Past service cost	140	X	140
Remeasurements 1)	290	X	290
Provisions for the reporting period	X	310	310
Other increases	2	31	31
Decreases	**–376**	**–1,117**	**–1,493**
Settlement	–1	X	–1
Payments/uses in the reporting period 2)	–355	–363	–718
Remeasurements	–	X	–
Other decreases 2)	–20	–754	–774
CLOSING BALANCE	**3,855**	**357**	**4,212**

1) Including actuarial losses of €208 million resulting from changes in financial assumptions and €82 million due to assumptions based on experience.
2) In respect of those employees who have already concluded an exit agreement under the Bank Austria Reloaded project, €441 million was transferred from other provisions for risks and charges, and €104 million from provisions for pensions and other post-retirement benefit obligations, to long-term liabilities.

Other provisions for risks and charges include restructuring provisions, for which the opening balance was €880 million, allocations amounted to €90 million and uses totalled €921 million. The closing balance was €49 million.

C.27 – Equity

The Company's share capital amounts to €1,681,033,521.40 (one billion six hundred and eighty-one million thirty-three thousand five hundred and twenty-one 40/100 euros). It is divided into 10,115 (ten thousand one hundred and fifteen) registered no-par value shares with voting rights and restricted transferability and 231,218,705 (two hundred and thirty-one million two hundred and eighteen thousand seven hundred and five) registered no-par value shares with voting rights, and each no-par value share participates in the share capital to the same extent.

D – Segment reporting

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D – Segment reporting (CONTINUED)

D.1 – Reconciliation of reclassified accounts to mandatory reporting schedule (€ million)

	2016	2015
Net interest	962	967
Dividends and other income from equity investments	126	171
Dividend income and similar revenue	8	5
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	117	166
Net fees and commissions	676	725
Net trading, hedging and fair value income	89	69
Gains (losses) on financial assets and liabilities held for trading	52	61
Fair value adjustments in hedge accounting	9	–2
Gains (losses) on disposal and repurchase of available-for-sale financial assets	8	27
Gains (losses) on disposal and repurchase of held-to-maturity investments	0	0
Gains (losses) on disposal or repurchase of financial liabilities	8	–21
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss	11	4
Net other expenses/income	152	71
Gains (losses) on disposals/repurchases on loans and receivables – not impaired	0	0
Other net operating income	164	88
less: other operating income – of which: recovery of expenses	*–1*	*–1*
plus: impairment on tangible assets – other operating leases	*–25*	*–29*
less: other operating expenses – amortisation on leasehold improvements	*14*	*13*
OPERATING INCOME	**2,004**	**2,002**
Payroll costs	–733	–810
Administrative costs – staff expenses	–1,093	–412
less: integration/restructuring costs	*360*	*–398*
Other administrative expenses	–698	–728
Administrative costs – other administrative expenses	–972	–904
less: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*182*	*171*
plus: other operating expenses – amortisation on leasehold improvements	*–14*	*–13*
Recovery of expenses = Other net operating income – of which: Other operating income – recovery of costs	1	1
Amortisation, depreciation and impairment losses on intangible and tangible assets	–71	–52
Impairment/write-backs on property, plant and equipment	–95	–80
less: impairment losses/write-backs on property owned for investment	*4*	*5*
less: impairment on tangible assets – other operating leases	*25*	*29*
Impairment/write-backs on intangible assets	–6	–6
OPERATING COSTS	**–1,502**	**–1,589**
OPERATING PROFIT	**501**	**413**

D – Segment reporting (CONTINUED)

	2016	2015
Net write-downs of loans and provisions for guarantees and commitments	6	12
Gains (losses) on disposal and repurchase of loans	0	0
Impairment losses on loans	–36	4
Impairment losses on other financial assets	42	8
NET OPERATING PROFIT	**507**	**425**
Provisions for risks and charges	–201	–66
Net provisions for risks and charges	–145	–126
less: integration/restructuring costs	*–56*	*60*
Systemic charges	–182	–171
plus: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*–182*	*–171*
Integration/restructuring costs	–409	320
Net income from investments	–69	–22
Impairment losses on available-for-sale financial assets	–12	–17
Impairment losses on held-to-maturity investments	0	–7
plus: impairment losses/write-backs on property owned for investment	*–4*	*–5*
Profit (loss) of associates	47	159
less: profit (loss) of associates – income (loss) from equity investments valued at net equity	*–117*	*–166*
Gains and losses on tangible and intangible assets	–1	–1
Gains (losses) on disposal of investments	17	15
PROFIT BEFORE TAX	**–354**	**486**
Income tax for the period	–58	111
Total profit or loss after tax from discontinued operations	1,141	635
PROFIT OR LOSS FOR THE PERIOD	**729**	**1,232**
Non-controlling interests	–87	93
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**641**	**1,325**

D – Segment reporting (CONTINUED)

D.2 – Description of segment reporting

The segment reporting format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank Austria Group. The business segments are presented as independent units with responsibility for their own results. The definition of business segments is primarily based on organisational responsibility for customers.

Following the demerger of the CEE Division as at 1 October 2016 and its subsequent transfer to UniCredit S.p.A., the CEE Division is presented in accordance with IFRS 5 only with its results for the first nine months of 2016, including demerger-related effects, in the column "IFRS 5 reclassification/recast differences" in the income statement item "Total profit or loss after tax from discontinued operations". The full-year results of the CEE Division for 2015 are presented on the same basis.

Segment reporting covers the following business segments:

Retail Banking
The Retail Banking business segment includes the previous "Retail" customer segment and the customer segments "independent professionals" and "business customers" (with an annual turnover of up to €3 million) newly added at the beginning of 2016; the latter two customer segments were included in "Corporates" in previous periods. Also included in Retail Banking are subsidiaries active in credit card business.

Corporate Banking
The Corporate Banking business segment covers customers with an annual turnover of over €3 million, Real Estate, the Public Sector customer segment, leasing business including subsidiaries, FactorBank, Wohnbaubank and the Bank Austria Real Invest Group.

Private Banking
Private Banking has responsibility for private banking customers with investments exceeding €500,000. Schoellerbank AG and various other smaller subsidiaries are also included in the Private Banking business segment.

Corporate & Investment Banking (CIB)
The Corporate & Investment Banking business segment covers the customer segment of multinational companies and large international customers using capital market services and investment banking solutions. Corporate & Investment Banking also serves financial institutions including banks, asset managers, institutional customers and insurance companies. The product lines offered by CIB to these customers are Financing & Advisory (classic and structured lending business and capital market advisory services), Global Transaction Banking (including payment transactions, trade finance, cash management) and within Markets & Corporate Treasury Sales the services relating to customer-driven trading activities. The product specialists also support commercial banking activities of the bank's other business segments.

Corporate Center
In addition to current expenses relating to steering and administrative functions for the entire bank, the Corporate Center comprises all equity interests that are not assigned to a business segment. Funding costs relating to consolidated subsidiaries are also assigned to the Corporate Center. Also included are inter-segment eliminations and other items.

The Immobilien Holding Group companies acquired in September 2014 and assigned to the Corporate Center have partly been sold in the meantime; the remaining companies continue to be classified as held for sale.

D – Segment reporting (CONTINUED)

Methods

Net interest is split up according to the market interest rate method. Costs are allocated to the individual business segments from which they arise.

The result of each business segment is measured by the profit earned by the respective segment. The interest rate applied to investment of equity allocated to the business segments is determined for one year in advance as part of the budgeting process. Essentially, it is composed of the 1-month EURIBOR and a liquidity cost margin based on the average term of balance sheet volume. Overhead costs are allocated to the business segments according to a key of distribution applied within the Group on a uniform basis (50% costs, 20% revenues, 20% FTEs and 10% proportionately).

Capital allocated to the business segments in UniCredit Bank Austria AG, based on the Tier 1 capital ratio, is 10% (2015: 9.25%) of risk-weighted assets.

Recasting:

Adjustments were made to reflect structural changes and changes in the consolidation perimeter which affect comparability of results for previous periods.

The major adjustments are as follows:

- The CEE Division is included only in the column “IFRS 5 reclassification/recast differences” in the income statement item “Total profit or loss after tax from discontinued operations”. Figures for previous periods have been adjusted accordingly.
- Effects related to the CEE demerger are reflected for the CEE Division in the income statement item “Total profit or loss after tax from discontinued operations” in the column “IFRS 5 reclassification/recast differences”. Offsetting items in results for Austria were mainly assigned to the Corporate Center.
- With effect from the beginning of 2016, the customer segments “independent professionals” and “business customers” with an annual turnover of up to €3 million were transferred from “Corporates” to “Retail”. Figures for previous periods were adjusted accordingly.

D – Segment reporting (CONTINUED)

D.3 – Segment reporting 1–12 2016/1–12 2015

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	AUSTRIA GROUP (RECAST) 1)	IFRS 5 RECLAS-SIFICATION/ RECAST DIF-FERENCES	BANK AUSTRIA GROUP 2)
Net interest	1–12 2016	432	432	59	299	–183	1,040	–78	962
	1–12 2015	468	436	60	297	–136	1,126	–160	967
Dividends and other income from equity investments	1–12 2016	3	26	0	0	96	126	0	126
	1–12 2015	3	26	0	0	142	171	0	171
Net fees and commissions	1–12 2016	371	120	113	80	–9	675	1	676
	1–12 2015	373	133	116	103	–16	709	16	725
Net trading, hedging and fair value income/loss	1–12 2016	8	22	4	44	10	87	1	89
	1–12 2015	10	22	3	48	6	90	–21	69
Net other expenses/income	1–12 2016	103	16	–1	2	32	152	–1	152
	1–12 2015	10	14	0	5	39	68	3	71
OPERATING INCOME	**1–12 2016**	**918**	**616**	**175**	**426**	**–54**	**2,081**	**–77**	**2,004**
	1–12 2015	**864**	**631**	**179**	**453**	**36**	**2,164**	**–162**	**2,002**
OPERATING COSTS	**1–12 2016**	**–747**	**–264**	**–122**	**–205**	**–166**	**–1,504**	**2**	**–1,502**
	1–12 2015	**–803**	**–292**	**–123**	**–210**	**–165**	**–1,593**	**4**	**–1,589**
OPERATING PROFIT	**1–12 2016**	**170**	**352**	**54**	**221**	**–220**	**577**	**–75**	**501**
	1–12 2015	**61**	**340**	**56**	**243**	**–130**	**571**	**–158**	**413**
Net write-downs of loans and provisions for guarantees and commitments	1–12 2016	–52	14	0	38	7	6	0	6
	1–12 2015	–28	1	0	25	15	12	0	12
NET OPERATING PROFIT	**1–12 2016**	**118**	**366**	**54**	**259**	**–213**	**583**	**–75**	**507**
	1–12 2015	**33**	**340**	**56**	**268**	**–115**	**583**	**–158**	**425**
Provisions for risks and charges	1–12 2016	–8	–81	–3	–75	–34	–201	0	–201
	1–12 2015	–1	–2	–1	–8	–56	–69	2	–66
Systemic charges	1–12 2016	–38	–40	–6	–36	–62	–182	0	–182
	1–12 2015	–24	–46	–5	–36	–60	–171	0	–171
Integration/restructuring costs	1–12 2016	0	–4	0	0	–405	–409	0	–409
	1–12 2015	0	0	0	0	320	320	0	320
Net income/loss from investments	1–12 2016	–7	–14	0	–1	–46	–69	0	–69
	1–12 2015	–12	–8	0	–8	6	–22	0	–22
PROFIT OR LOSS BEFORE TAX	**1–12 2016**	**65**	**226**	**45**	**147**	**–761**	**–279**	**–75**	**–354**
	1–12 2015	**–4**	**284**	**51**	**216**	**95**	**642**	**–155**	**486**
Income tax for the period	1–12 2016	–1	–51	–12	–35	41	–58	0	–58
	1–12 2015	–1	–63	–13	–54	242	111	0	111
Total profit or loss after tax from discontinued operations	1–12 2016	0	0	0	0	38	38	1,104	1,141
	1–12 2015	0	0	0	1	104	105	530	635
PROFIT OR LOSS FOR THE PERIOD	**1–12 2016**	**64**	**175**	**33**	**111**	**–682**	**–300**	**1,028**	**729**
	1–12 2015	**–5**	**220**	**38**	**162**	**441**	**857**	**375**	**1,232**
Non-controlling interests	1–12 2016	–62	0	0	0	0	–62	–25	–87
	1–12 2015	–12	0	0	0	2	–10	102	93
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**1–12 2016**	**2**	**174**	**33**	**111**	**–682**	**–362**	**1,003**	**641**
	1–12 2015	**–16**	**220**	**38**	**162**	**444**	**848**	**477**	**1,325**

D – Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	AUSTRIA GROUP (RECAST) 1)	IFRS 5 RECLAS-SIFICATION/RECAST DIF-FERENCES	BANK AUSTRIA GROUP 2)
Risk-weighted assets	**1–12 2016**	**8,519**	**8,794**	**600**	**8,170**	**12,622**	**38,704**	**0**	**38,704**
(RWA) (avg.) 3)	**1–12 2015**	**9,047**	**9,776**	**635**	**8,952**	**15,057**	**43,466**	**n.a.**	**n.a.**
Loans to customers	**1–12 2016**	**18,128**	**26,818**	**640**	**13,514**	**1,827**	**60,926**	**0**	**60,926**
(end of period)	**1–12 2015**	**18,099**	**26,696**	**629**	**13,572**	**2,906**	**61,902**	**n.a.**	**n.a.**
Direct funding (end of period) 4)	**1–12 2016**	**24,207**	**18,559**	**9,504**	**10,443**	**11,320**	**74,032**	**0**	**74,032**
	1–12 2015	**24,781**	**17,934**	**9,223**	**10,426**	**12,057**	**74,422**	**n.a.**	**n.a.**
Cost/income ratio excl. bank levy in %	*1–12 2016*	*81.4*	*42.9*	*69.3*	*48.2*	*305.4*	*72.3*	*n.m.*	*75.0*
	1–12 2015	*92.9*	*46.2*	*68.7*	*46.4*	*461.7*	*73.6*	*n.m.*	*79.4*

1) For segment reporting purposes, the comparative figures for 2015 have been recast to reflect the consolidation perimeter and the segment structure used in segment reporting for 2016. In order to ensure comparability, full year CEE Demerger impact considered both in 2015 and 2016. Reconciliation to accounting figures shown in the column IFRS 5 reclassification/recast differences.

2) The comparative figures 2015 and 2016 reflect the accounting figures.

3) Recast 2015 partially estimated.

4) Direct funding: deposits from customers, debt securities in issue and financial liabilities at fair value.

n.m. = not meaningful

n.a. = not available

D – Segment reporting (CONTINUED)

D.4 – Segment reporting Q1–Q4 2016/Q1–Q4 2015

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Net interest	Q4 2016	107	107	15	70	–68	231
	Q3 2016	107	108	16	79	–36	273
	Q2 2016	107	112	14	74	–43	264
	Q1 2016	111	106	14	77	–35	272
	Q4 2015	116	110	15	75	–28	288
	Q3 2015	117	110	15	72	–35	278
	Q2 2015	117	110	15	76	–46	272
	Q1 2015	118	107	15	74	–26	288
Dividends and other income from equity investments	Q4 2016	0	7	0	0	22	29
	Q3 2016	0	7	0	0	29	36
	Q2 2016	0	5	0	0	30	35
	Q1 2016	3	7	0	0	14	25
	Q4 2015	0	5	0	0	56	62
	Q3 2015	0	4	0	0	36	40
	Q2 2015	3	13	0	0	27	44
	Q1 2015	0	4	0	0	22	26
Net fees and commissions	Q4 2016	93	31	34	24	–1	182
	Q3 2016	93	30	26	20	–3	166
	Q2 2016	92	29	26	18	–2	164
	Q1 2016	93	30	27	17	–3	164
	Q4 2015	91	37	33	27	–3	185
	Q3 2015	92	33	26	20	–1	170
	Q2 2015	95	32	26	35	–23	166
	Q1 2015	95	30	31	21	12	189
Net trading, hedging and fair value income/loss	Q4 2016	3	16	1	20	2	41
	Q3 2016	1	7	1	8	12	29
	Q2 2016	3	2	1	11	–6	11
	Q1 2016	1	–3	1	6	2	7
	Q4 2015	4	5	1	10	4	24
	Q3 2015	2	–5	1	8	–2	4
	Q2 2015	2	16	1	17	5	40
	Q1 2015	3	6	1	12	0	22
Net other expenses/income	Q4 2016	30	4	0	1	5	39
	Q3 2016	2	4	0	0	13	18
	Q2 2016	70	4	–1	1	5	80
	Q1 2016	2	4	0	0	9	16
	Q4 2015	4	4	0	4	19	32
	Q3 2015	3	5	0	0	–1	7
	Q2 2015	0	3	0	0	9	11
	Q1 2015	3	2	1	0	12	18
OPERATING INCOME	**Q4 2016**	**232**	**165**	**50**	**115**	**–41**	**521**
	Q3 2016	**203**	**155**	**43**	**107**	**15**	**522**
	Q2 2016	**273**	**152**	**40**	**104**	**–15**	**554**
	Q1 2016	**210**	**144**	**43**	**101**	**–13**	**484**
	Q4 2015	**215**	**162**	**49**	**117**	**47**	**589**
	Q3 2015	**213**	**146**	**41**	**101**	**–3**	**499**
	Q2 2015	**217**	**174**	**41**	**128**	**–28**	**533**
	Q1 2015	**219**	**148**	**48**	**107**	**20**	**542**
OPERATING COSTS	**Q4 2016**	**–185**	**–62**	**–30**	**–51**	**–69**	**–397**
	Q3 2016	**–180**	**–62**	**–30**	**–47**	**–32**	**–351**
	Q2 2016	**–190**	**–62**	**–31**	**–47**	**–32**	**–362**
	Q1 2016	**–192**	**–78**	**–31**	**–60**	**–33**	**–394**
	Q4 2015	**–197**	**–74**	**–31**	**–55**	**–42**	**–399**
	Q3 2015	**–199**	**–70**	**–30**	**–50**	**–40**	**–389**
	Q2 2015	**–203**	**–74**	**–31**	**–53**	**–41**	**–403**
	Q1 2015	**–204**	**–73**	**–31**	**–52**	**–42**	**–402**

1) Quarterly figures based on recast data only.

D – Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
OPERATING PROFIT	**Q4 2016**	**47**	**102**	**20**	**64**	**–110**	**123**
	Q3 2016	**22**	**93**	**13**	**60**	**–16**	**171**
	Q2 2016	**83**	**91**	**9**	**57**	**–47**	**192**
	Q1 2016	**18**	**67**	**11**	**40**	**–46**	**90**
	Q4 2015	**18**	**88**	**18**	**62**	**5**	**191**
	Q3 2015	**14**	**77**	**11**	**51**	**–43**	**110**
	Q2 2015	**14**	**100**	**10**	**75**	**–70**	**130**
	Q1 2015	**15**	**75**	**17**	**55**	**–22**	**140**
Net write-downs of loans and provisions for guarantees and commitments	Q4 2016	–51	–5	0	5	–3	–54
	Q3 2016	5	16	0	–1	–1	20
	Q2 2016	–1	4	0	33	7	44
	Q1 2016	–5	–1	0	0	3	–4
	Q4 2015	0	–21	0	24	11	15
	Q3 2015	–3	–4	0	1	0	–6
	Q2 2015	–3	33	1	7	1	38
	Q1 2015	–22	–7	0	–8	3	–34
NET OPERATING PROFIT	**Q4 2016**	**–4**	**97**	**20**	**69**	**–113**	**69**
	Q3 2016	**27**	**109**	**13**	**59**	**–17**	**191**
	Q2 2016	**82**	**94**	**9**	**90**	**–40**	**236**
	Q1 2016	**13**	**65**	**11**	**40**	**–43**	**86**
	Q4 2015	**18**	**67**	**18**	**86**	**17**	**205**
	Q3 2015	**11**	**72**	**10**	**53**	**–43**	**104**
	Q2 2015	**11**	**133**	**11**	**82**	**–69**	**168**
	Q1 2015	**–7**	**68**	**17**	**47**	**–19**	**106**
Provisions for risks and charges	Q4 2016	–2	–76	–3	–75	–34	–190
	Q3 2016	–6	–4	0	0	0	–10
	Q2 2016	0	–1	0	0	0	–1
	Q1 2016	0	0	0	0	0	–1
	Q4 2015	–2	–2	0	–8	–8	–20
	Q3 2015	0	0	0	0	–44	–44
	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	–4	–4
Systemic charges	Q4 2016	–5	–7	–1	–6	–13	–32
	Q3 2016	–5	–7	–1	–7	–12	–32
	Q2 2016	–5	–8	–1	–7	–12	–33
	Q1 2016	–22	–18	–3	–16	–26	–86
	Q4 2015	–6	–14	–1	–12	–19	–52
	Q3 2015	–4	–9	–1	–7	–11	–32
	Q2 2015	–10	–9	–2	–7	–11	–39
	Q1 2015	–4	–14	–1	–11	–18	–48
Integration/restructuring costs	Q4 2016	0	0	0	0	–201	–201
	Q3 2016	0	–4	0	0	0	–4
	Q2 2016	0	0	0	0	0	0
	Q1 2016	0	0	0	0	–204	–204
	Q4 2015	0	0	0	0	321	321
	Q3 2015	0	0	0	0	0	0
	Q2 2015	0	0	0	0	0	0
	Q1 2015	0	0	0	0	0	0
Net income/loss from investments	Q4 2016	0	–17	0	–1	–60	–77
	Q3 2016	0	0	0	0	3	2
	Q2 2016	–10	1	0	0	10	1
	Q1 2016	3	2	0	0	1	5
	Q4 2015	–7	–10	0	–8	1	–25
	Q3 2015	0	0	0	0	0	0
	Q2 2015	–4	2	0	0	4	2
	Q1 2015	0	1	0	0	0	1

1) Quarterly figures based on recast data only.

D – Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) 1)
PROFIT OR LOSS BEFORE TAX	**Q4 2016**	**–11**	**–3**	**16**	**–13**	**–421**	**–432**
	Q3 2016	**16**	**93**	**12**	**52**	**–26**	**148**
	Q2 2016	**67**	**87**	**8**	**83**	**–42**	**203**
	Q1 2016	**–7**	**49**	**8**	**24**	**–272**	**–198**
	Q4 2015	**3**	**40**	**16**	**58**	**311**	**429**
	Q3 2015	**7**	**63**	**10**	**46**	**–99**	**28**
	Q2 2015	**–4**	**126**	**9**	**75**	**–77**	**130**
	Q1 2015	**–11**	**55**	**16**	**36**	**–41**	**55**
Income tax for the period	Q4 2016	0	1	–4	4	–21	–21
	Q3 2016	0	–22	–3	–13	26	–12
	Q2 2016	0	–20	–3	–20	30	–13
	Q1 2016	0	–10	–2	–6	5	–12
	Q4 2015	0	–8	–4	–15	156	129
	Q3 2015	0	–15	–2	–12	24	–5
	Q2 2015	0	–28	–3	–18	34	–14
	Q1 2015	0	–13	–4	–10	29	1
Total profit or loss after tax from discontinued operations	Q4 2016	0	0	0	0	20	20
	Q3 2016	0	0	0	0	1	1
	Q2 2016	0	0	0	0	10	10
	Q1 2016	0	0	0	0	7	7
	Q4 2015	0	0	0	1	43	44
	Q3 2015	0	0	0	0	35	35
	Q2 2015	0	0	0	0	17	17
	Q1 2015	0	0	0	0	8	8
PROFIT OR LOSS FOR THE PERIOD	**Q4 2016**	**–11**	**–2**	**11**	**–8**	**–423**	**–433**
	Q3 2016	**15**	**71**	**9**	**39**	**2**	**137**
	Q2 2016	**67**	**67**	**6**	**63**	**–1**	**201**
	Q1 2016	**–7**	**39**	**6**	**18**	**–260**	**–204**
	Q4 2015	**3**	**32**	**12**	**44**	**511**	**603**
	Q3 2015	**7**	**48**	**7**	**35**	**–40**	**58**
	Q2 2015	**–4**	**98**	**6**	**58**	**–26**	**133**
	Q1 2015	**–11**	**41**	**12**	**26**	**–5**	**64**
Non-controlling interests	Q4 2016	–17	0	0	0	0	–17
	Q3 2016	–4	0	0	0	0	–4
	Q2 2016	–36	0	0	0	0	–37
	Q1 2016	–4	0	0	0	0	–4
	Q4 2015	–3	0	0	0	0	–3
	Q3 2015	–4	0	0	0	1	–3
	Q2 2015	–2	0	0	0	1	–2
	Q1 2015	–3	0	0	0	1	–2
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY BEFORE PPA	**Q4 2016**	**–28**	**–2**	**11**	**–8**	**–423**	**–450**
	Q3 2016	**11**	**71**	**9**	**39**	**2**	**133**
	Q2 2016	**30**	**67**	**6**	**63**	**–1**	**164**
	Q1 2016	**–11**	**39**	**6**	**18**	**–260**	**–208**
	Q4 2015	**0**	**32**	**12**	**44**	**511**	**600**
	Q3 2015	**4**	**48**	**7**	**35**	**–39**	**55**
	Q2 2015	**–6**	**98**	**6**	**58**	**–25**	**131**
	Q1 2015	**–13**	**41**	**12**	**26**	**–4**	**62**
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**Q4 2016**	**–28**	**–2**	**11**	**–8**	**–423**	**–450**
	Q3 2016	**11**	**71**	**9**	**39**	**2**	**133**
	Q2 2016	**30**	**67**	**6**	**63**	**–1**	**164**
	Q1 2016	**–11**	**39**	**6**	**18**	**–260**	**–208**
	Q4 2015	**0**	**32**	**12**	**44**	**511**	**600**
	Q3 2015	**4**	**48**	**7**	**35**	**–39**	**55**
	Q2 2015	**–6**	**98**	**6**	**58**	**–25**	**131**
	Q1 2015	**–13**	**41**	**12**	**26**	**–4**	**62**

1) Quarterly figures based on recast data only.

D – Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) 1)
Risk-weighted assets (RWA) (avg.) 2)	Q4 2016	8,523	8,615	585	7,889	10,747	36,360
	Q3 2016	8,524	8,545	588	8,063	12,419	38,140
	Q2 2016	8,476	8,889	602	8,353	13,287	39,607
	Q1 2016	8,551	9,124	625	8,373	14,035	40,708
	Q4 2015	8,615	9,356	641	8,651	14,255	41,517
	Q3 2015	8,819	9,698	628	9,140	14,350	42,635
	Q2 2015	9,359	9,998	629	9,126	15,533	44,645
	Q1 2015	9,394	10,052	642	8,890	16,090	45,069
Loans to customers (end of period)	Q4 2016	18,128	26,818	640	13,514	1,827	60,926
	Q3 2016	18,148	26,213	665	13,106	2,693	60,825
	Q2 2016	18,007	26,442	648	13,940	2,800	61,837
	Q1 2016	18,017	26,548	640	13,675	2,921	61,802
	Q4 2015	18,099	26,696	629	13,572	2,906	61,902
	Q3 2015	18,090	26,161	638	13,669	2,899	61,456
	Q2 2015	18,413	26,101	618	13,087	2,848	61,068
	Q1 2015	18,346	25,903	610	12,638	3,497	60,994
Direct funding (end of period) 3)	Q4 2016	24,207	18,559	9,504	10,443	11,320	74,032
	Q3 2016	24,067	18,503	9,965	9,949	12,008	74,493
	Q2 2016	24,278	18,229	9,891	10,456	12,057	74,911
	Q1 2016	24,175	19,469	9,714	9,741	11,841	74,940
	Q4 2015	24,781	17,934	9,223	10,426	12,057	74,422
	Q3 2015	24,569	18,639	9,601	10,939	12,435	76,183
	Q2 2015	25,196	17,911	9,235	10,013	12,269	74,624
	Q1 2015	24,708	18,279	9,856	9,086	13,904	75,833
Cost/income ratio excl. bank levy in %	*Q4 2016*	*79.6*	*38.0*	*59.4*	*44.3*	*n.m.*	*76.3*
	Q3 2016	*89.0*	*40.3*	*69.6*	*43.8*	*n.m.*	*67.2*
	Q2 2016	*69.6*	*40.6*	*77.1*	*45.5*	*n.m.*	*65.4*
	Q1 2016	*91.5*	*53.8*	*73.6*	*60.1*	*n.m.*	*81.4*
	Q4 2015	*91.7*	*45.9*	*63.3*	*47.0*	*n.m.*	*67.7*
	Q3 2015	*93.4*	*47.6*	*73.8*	*49.1*	*n.m.*	*78.0*
	Q2 2015	*93.5*	*42.5*	*75.0*	*41.6*	*n.m.*	*75.6*
	Q1 2015	*93.0*	*49.4*	*64.2*	*48.8*	*n.m.*	*74.1*

1) Quarterly figures based on recast data only.
2) Recast 2015 partially estimated.
3) Direct funding: deposits from customers, debt securities in issue and financial liabilities at fair value.
n.m. = not meaningful

E – Risk report

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E – Risk report (CONTINUED)

E.1 – Overall risk management

Organisation of risk management

UniCredit Bank Austria AG identifies, measures, monitors and manages all risks of Bank Austria. In performing these tasks, Bank Austria works closely with the risk control and risk management units of UniCredit in line with the existing Group structure. In this context, Bank Austria supports UniCredit's ongoing projects, in particular the further harmonisation of Group-wide risk-controlling procedures and processes. Regular risk monitoring and risk management are also performed in close cooperation with a view to ensuring overall risk management across the Group. Moreover, risk management is one of UniCredit's 5 Fundamentals and is of relevance for the annual agreement on objectives and for performance evaluation, thereby contributing to further development of a Group-wide risk culture. The Risk Academy of UniCredit makes a contribution to the risk culture by acting as a Group-wide training centre.

The Management Board and the Supervisory Board determine the risk policy and approve the principles of risk management, the establishment of limits for all relevant risks, and the risk control procedures. In performing these tasks, the Management Board is supported by specific committees, independent risk management units and units of other divisions. All centrally organised risk management activities of Bank Austria are combined within a management function at Management Board level directed by the Chief Risk Officer (CRO), and are thus separate from the other divisions up to Management Board level.

Lending decisions which exceed the limits of the relevant business units' approval authority, and the handling of problem loans, are the responsibility of the two operative credit risk departments, i.e. Credit Operations Corporate/CIB and Credit Operations Retail. The risk management activities of these departments are complemented by the Strategic Risk Management & Control department and the Market & Liquidity Risk department. The Strategic Funding, Transactions & Pricing unit reports to the Chief Financial Officer (CFO) indirectly via the Finance department and is responsible for risk-adequate pricing of loans, the bank's own securitisations and funding (as part of the planning process and under contingency funding arrangements).

The bank's internal control system (ICS) is effective at several levels: (1) in the various business areas, (2) at the Risk & Compliance level and (3) at the Internal Audit level. Internal Audit performs regular audits with regard to the adequacy of risk processes and compliance with them. The Management Board and the Supervisory Board are provided with reports on the results of these audits and recommendations. A comprehensive system of rules ranging from Group Policies to operational instructions governs processes at various levels. The most important Policies are adopted directly by the Management Board, managed in a separate system, rolled out and monitored with regard to the degree of implementation.

Effects of Bank Austria's reorganisation on the structure of risk management

As part of the reorganisation of UniCredit Group as at 1 October 2016, the CEE banking subsidiaries and CEE business were demerged from Bank Austria and transferred to the parent company UniCredit. The process of focusing on the Austrian market (including the remaining Austrian subsidiaries) involved a significant redimensioning of Bank Austria's risk exposure. Apart from the transfer of CEE-specific organisational units to the parent company, the reorganisation of Bank Austria in this context did not lead to any major changes in risk management.

Further optimisation steps to enhance efficiency were taken under the bank-wide Bank Austria Reloaded project. In this context, special credit units were merged with the two operative credit risk departments while Strategic Risk Management & Control and Market & Liquidity Risk continue to be separate from the operative credit risk departments. The transfer of employees who performed CEE-related tasks to the parent company resulted in a reduction of the workload and staff numbers in the four remaining departments within the CRO Division. The main risk categories and risk-related methods, processes and instruments have remained unchanged, apart from the focus on Austria.

Cross-divisional control/management and reporting

Bank Austria divides the monitoring and controlling processes associated with risk management into the following categories: credit risk (default risk and migration risk), liquidity and funding risk, market risk (interest rate risk, credit spread risk, currency risk and equity risk), structural FX risk, derivatives-linked risk (counterparty risk, CVA risk), operational risk, reputational risk, business risk, pension risk, financial investment risk and real estate risk.

A key element of risk control by the Management Board is the annual definition of Bank Austria's Risk Appetite, which is approved by the Supervisory Board and takes place in coordination with UniCredit. The Risk Appetite describes the key principles of the bank's risk orientation, in qualitative terms of a verbal statement and in the form of a quantitative framework of key metrics. The Risk Appetite defines risk categories and the level of risk that Bank Austria is prepared to accept in pursuit of its strategic objectives and business plan and in view of its role within UniCredit Group. In this context the interests of external and internal parties (customers, shareholders and regulators in particular) are taken into account. For example, markets and

E – Risk report (CONTINUED)

investment banking operations are concentrated outside Bank Austria at Munich-based UniCredit Bank; this is reflected in Bank Austria's focus on commercial banking business and in correspondingly low trading book limits. The key Risk Appetite dimensions are business strategy, capital and liquidity adequacy. The defined bundle of key indicators comprises Pillar 1 and Pillar 2 indicators, and recovery plan indicators. The Risk Appetite is integrated in the budgeting process in the context of managing the objectives in defining and selecting the desired risk-return profile. A system of targets, thresholds and limits has been defined for the key indicators to ensure regular monitoring, timely escalation and a link to the recovery plan. In addition to the risk appetite, the Management Board and the Supervisory Board adopt a resolution, once a year, defining Bank Austria's risk strategy, which further operationalises the risk appetite and complements it with additional limits and targets.

Regular risk monitoring at top management level is performed through the overall risk report. The overall risk report is regularly presented also to the Supervisory Board. It comprises a description of the risk appetite, the risk-taking capacity (RTC), of credit risk, liquidity risk, market risk and operational risk, and the results of stress tests. Specialised risk committees have been established at senior management level for the management of key risks. The resolutions and results of these bodies are reported directly to the full Management Board of the bank: the Risk Committee (RICO), which holds meetings on a monthly basis, is responsible for cross-divisional risk management issues arising between sales units and overall bank management; moreover, it provides overviews of the results of the credit portfolio model and of the IRB models while also preparing reports on economic capital (Pillar 2). Liquidity risk control is performed by the Liquidity Committee (LICO), which meets every two weeks to deal with current liquidity-related topics. These include operational aspects of liquidity management including market monitoring and compliance with the Liquidity Policy. Control of market risk is ensured by the Market Risk Committee (MACO), which meets every two weeks. MACO deals with short-term business management issues relating to the presentation and discussion of the risk/earnings position of Markets & Corporate Treasury Sales and with limit adjustments, product approvals and positioning decisions in the area of market risk. Other topics discussed and decided include the replication portfolio. Credit risk is assessed by the Credit Committee. The Operational & Reputational Risk Committee (OpRRiCo) meets on a quarterly basis to deal with operational and reputational risk issues. Risk arising from derivative transactions is managed by the Derivative Committee (DECO). DECO deals with classic credit risk and counterparty risk issues and aspects of reputational risk in customer business. Information on the Credit Treasury Committee within the CFO Finance management function is given in section "E2 – Credit risk".

Risk-taking capacity (ICAAP/ILAAP)

Beyond compliance with regulatory capital rules and liquidity requirements of Pillar 1, Bank Austria controls capital and liquidity adequacy also via the relevant Pillar 2 approaches: Internal Capital Adequacy Assessment Process (ICAAP); Internal Liquidity Adequacy Assessment Process (ILAAP). As part of the ILAAP, and in coordination with UniCredit Group, the bank reviews the adequacy of the liquidity risk management process, which comprises various components – such as limiting the short-term and the medium-term and long-term liquidity position, stress testing, the funding plan and key regulatory indicators – and is primarily aimed at ensuring sufficient liquidity. Risk measurement is based on Group-internal and regulatory requirements. In the context of ICAAP, Bank Austria applies the UniCredit Group approach to internal capital at the consolidated level (including subsidiaries). This approach includes the following phases:

- Perimeter definition and risk identification
- Risk measurement
- Definition of risk appetite and capital allocation
- Regular monitoring and reporting

The process ensures that Bank Austria's perimeter including all relevant Group units and risk types are fully covered and that risk and available financial resources are consistently taken into account. The risk types are measured using procedures which have been developed within the Group and take concentration risk into account. The Risk-Taking Capacity (RTC) compares Available Financial Resources (AFR) with aggregate Internal Capital (IC): RTC = AFR/IC. It is calculated and reported on a quarterly basis under a going concern approach. This approach requires compliance with all regulatory requirements and the application of the relevant valuation rules and accounting standards. The observation period is one year for all risk categories. In addition, the bank also determines internal capital adequacy under a gone concern assumption on a half-yearly basis; in this connection, unexpected losses are calculated with a confidence level of 99.9% for all risk categories, corresponding to a long-term Group target rating of A- (single A minus). An annual risk inventory analysis ensures that all materially relevant risk categories are taken into account.

Bank Austria calculates internal capital (also referred to as "economic capital" for individual risk categories) for the following risk categories.

- Credit risk (default risk and migration risk), including counterparty credit risk
- Market risk including CVA for trading and banking books (interest rate risk, credit spread risk, currency risk and equity risk)
- Structural FX risk
- Pension risk

E – Risk report (CONTINUED)

- Business risk
- Real estate risk
- Operational risk (including legal risks)
- Financial investment risk (for those equity investments which are not covered on the basis of their relevant individual risk categories, minority interests in particular)

The dominant risk category for Bank Austria is classic credit risk while the other risk categories are much less significant.

Both ICAAP and ILAAP of Bank Austria are subject to annual review by Internal Audit.

Concentration risk

The VaR models used for internal capital take concentration risk into account, e.g. concentration risk associated with customers/customer groups and countries/sector concentrations in the credit portfolio model or risk factor concentrations in the market and counterparty risk model. At the holding company level, the allocation of limits with regard to individual and sector positions (bulk-risk and industry limits) is based on economic capital. In its lending operations, Bank Austria follows this Group strategy and the related limits for industries and large exposures. Monitoring and reporting the largest borrowers (individual customers and groups of companies) and the distribution among industries takes place through the overall risk report on a quarterly basis. At Bank Austria level, economic capital is also an important factor in the approval of large transactions. As part of the quarterly ICAAP report, the Credit Risk Economic Capital Detail Report shows credit positions with a large proportion of internal capital and presents capital allocation by various segments (divisions, asset classes, banking subsidiaries, major sub-portfolios, etc.). Granular sensitivity limits and reports complement VaR limits at the portfolio level in the area of market risk. Stress test limits are also used in connection with market risk. Counterparty limits and counterparty-risk simulations including stress considerations are applied to derivatives and repos. Sovereign limits and country limits specify the maximum amounts permitted for cross-border exposures (see section "E.8 – Country risk and sovereign risk"). In addition, an overview of sovereign bond positions is regularly provided for market risk purposes.

Until the transfer of CEE subsidiaries, Bank Austria also compared overall credit exposures for each CEE subsidiary with defined warning thresholds. As a result of the transfer of CEE business, country-specific geopolitical concentration risk and structural FX risk (which arises from the currency structure of capital and RWAs) have declined significantly. Since then, macro risk has focused on Austria to a larger extent. The proportion of foreign currency loans is described in detail in the section "E.6 – Currency risk". Apart from retail banking business, commercial real estate and public sector customers account for the largest volume of loans, as in the previous year.

Limit system

Regular monitoring of key indicators, with appropriate limits and early warning thresholds, and a detailed network of operational limits ensure that the bank operates within the adopted risk parameters and that management can take timely measures in the event of unfavourable developments. The top level is the risk appetite, with about 20 key indicators being monitored at Bank Austria Group level. The most significant indicators include liquidity and funding indicators (short-term, structural and stress-based), capital and leverage indicators, risk/return indicators, and indicators focusing on specific risk categories. Violations of risk-appetite thresholds/limits are dealt with according to the defined escalation hierarchy (a number of levels up to Supervisory Board approval authority). The complete RA dashboard is reported on a quarterly basis at RICO meetings and as part of the overall risk report to the Management Board and the Supervisory Board.

Reports of the risk committees, which hold meetings at different intervals, are characterised by significantly higher granularity. MACO, for example, which holds meetings every two weeks, discusses the development of market risk positions including compliance with the relevant sensitivity limits, and LICO discusses compliance with liquidity-related limits and liquidity position developments. Depending on the degree of detail in the relevant dimensions (e.g. maturity bands, currencies), the escalation hierarchy comprises a number of levels in these areas, too. Both MACO and LICO use daily reports, which means that the treatment of any limit excesses is escalated in a timely manner and such limit excesses will have been dealt with by the time the complete RA dashboard is presented. Other key indicators are not determined on a daily basis, with the escalation process following the respective frequency of reporting. A central planning variable on the credit risk side is the expected loss (EL) at the sub-portfolio level for existing and new business. Developments in this context are monitored in detail during the year against the defined targets and thresholds; changes in parameters contributing to such developments are analysed and discussed with the relevant business areas and at RICO meetings with regard to a potential need for action. Individual lending decisions follow the defined loan approval process, which involves the operative credit risk departments, Bank Austria's Credit Committee and the relevant committees at the holding company, according to their respective levels of approval authority (see also section "E.2 – Credit risk").

Stress testing

Stress tests are a key component of risk analysis and planning at Bank Austria. The bank performs overall bank stress tests and individual stress tests. The former cover major risk categories at a specific point in time, with detailed results being aggregated against the background of a coherent scenario and presented on an overall basis. The overall bank stress tests performed regularly include capital stress tests (Pillars 1 and 2) and stress analyses under the recovery plan. The Pillar 2 stress test covers all ICAAP risk categories. Stress analyses under the recovery plan combine capital and liquidity aspects, showing developments over time and in the context of possible management reaction. The most important regular individual stress tests cover credit risk, market risk, counterparty risk and liquidity risk. Individual stress tests are presented at meetings of the respective committees (RICO, MACO, LICO), capital-related overall bank stress tests at RICO meetings and also as part of the overall risk report to the Management Board. Stress tests are performed at defined intervals (capital stress tests at least on a half-yearly basis, individual stress tests on a quarterly basis in most cases). Stress tests may also be performed in response to specific issues, e.g. in response to suggestions made by Internal Audit or supervisory authorities. Scenarios are defined centrally and locally. The Holding Stress Test Council defines a minimum set of scenarios for Pillar 2 ICAAP stress tests on a half-yearly basis, which need to be calculated and reported locally. Local scenarios are additionally defined where required. Predefined thresholds for specific stress tests require management to consider action plans or contingency plans.

Stress testing is subject to an annual review by Internal Audit.

E.2 – Credit risk

Credit risk is defined as the risk of incurring losses as a result of non-fulfilment by the borrower of terms and conditions agreed under the loan agreement.

The credit risk data in the tables included in this section show significant changes compared with the 2015 data. These changes resulted mainly from the demerger and transfer of CEE business to UniCredit S.p.A. as at 1 October 2016. The demerger related to a lending volume of €61.4 billion (year-end 2015), representing about 50% of lending business. No further reference to this effect is made in the various tables.

Credit risk methods and instruments

Very important factors in the credit approval process are a detailed assessment of risk associated with each loan exposure, and the customer's credit rating in particular. Every lending decision is based on a thorough analysis of the loan exposure, including an evaluation of all relevant factors. Following the initial loan application, the bank's loan exposures are reviewed at least once a year. If the borrower's creditworthiness deteriorates substantially, shorter review intervals are applied.

The bank uses various rating and scoring models for internal credit assessment, calculating the parameters (probability of default – PD; loss given default – LGD; exposure at default – EAD) for the customer/business segments to be assessed on the basis of models specifically developed for these purposes. The calculations are made in line with the various asset classes pursuant to Article 147 of the CRR, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions. There are country-specific or region-specific models (e.g. for corporate customers, private and business customers) and Group-wide models (e.g. for sovereigns, banks, multinational corporates). The assessment of a loan exposure is based on data from the respective company's financial statements and on qualitative business factors. For real estate customers, the customer-related rating is complemented by a transaction rating. Bank Austria uses an automated retail scoring system for assessing, monitoring and managing the large number of loan exposures to private customers, small businesses, independent professionals and small non-profit organisations. Retail scoring comprises an application scoring procedure based on effective and recognised mathematical and statistical methods, and a behaviour scoring procedure taking into account such factors as amounts received in the account and customers' payment practices. The retail scoring system provides information that is updated on a monthly basis. This gives the bank a tool for lending decisions and early recognition of risk. Automated data processing helps Bank Austria to reduce costs required for credit control while accelerating lending decisions.

The various rating and scoring models provide the basis for efficient risk management of Bank Austria and are embedded in all decision-making processes relating to risk management. They are also a key factor for capital required to be held against risk-weighted assets. Great attention is given to consistency in the presentation for supervisory purposes and the requirements of internal control. Risk-adequate pricing and proactive risk management improve the portfolio's diversification and risk/return ratio on an ongoing basis.

E – Risk report (CONTINUED)

All internal rating and scoring systems are monitored on an ongoing basis. The systems are also subject to regular validation on an annual basis, including a review to verify if the rating/scoring system provides a correct representation of the risks to be measured. All model assumptions are based on multi-year statistical averages for historical defaults and losses, with appropriate attention being given to the potential impact of turbulence in international financial markets. In this context, credit risk stress tests, which are required by banking supervisory authorities and are carried out on a regular basis, are an essential instrument for assessing future risks in an unfavourable economic environment.

RICO is defined as an expert body within the meaning of Article 189 of the CRR, which deals with all material aspects related to credit risk models (their development, adjustment, control and validation of model soundness). The Strategic Risk Management & Control department, with the relevant methodology, validation and control units, acts as credit risk control unit within the meaning of Article 190 of the CRR.

Current status of the application of the internal ratings-based approach (IRB approach) to credit risk in Bank Austria

UniCredit Bank Austria AG applies the internal ratings-based approach, using its own estimates of loss given default and of conversion factors for the major part of its loan portfolio (advanced IRB approach). Ongoing planning activities now relate mainly to the refinement and development of local and Group-wide models and, to a lesser extent, also the introduction of further Group-wide models.

Implementation of the advanced IRB approach has been established as a Group-wide programme. Therefore UniCredit is responsible for Group-wide decisions and guidelines as well as for the development of Group-wide models. For example, Group-wide homogeneous portfolios have been defined for which uniform rating models are used across the Group, such as those for countries, banks and multinational companies.

Group standards have for the most part already been prepared and adopted by UniCredit in cooperation with the major IRB legal entities, and are used as an instrument for uniform Group-wide implementation, with a view to complying with local legal requirements – some of which differ from country to country – and safeguarding Group interests. These Group standards will continue to be gradually extended and complemented.

The Group standards continue to be integrated step by step in the processes and organisational set-up of all business areas and Group units, with account being taken of local features and legal requirements in ensuring Basel 3 compliance.

All Austrian subsidiaries of UniCredit Bank Austria AG use the standardised approach. From a current perspective, for reasons of materiality, it is not planned to switch to one of the IRB approaches.

Classification of asset quality

Non-performing exposures are divided into the following categories according to UniCredit Group rules:
- **Bad loans:** credit exposures, formally considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained. A workout scenario is assumed in respect of borrowers in this category. The impairment loss assessment is performed in general on an analytical basis. Detailed information is given in the “Provisioning process” section.
- **Unlikely to pay:** on-balance sheet and off-balance sheet exposures which do not meet the conditions to be classified as “bad loans”. The classification as “unlikely to pay” derives from the assessment of the debtor’s unlikeliness, without actions such as realisation of collateral, to fully repay his/her credit obligation (principal and/or interest), regardless of any days of default. The classification within the “unlikely to pay” category is not necessarily related to the explicit presence of anomalies (repayment failure) but rather is tied to the existence of evidence of a debtor’s risk of default. The impairment loss assessment is performed in general on an analytical basis. Detailed information is given in the “Provisioning process” section.
- **Past due:** on-balance sheet exposures other than those classified among “bad loans” or “unlikely to pay”, which at the reference date have amounts that are more than 90 days past due or over limits. Impaired past-due amounts can be determined by reference to the individual debtor.

Performing loans:
- Past-due loans which are performing: exposures to borrowers where past-due amounts or unauthorised overdrafts at the reporting date were between 1 and 90 days overdue.
- Other exposures: borrowers not included in the other categories. These account for a large proportion of total loans.

E – Risk report (CONTINUED)

Breakdown of financial assets by portfolio and credit quality (carrying value) (€ million)

	BANKING GROUP				OTHER COMPANIES		
PORTFOLIO/QUALITY	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	PERFORMING	NON-PERFORMING EXPOSURES	PERFORMING	TOTAL
Available-for-sale financial assets	–	–	–	15,672	–	–	15,672
Held-to-maturity financial instruments	–	7	–	228	–	–	236
Loans and receivables with banks	–	–	–	20,756	–	6	20,762
Loans and receivables with customers	198	948	20	59,752	3	4	60,926
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–	–	–
TOTAL 31 DECEMBER 2016	**198**	**956**	**20**	**96,408**	**3**	**10**	**97,596**
TOTAL 31 DECEMBER 2015	**1,686**	**3,522**	**338**	**169,716**	**6**	**23**	**175,291**

Breakdown of financial assets by portfolio and credit quality – foreborne exposures (carrying value) (€ million)

	BANKING GROUP				OTHER COMPANIES		
PORTFOLIO/QUALITY	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	PERFORMING	NON-PERFORMING EXPOSURES	PERFORMING	TOTAL
Available-for-sale financial assets	–	–	–	–	–	–	–
Held-to-maturity financial instruments	–	–	–	–	–	–	–
Loans and receivables with banks	–	–	–	–	–	–	–
Loans and receivables with customers	40	254	1	221	1	–	518
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–	–	–
TOTAL 31 DECEMBER 2016	**40**	**254**	**1**	**221**	**1**	**–**	**518**
TOTAL 31 DECEMBER 2015	**507**	**1,843**	**126**	**1,353**	**1**	**–**	**3,831**

Breakdown of performing past-due financial assets by portfolio and past-due bucket (gross value) (€ million)

PORTFOLIO/QUALITY	NOT PAST-DUE OR PAST-DUE LESS THAN 30 DAYS	PAST-DUE BETWEEN 30 AND 60 DAYS	PAST-DUE BETWEEN 60 AND 90 DAYS	PAST-DUE OVER 90 DAYS	TOTAL
Available-for-sale financial assets	–	–	–	–	–
Held-to-maturity financial instruments	–	–	–	–	–
Loans and receivables with banks	–	–	–	–	–
Loans and receivables with customers	637	32	23	–	692
Financial assets at fair value through profit or loss	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–
TOTAL 31 DECEMBER 2016	**637**	**32**	**23**	**–**	**692**
TOTAL 31 DECEMBER 2015	**1,481**	**268**	**70**	**1**	**1,820**

E – Risk report (CONTINUED)

Breakdown of financial assets by portfolio and credit quality (gross and net values)

(€ million)

PORTFOLIO/QUALITY	NON-PERFORMING GROSS EXPOSURE	NON-PERFORMING SPECIFIC WRITE-DOWNS	NON-PERFORMING NET EXPOSURE	PERFORMING GROSS EXPOSURE	PERFORMING PORTFOLIO ADJUSTMENTS *)	PERFORMING NET EXPOSURE	TOTAL (NET EXPOSURE)
Available-for-sale financial assets	–	–	–	15,672	–	15,672	15,672
Held-to-maturity financial instruments	16	8	7	228	–	228	236
Loans and receivables with banks	4	4	–	20,762	–	20,762	20,762
Loans and receivables with customers	2,902	1,732	1,170	60,184	428	59,756	60,926
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–	–	–
TOTAL 31 DECEMBER 2016	**2,922**	**1,744**	**1,178**	**96,846**	**428**	**96,418**	**97,596**
TOTAL 31 DECEMBER 2015	**12,165**	**6,613**	**5,552**	**170,541**	**859**	**169,739**	**175,291**

*) The portfolio adjustments of the performing portfolio relate to IBNR (incurred but not reported) and write-downs on (foreign currency) loans with a bullet maturity. Detailed information is given in the "Provisioning process" section.

Breakdown of financial assets by portfolio and credit quality – financial assets held for trading and hedging derivatives (gross and net values)

(€ million)

PORTFOLIO/QUALITY	LOW CREDIT QUALITY ASSETS GROSS CUMULATED LOSSES	LOW CREDIT QUALITY ASSETS NET EXPOSURE	OTHER ASSETS NET EXPOSURE
Financial assets held for trading	–	–	1,113
Hedging instruments	–	–	2,661
TOTAL 31 DECEMBER 2016	**–**	**–**	**3,774**
TOTAL 31 DECEMBER 2015	**–**	**–**	**6,300**

Banking group – On-balance sheet and off-balance sheet credit exposure by external rating class (book values)

(€ million)

	BALANCE AT 31 DEC. 2016							
	EXTERNAL RATING CLASSES							
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6	NO EXTERNAL RATING	TOTAL
On-balance sheet exposures	**14,356**	**8,303**	**7,606**	**946**	**93**	**1,305**	**65,550**	**98,159**
Derivative contracts	**17**	**1**	**2,515**	**0**	**–**	**–**	**1,239**	**3,772**
Financial derivative contracts	17	1	2,515	0	–	–	1,239	3,772
Credit derivative contracts	–	–	0	–	–	–	–	0
Guarantees given	**24**	**115**	**848**	**150**	**25**	**86**	**8,047**	**9,295**
Other commitments to disburse funds	**167**	**481**	**1,104**	**142**	**9**	**126**	**10,868**	**12,898**
TOTAL	**14,564**	**8,900**	**12,074**	**1,238**	**127**	**1,516**	**85,705**	**124,124**
	BALANCE AT 31 DEC. 2015							
	EXTERNAL RATING CLASSES							
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6	NO EXTERNAL RATING	TOTAL
On-balance sheet exposures	**16,278**	**12,923**	**12,647**	**13,691**	**564**	**6,319**	**113,930**	**176,353**
Derivative contracts	**37**	**230**	**3,344**	**599**	**2**	**0**	**1,875**	**6,088**
Financial derivative contracts	37	230	3,343	599	2	0	1,875	6,088
Credit derivative contracts	–	–	1	–	–	–	0	1
Guarantees given	**65**	**345**	**1,141**	**1,038**	**94**	**236**	**14,878**	**17,796**
Other commitments to disburse funds	**445**	**556**	**2,505**	**510**	**19**	**212**	**16,736**	**20,985**
TOTAL	**16,826**	**14,055**	**19,638**	**15,839**	**679**	**6,767**	**147,419**	**221,222**

The table reflects ratings used by the following rating agencies: Moody's, S&P, Fitch and DBRS.
Class 1 (AAA/AA–), 2 (A+/A–), 3 (BBB+/BBB–), 4 (BB+/BB–), 5 (B+/B–), 6 (impaired exposures are included in class 6).
93% of rated volume was investment grade (from class 1 to 3), 69% of volume was not rated due to the considerable share of customers in the segment comprising private individuals and SMEs.
The above presentation of external rating classes also includes investment fund volumes totalling €47 million (2015: €65 million).

E – Risk report (CONTINUED)

Banking group – On-balance sheet and off-balance sheet exposure by internal rating class (book values) 2016 (€ million)

	BALANCE AT 31 DEC. 2016					
	INTERNAL RATING CLASSES					
	1	2	3	4	5	6
On-balance sheet exposures	**3,573**	**13,304**	**32,765**	**20,549**	**12,745**	**7,101**
Derivative contracts	**–**	**25**	**3,236**	**217**	**105**	**81**
Financial derivative contracts	–	25	3,235	217	105	81
Credit derivative contracts	–	–	0	–	–	–
Guarantees given	**0**	**38**	**4,161**	**3,448**	**789**	**350**
Other commitments to disburse funds	**19**	**555**	**5,315**	**4,456**	**1,201**	**618**
TOTAL	**3,592**	**13,922**	**45,477**	**28,671**	**14,840**	**8,150**

	BALANCE AT 31 DEC. 2016					
	INTERNAL RATING CLASSES			NON-PERFORMING	NO INTERNAL	
	7	8	9	ASSETS	RATING	TOTAL
On-balance sheet exposures	**3,222**	**2,137**	**301**	**1,218**	**1,196**	**98,112**
Derivative contracts	**13**	**3**	**0**	**–**	**91**	**3,772**
Financial derivative contracts	13	3	0	–	91	3,772
Credit derivative contracts	–	–	–	–	–	0
Guarantees given	**83**	**29**	**36**	**64**	**297**	**9,295**
Other commitments to disburse funds	**337**	**192**	**37**	**109**	**58**	**12,898**
TOTAL	**3,655**	**2,362**	**375**	**1,391**	**1,642**	**124,077**

Banking group – On-balance sheet and off-balance sheet exposure by internal rating class (book values) 2015 (€ million)

	BALANCE AT 31 DEC. 2015					
	INTERNAL RATING CLASSES					
	1	2	3	4	5	6
On-balance sheet exposures	**2,450**	**18,725**	**36,289**	**43,503**	**29,844**	**19,424**
Derivative contracts	**3**	**112**	**4,032**	**604**	**400**	**284**
Financial derivative contracts	3	112	4,032	604	400	284
Credit derivatives contracts	–	–	1	–	–	–
Guarantees given	**57**	**479**	**5,047**	**5,974**	**2,013**	**1,848**
Other commitments to disburse funds	**15**	**677**	**8,133**	**6,109**	**2,652**	**1,889**
TOTAL	**2,525**	**19,993**	**53,500**	**56,190**	**34,909**	**23,445**

	BALANCE AT 31 DEC. 2015					
	INTERNAL RATING CLASSES			NON-PERFORMING	NO INTERNAL	
	7	8	9	ASSETS	RATING	TOTAL
On-balance sheet exposures	**7,814**	**3,870**	**1,100**	**5,592**	**7,678**	**176,287**
Derivative contracts	**38**	**8**	**1**	**–**	**606**	**6,088**
Financial derivative contracts	38	8	1	–	606	6,088
Credit derivatives contracts	–	–	–	–	–	1
Guarantees given	**661**	**375**	**240**	**226**	**877**	**17,796**
Other commitments to disburse funds	**633**	**259**	**63**	**176**	**380**	**20,985**
TOTAL	**9,145**	**4,512**	**1,403**	**5,993**	**9,541**	**221,156**

The mapping to the internal UniCredit rating masterscale considers the PD ranges mentioned below. Class 10 corresponds to the non-performing loan portfolio according to the Bank of Italy (and covers the risk categories of “bad loans”, “unlikely to pay” and “past due”):

INTERNAL RATING CLASSES	PD MIN	PD MAX
1	0.00%	0.00%
2	0.00%	0.02%
3	0.02%	0.12%
4	0.12%	0.58%
5	0.58%	1.37%
6	1.37%	3.22%
7	3.22%	7.57%
8	7.57%	17.80%
9	17.80%	99.99%
10	non-performing	

E – Risk report (CONTINUED)

Information on forborne exposures

Forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. These may take the form of a modification of the terms and conditions of a contract that would not have been agreed if the debtor had not been in financial difficulties, or the form of total or partial refinancing. Debtors that are classified as "forborne" are subject to special monitoring requirements and are to be clearly marked as such. Forbearance measures include, for example, a rescheduling agreement, renegotiated pricing at interest rates below the market level, the conversion of a partial amount of the loan into shares, or a reduction of the principal amount.

If a forbearance measure does not result in the loan becoming non-performing, a probation period of at least 2 years must be observed. If a forbearance measure results in the loan becoming non-performing, a minimum 1-year holding period in the non-performing portfolio must be observed – a probation period of 2 years will again be applicable from the date of reclassification as "performing". Upon expiry of the probation period the exposure will cease to be classified as "forborne".

In respect of loans with forbearance measures, required concessions and restrictive management measures are initiated under an effective monitoring and reporting process to reduce the amount of any potential loss.

When assessing and making provisions for loans with forbearance measures, the bank must ascertain whether there is objective evidence that an impairment loss on loans or held-to-maturity investments (measured at amortised cost) has been incurred (impairment test). The amount of the impairment loss is determined as described in the "Provisioning process" section.

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of the borrower's financial difficulties, this is considered to be objective evidence of impairment in accordance with IAS 39.

Apart from the impairment test, an examination must be performed to see if the modification of the contract results in a partial or full disposal of the financial instrument. In the case of financial assets, there is a disposal if a material change in contractual conditions leads to a situation in which the modified financial instrument, in substance, no longer corresponds to the instrument before the modification. In such a case the previously recognised financial instrument is to be derecognised and a new financial instrument is to be recognised, even if – in legal terms – the same contract continues to exist in an adjusted form. Derecognition in such cases also relates to any provision made in connection with the financial instrument.

E – Risk report (CONTINUED)

Forborne exposures – Loans and receivables with customers

(€ million)

	PERFORMING			NON-PERFORMING			FORBORNE TOTAL		
	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE
General governments	–	–	–	–	–	–	–	–	–
Financial institutions	22	–	22	41	34	8	64	34	30
Non-financial institutions	143	2	141	522	265	256	664	267	397
Households	61	2	58	77	45	32	137	47	90
TOTAL 31 DEC. 2016	**226**	**4**	**221**	**640**	**344**	**296**	**865**	**348**	**517**
	PERFORMING			NON-PERFORMING			FORBORNE TOTAL		
	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE	GROSS EXPOSURES	WRITE-DOWNS	NET EXPOSURE
General governments	17	–	17	54	11	43	71	11	60
Financial institutions	3	–	3	103	82	21	107	82	24
Non-financial institutions	967	22	945	3,011	1,267	1,743	3,978	1,289	2,688
Households	268	7	261	313	156	157	581	163	418
TOTAL 31 DEC. 2015	**1,255**	**29**	**1,226**	**3,481**	**1,517**	**1,964**	**4,736**	**1,546**	**3,190**

The write-downs shown in the “performing” category relate to IBNR loan loss provisions.

E – Risk report (CONTINUED)

Credit risk mitigation techniques

UniCredit Bank Austria uses various credit risk mitigation techniques to reduce potential credit losses in case of obligor default.

With specific reference to credit risk mitigation, general guidelines issued by UniCredit and Bank Austria are in force. These guidelines govern and standardise credit risk mitigation processes, in line with Group principles and best practice as well as in accordance with the relevant regulatory requirements – especially strategies and procedures for collateral management. In particular such strategies and procedures detail collateral eligibility, valuation and monitoring rules and ensure the soundness, legal enforceability and timely liquidation of valuable collateral according to the local legal system.

Local collateral management was analysed and compliance with credit risk mitigation guidelines was reviewed (specifically as part of the application of the internal rating system) in order to ensure that the instruments used for regulatory capital are adequate and properly documented.

According to the credit policies, collateral or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the creditworthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collateral accepted in support of credit lines granted by Bank Austria primarily includes real estate, both residential and commercial, guarantees and financial collateral (including cash deposits, debt securities, equities, and units of undertakings for collective investment in transferable securities (UCITS)). Further types of collateral comprise pledged goods, receivables and insurance contracts as well as other types of funded protection. The Group also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

When accepting a credit risk mitigation technique, Bank Austria's attention focuses on processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swaps) has to be assessed in order to measure his/her solvency and risk profile.

In case of collateral, the process of valuation is based on precautionary principles, with reference to the use of "market values" and to the application of adequate haircuts to take account of potentially lower proceeds and realisation costs in case of realisation.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met at all times.

E – Risk report (CONTINUED)

Banking group – Secured credit exposures to banks

(€ million)

	BALANCE AT 31 DEC. 2016							
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS			GUARANTEES		
			MORTGAGES/ PLANTS	SECURITIES	OTHER ASSETS	GOVERNMENT AND CENTRAL BANKS	BANKS	OTHER ENTITIES
Secured on-balance sheet credit exposures:								
totally secured	–	–	–	–	–	–	–	–
of which impaired	–	–	–	–	–	–	–	–
partially secured	411	384	–	–	4	346	34	–
of which impaired	–	–	–	–	–	–	–	–
Secured off-balance sheet credit exposures:								
totally secured	–	–	–	–	–	–	–	–
of which impaired	–	–	–	–	–	–	–	–
partially secured	2,026	604	–	–	577	2	24	1
of which impaired	–	–	–	–	–	–	–	–
	BALANCE AT 31 DEC. 2015							
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS			GUARANTEES		
			MORTGAGES/ PLANTS	SECURITIES	OTHER ASSETS	GOVERNMENT AND CENTRAL BANKS	BANKS	OTHER ENTITIES
Secured on-balance sheet credit exposures:								
totally secured	450	449	–	252	1	104	93	–
of which impaired	–	–	–	–	–	–	–	–
partially secured	2,554	2,066	–	1,670	4	368	23	–
of which impaired	–	–	–	–	–	–	–	–
Secured off-balance sheet credit exposures:								
totally secured	9	9	–	–	7	–	2	–
of which impaired	–	–	–	–	–	–	–	–
partially secured	1,197	480	74	1	59	16	329	–
of which impaired	*57*	*14*	*14*	–	–	–	–	–

E – Risk report (CONTINUED)

Banking group – Secured credit exposures to customers

(€ million)

	BALANCE AT 31 DEC. 2016										
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS					GUARANTEES			
			MORTGAGES/ PLANTS	FINANCE LEASES/ PLANTS	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES
Secured on-balance sheet credit exposures:											
totally secured	1,661	1,661	20	884	60	698	–	–	–	–	–
of which impaired	*95*	*95*	–	*74*	–	*21*	–	–	–	–	–
partially secured	42,583	29,405	18,706	–	699	3,720	–	4,940	–	889	452
of which impaired	*1,005*	*954*	*539*	–	*9*	*101*	–	*270*	–	*11*	*23*
Secured off-balance sheet credit exposures:											
totally secured	14	14	–	–	–	14	–	–	–	–	–
of which impaired	–	–	–	–	–	–	–	–	–	–	–
partially secured	2,411	643	102	–	36	268	–	52	–	38	147
of which impaired	*117*	*24*	*13*	–	*1*	*2*	–	*7*	–	*1*	–
	BALANCE AT 31 DEC. 2015										
	NET EXPOSURES	TOTAL CREDIT RISK MITIGATION	COLLATERALS					GUARANTEES			
			MORTGAGES/ PLANTS	FINANCE LEASES/ PLANTS	SECURITIES	OTHER ASSETS	CREDIT DERIVATIVES	GOVERNMENT AND CENTRAL BANKS	OTHER PUBLIC ENTITIES	BANKS	OTHER ENTITIES
Secured on-balance sheet credit exposures:											
totally secured	18,315	18,315	9,032	3,669	202	3,287	–	1,145	3	376	601
of which impaired	*1,786*	*1,786*	*1,463*	*153*	*19*	*131*	–	*2*	–	*4*	*13*
partially secured	58,573	37,900	24,464	–	792	4,952	–	5,677	14	1,397	603
of which impaired	*2,607*	*1,834*	*1,386*	–	*18*	*241*	–	*157*	–	*13*	*19*
Secured off-balance sheet credit exposures:											
totally secured	2,291	2,291	661	–	13	1,112	–	88	–	110	306
of which impaired	*19*	*19*	*13*	–	–	*6*	–	–	–	–	–
partially secured	4,252	1,810	721	–	60	496	–	167	–	81	284
of which impaired	*149*	*48*	*12*	–	*1*	*19*	–	*8*	–	*8*	–

Provisioning process

Loan loss provisions are determined by reference to the amount and quality of loans granted. Bank Austria applies the following four methods of calculation, taking the special segment of foreign currency loans into account:

- Specific write-downs (non-performing assets)
- Portfolio-based specific write-downs (non-performing assets)

- Provisions for IBNR losses (performing assets)
- Portfolio-based specific provision for foreign-currency loans and loans with repayment vehicles (performing assets)

E – Risk report (CONTINUED)

Specific write-downs:

Loans/bonds:

Customers with a total exposure of over €2 million – on a GCC (group of connected customers) basis – are transferred to Monitoring & Special Credit Corporate/CIB within UniCredit Bank Austria AG whenever there is initial concrete evidence of potential default. When taking over a specific case, Special Credit management has to review the requirement for recognising an impairment loss on such exposures on a case-by-case analytical basis, and subsequently carry out quarterly reviews. The amount of the impairment loss is the difference between the carrying amount of the loan and the present value of estimated future cash flows.

ABSs:

As part of a structured watchlist and impairment process for ABSs, positions are identified which are reviewed for any provisioning requirement on a quarterly basis. This is usually done by applying specific models, especially cash flow models. These models map the individual transaction structure and calculate a present value of estimated future cash flows. The amount of any provision that may be required is the difference between the carrying amount of the ABS position and the present value of estimated future cash flows.

Portfolio-based specific provisioning method

UniCredit Bank Austria AG applies a parameter-based and portfolio-based provisioning method ("Pauschale Einzelwertberichtigung" – PEWB) for defaulted assets grouped by similar credit risk characteristics and with no significant exposure (lower than €2 million) at the GCC (group of connected customers) level. The provisioning requirement at individual customer level is determined and recognised automatically, depending on the customer segment, the amount of the exposure and collateral, the credit rating and the duration of the default. The parameters used to calculate the loss rate are validated and back-tested annually. Parameter adjustments at the end of 2016 led to a slight decline of €6.2 million.

Provisions for IBNR losses:

Such provisions for performing loans are made on the assumption that de facto losses incurred are taken into account too late, and to an extent that is too low, because of the lag between the time when the losses (incurred but not reported – IBNR) are actually incurred and the time when the loss event is identified. The loss is estimated on the basis of expected loss – which is determined using the parameters of PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default) – weighted by a time factor (for the period during which the loss is not identified), the so-called LCP (Loss Confirmation Period) factor, at the level of various product and customer clusters. The various parameters used in the calculation are validated annually and the results are subjected to a backtesting procedure. The adjustments of LCP parameters in 2016 led to an increase of €27.3 million.

With the demerger of CEE loans, provisions for IBNR losses on loans and receivables with customers declined from €615.2 million to €154.8 million. The provision is reflected in the table "Breakdown of financial assets by portfolio and credit quality" under "portfolio adjustments" for performing exposures.

Portfolio-based specific provision for foreign currency loans and loans with repayment vehicles (performing assets)

This provision is determined at individual loan level for the performing portfolio and takes into account the potential risk associated with foreign currency loans and loans with repayment vehicles – most of which have a bullet maturity – which may arise from the forecast deficit between the repayable amount, determined by the exchange rate, and the repayment vehicle, which is also subject to currency risk (see also "E.6 – Currency risk"). All relevant calculation parameters (including, for example, the annual performance of repayment vehicles, exchange rate forecasts, underlying interest rate of the EUR and FX financing arrangements) are reviewed annually, reported to the Management Board and adjusted where required. The most recent adjustment reflected the combination of performance of repayment vehicles and interest rate adjustment, and led to an increase of €39.3 million in the provision to a total of €273.2 million. The provision is included in the table "Breakdown of financial assets by portfolio and credit quality" under "portfolio adjustments"

E – Risk report (CONTINUED)

Banking group – On-balance sheet and off-balance sheet exposure to banks: gross and net values

(€ million)

	GROSS EXPOSURE							
	NON-PERFORMING ASSETS							
EXPOSURE TYPES/AMOUNTS	PAST-DUE LESS THAN 90 DAYS	PAST-DUE BETWEEN 90 AND 180 DAYS	PAST-DUE BETWEEN 180 DAYS AND 1 YEAR	PAST-DUE OVER 1 YEAR	PERFORMING ASSETS	SPECIFIC WRITEDOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURES
Balance sheet exposure								
a) Bad exposures	4	–	–	–	X	4	X	–
– of which: forborne exposures	–	–	–	–	X	–	X	–
b) Unlikely to pay	–	–	–	–	X	–	X	–
– of which: forborne exposures	–	–	–	–	–	–	–	–
c) Non-performing past-due	–	–	–	–	X	–	X	–
– of which: forborne exposures	–	–	–	–	X	–	X	–
d) Performing past-due	X	X	X	X	–	X	–	–
– of which: forborne exposures	X	X	X	X	–	X	–	–
e) Other performing exposures	X	X	X	X	21,357	X	–	21,357
– of which: forborne exposures	X	X	X	X	–	X	–	–
Total	**4**	**–**	**–**	**–**	**21,357**	**4**	**–**	**21,357**
Off-balance sheet exposure								
a) Non-performing	–	–	–	–	X	–	X	–
b) Performing	X	X	X	X	6,685	X	–	6,685
Total	**–**	**–**	**–**	**–**	**6,685**	**–**	**–**	**6,685**
TOTAL 31 DECEMBER 2016	**4**	**–**	**–**	**–**	**28,042**	**4**	**–**	**28,042**

Banking group – On-balance sheet and off-balance sheet exposure to customers: gross and net values

(€ million)

	GROSS EXPOSURE							
	NON-PERFORMING ASSETS							
EXPOSURE TYPES/AMOUNTS	PAST-DUE LESS THAN 90 DAYS	PAST-DUE BETWEEN 90 AND 180 DAYS	PAST-DUE BETWEEN 180 DAYS AND 1 YEAR	PAST-DUE OVER 1 YEAR	PERFORMING ASSETS	SPECIFIC WRITEDOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURES
Balance sheet exposure								
a) Bad exposures	70	41	39	1,254	X	1,206	X	198
– of which: forborne exposures	9	20	22	121	X	132	X	40
b) Unlikely to pay	1,288	14	53	161	X	516	X	999
– of which: forborne exposures	442	1	34	22	X	212	X	288
c) Non-performing past-due	12	4	2	11	X	10	X	20
– of which: forborne exposures	2	–	–	–	X	1	X	1
d) Performing past-due	X	X	X	X	692	X	5	688
– of which: forborne exposures	X	X	X	X	4	X	–	4
e) Other performing exposures	X	X	X	X	75,272	X	423	74,849
– of which: forborne exposures	X	X	X	X	222	X	4	218
Total	**1,371**	**58**	**95**	**1,425**	**75,965**	**1,732**	**428**	**76,754**
Off-balance sheet exposure								
a) Non-performing	261	–	–	–	X	87	X	173
b) Performing	X	X	X	X	19,133	X	26	19,107
Total	**261**	**–**	**–**	**–**	**19,133**	**87**	**26**	**19,281**
TOTAL 31 DECEMBER 2016	**1,632**	**58**	**95**	**1,425**	**95,098**	**1,819**	**454**	**96,035**

E – Risk report (CONTINUED)

Banking group – On-balance sheet exposure to customers: gross change in non-performing exposures (€ million)

SOURCE/CATEGORIES	CHANGES IN 2016			
	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	TOTAL
Opening balance – gross exposure	**5,978**	**5,739**	**454**	**12,171**
Sold but not derecognised	–	–	–	–
Increases	**535**	**631**	**34**	**1,200**
Transfers from performing loans	57	495	17	569
Transfers from other non-performing exposures	231	47	1	279
Other increases	248	90	16	354
Reductions	**5,109**	**4,855**	**458**	**10,422**
Transfers to performing loans	4	100	13	117
Derecognised items	179	183	–	362
Recoveries	59	121	–	180
Sales proceeds	–	3	–	3
Losses on disposals	–	–	–	–
Transfers to other non-performing exposures	41	227	11	279
Other reductions	4,826	4,221	434	9,481
Closing balance – gross exposure	**1,404**	**1,516**	**30**	**2,950**

Banking group – On-balance sheet exposure to customers: changes in overall impairment (€ million)

SOURCE/CATEGORIES	CHANGES IN 2016			
	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	TOTAL
Opening gross write-downs	**4,294**	**2,171**	**116**	**6,581**
Sold but not derecognised	–	–	–	–
Increases	**384**	**169**	**15**	**568**
Write-downs	72	95	3	170
Losses on disposal	–	–	–	–
Transfers from other non-performing exposures	159	41	–	200
Other increases	153	33	12	198
Reductions	**3,472**	**1,823**	**122**	**5,417**
Write-backs from assessments	39	3	–	42
Write-backs from recoveries	59	121	–	180
Gains on disposal	–	–	–	–
Write-offs	179	183	–	362
Transfers to other non-performing exposures	40	158	3	201
Other reductions	3,155	1,359	118	4,632
Final gross write-downs	**1,206**	**516**	**10**	**1,732**

E – Risk report (CONTINUED)

Banking group – On-balance sheet and off-balance sheet credit exposure to customers by segment

	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES		
COUNTERPARTS/EXPOSURES	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
Cash exposure									
Bad exposures	–	–	X	0	1	X	26	27	X
– of which: forborne exposures	–	–	X	–	–	X	–	–	X
Unlikely to pay	180	4	X	6	2	X	20	21	X
– of which: forborne exposures	–	–	X	–	–	X	0	9	X
Non-performing past-due exposures	–	–	X	–	–	X	–	–	X
– of which: forborne exposures	–	–	X	–	–	X	–	–	X
Performing exposures	16,513	X	1	4,099	X	0	5,646	X	9
– of which: forborne exposures	–	X	–	–	X	–	12	X	0
Total	**16,693**	**4**	**1**	**4,106**	**3**	**0**	**5,692**	**47**	**9**
Off-balance sheet exposures									
Bad exposures	–	–	X	–	–	X	–	–	X
Unlikely to pay	0	–	X	–	–	X	0	0	X
Other non-performing exposures	–	–	X	–	–	X	–	–	X
Performing exposures	553	X	0	241	X	0	1,497	X	1
Total	**553**	**–**	**0**	**241**	**–**	**0**	**1,497**	**0**	**1**
TOTAL 31 DEC. 2016	**17,246**	**4**	**1**	**4,347**	**3**	**0**	**7,190**	**47**	**10**
TOTAL 31 DEC. 2015	**27,552**	**1**	**5**	**6,189**	**15**	**4**	**8,437**	**104**	**18**

E – Risk report (CONTINUED)

(€ million)

INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES			TOTAL		
NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS	NET EXPOSURE	SPECIFIC WRITE-DOWNS	PORTFOLIO ADJUSTMENTS
–	0	X	169	1,155	X	3	23	X	198	1,206	–
–	–	X	40	129	X	0	4	X	40	132	–
–	–	X	790	480	X	3	10	X	999	516	–
–	–	X	287	202	X	1	0	X	288	212	–
–	–	X	17	4	X	3	5	X	20	10	–
–	–	X	1	0	X	0	0	X	1	1	–
63	X	0	48,021	X	416	1,194	X	2	75,537	–	428
–	X	–	197	X	4	12	X	0	221	–	4
63	**0**	**0**	**48,998**	**1,639**	**416**	**1,202**	**38**	**2**	**76,754**	**1,732**	**428**
–	–	X	20	9	X	0	1	X	20	10	–
–	–	X	149	43	X	2	33	X	151	76	–
–	–	X	2	1	X	0	–	X	2	1	–
6	X	0	16,751	X	24	59	X	0	19,107	–	26
6	**–**	**0**	**16,923**	**53**	**24**	**61**	**35**	**0**	**19,281**	**87**	**26**
70	**0**	**0**	**65,921**	**1,692**	**440**	**1,263**	**73**	**2**	**96,035**	**1,819**	**454**
100	**–**	**–**	**119,328**	**5,320**	**635**	**15,011**	**1,322**	**248**	**176,617**	**6,761**	**910**

E – Risk report (CONTINUED)

Development of non-performing exposures and net write-downs of loans and provisions for guarantees and commitments after the demerger of CEE business

The demerger of CEE business, which involves higher potential risk (lending volume at the end of 2015: €61.4 billion, with non-performing exposures accounting for €7.2 billion of the total amount), led to a general improvement in the risk profile of Bank Austria's loan portfolio in 2016.

The remaining (Austrian) loan portfolio totalled €63.1 billion at the end of 2016, with non-performing exposures (NPEs) accounting for €2.9 billion. This means that the NPE ratio for this portfolio decreased to 4.6% at year-end 2016. The comparative year-end 2015 figures were €3.2 billion or 5.1%. As at 31 December 2015, non-performing exposures, including CEE, amounted to €10.4 billion or 8.4% of lending volume. Write-downs on non-performing exposures of the remaining (Austrian) lending business declined from €2.0 billion as at 31 December 2015 to €1.7 billion as at 31 December 2016. The coverage ratio of non-performing exposures thus reached 59.7% at year-end 2016. The comparative year-end 2015 figure was 62.8% (or 56.3%, including CEE lending volume).

While the remaining (Austrian) loan portfolio showed a favourable development, the coverage ratio of non-performing exposures was only affected by the migration of a major exposure (with collateral provided by Oesterreichische Kontrollbank) to the non-performing portfolio. As a result, non-performing exposures in the Corporate & Investment Banking (CIB) business segment rose from 2.0% to 3.2% of the loan portfolio in this segment. The coverage ratio in this segment (without taking collateral into account) declined from 79.7% in 2015 to 45.1% in 2016.

On a combined basis, non-performing exposures in the Retail Banking and Corporate Banking business segments decreased and the NPE ratio declined from 5.9% to 5.2%. The coverage ratio remained more or less stable (2016: 60.7%, 2015: 60.2%).

At the end of 2016, the NPE ratio in Corporate Banking was 4.7% and the coverage ratio was 55.4%. The relevant figures in Retail Banking were 5.9% and 66.7%, respectively.

Bank Austria benefited from a net release of loan loss provisions in 2016, with the item **"Net write-downs of loans and provisions for guarantees and commitments"** showing net income of €6.0 million (excluding the charge of €37.7 million for the demerged CEE portfolio for the first nine months of 2016). The comparative figure for 2015 was net income of €12.2 million.

This net income resulted from the release of loan loss provisions especially in **Corporate & Investment Banking** (2016: net income of €37.9 million, 2015: net income of €24.6 million). The net release of loan loss provisions in the **Corporate Banking** segment reached €13.8 million (2015: net income of €0.7 million). The provisioning charge in **Retail Banking** amounted to €52.4 million (2015: €28.3 million), reflecting a significant increase in the portfolio-based provisions for foreign currency loans (+€64.8 million for the performing portfolio) and the addition of €16.8 million to the provision for IBNR losses. The contribution from the Corporate Center was net income of €6.7 million (2015: €15.0 million).

The comparative figures for net write-downs of loans and provisions for guarantees and commitments given above for 2015 have been recast to reflect the current structure of Bank Austria.

Realisation of mortgage collateral

Mortgages are the main type of collateral accepted by UniCredit Bank Austria AG for real estate finance.
If the mortgage needs to be realised, Bank Austria will first try to sell the property in the market by mutual agreement with the customer and to use the proceeds for loan repayment. Where this is not possible, the property will be sold in accordance with the rules of the Austrian Enforcement Code or the Austrian Bankruptcy Code. As there are orderly market conditions in Austria, mortgaged real estate is normally not acquired by Bank Austria itself (debt asset swap).

Stress tests

Credit risk stress tests are an essential component of Pillar 1 and Pillar 2 stress tests (which analyse the impact on regulatory capital and economic capital) and are therefore presented at meetings of the same risk committee (RICO).

The main dimensions of stress analysis include the following:
- increase in non-performing exposures
- related losses
- impact on expected loss on performing exposures
- impact on Pillar 1 RWAs and shortfall
- impact on economic capital

E – Risk report (CONTINUED)

The calculations are based on dependency models developed by the bank itself, which are used to analyse the impact of macroeconomic changes (e.g. gross domestic product, interest rate levels, unemployment, inflation, exchange rates) on the loan portfolio. Detailed results are presented for relevant sub-portfolios.

The stress scenarios used are at least the relevant ICAAP scenarios (typically, a base scenario and 3 different stress scenarios for a reference date) complemented, on an ad hoc basis, by additional scenarios.

Credit Treasury

The Credit Treasury unit was merged with the new Strategic Funding, Transactions & Pricing unit, which among others has the following two main tasks:

First, preparing and monitoring the risk-adequate pricing of loans. To ensure uniform pricing within UniCredit Group, the risk-adjusted spread is determined on the basis of multi-year probabilities of default (depending on the term of the loan), added as a price component and monitored on an ongoing basis. Such pricing rationale follows the approach defined in the Group Risk Adjusted Pricing Discipline, which was approved as a Policy in UniCredit Bank Austria AG in July 2014.

Second, Credit Treasury is also responsible for Bank Austria as a whole for transactions to reduce credit risk and increase liquidity. The instruments available for these purposes include securitisations, CLNs and CDSs.

The Credit Treasury Committee, which holds quarterly meetings, is responsible for strategic coordination and decisions on measures and transactions.

Securitisation transactions

Qualitative information

Bank Austria's main objectives in its securitisation transactions (whether traditional or synthetic) are the optimisation of the loan portfolio by freeing up regulatory and economic capital and obtaining fresh liquidity together with greater diversification of its sources of funding.

In 2015 a new synthetic securitisation ("AMADEUS 2015") was implemented in UniCredit Bank Austria AG for RWA relief and risk transfer purposes. It covers an existing portfolio of loans and guarantees granted to corporate clients. In December 2016 the transaction was amended in order to allow the bank to add loans to the pool of securitised loans.

Furthermore, UniCredit Leasing (Austria) GmbH originated a traditional securitisation for funding purposes with auto and equipment receivables ("SUCCESS 2015").

Details of the transactions are set out in the following tables.

Investments in other parties' securitisations, i.e. structured credit products/ABSs, were ring-fenced in a separate portfolio managed with a view to maximising future cash flows. The process of making provisions for this portfolio is described in the "ABSs" subsection of the "Provisioning process" section.

Given the asset quality of the underlyings, the best business strategy was considered to be retention in the bank's books.

In line with the above management principles, risk monitoring and maximising profit on securitisation transactions is achieved by:
- analysing the monthly or quarterly investor reports produced by the Trustee, paying special attention to the performance of the collateral;
- monitoring similar transactions' collateral performance and issues of similar paper;
- watching the market fundamentals of the underlying credit and
- staying in constant contact with the investors and, where collateral is managed, with the managers and analysts of the Collateral Manager.

Furthermore each portfolio is assigned a market VaR limit by Risk Management. This is monitored bearing in mind the correlations. The Group has spread curves for each rating and product (asset-backed securities, mortgage-backed securities, etc.) and uses them to calculate risk, in the same way as other instruments in its portfolio. The method used is in line with other sources of market risk, and enables us to estimate the possible effects of diversification and to aggregate the VaR with other sections of the portfolio.

E – Risk report (CONTINUED)

Originator: UniCredit Bank Austria AG

NAME	AMADEUS 2015	
Type of securitisation:	Synthetic	
Originator:	UniCredit Bank Austria AG	
Issuer:	–	
Servicer:	UniCredit Bank Austria AG	
Arranger:	UniCredit Bank AG	
Target transaction:	Risk Transfer and RWA relief	
Type of asset:	Loans and Guarantees granted to SMEs	
Quality of asset:	Performing	
Closing date:	21 December 2015	
Nominal value of disposal portfolio:	1,964,785,123 € (of which securitised 1,866,545,867 €, corresponding to 95% of the portfolio)	
Net amount of preexisting writedown/writebacks :	–	
Disposal Profit & Loss realized :	–	
Guarantees issued by the Bank:	–	
Guarantees issued by Third Parties:	–	
Bank lines of credit:	–	
Third Parties lines of credit:	–	
Other credit enhancements:	–	
Other relevant information:	–	
Rating agencies:	–	
Amount of CDS or other supersenior risk transferred:	(*)	
Amount and Conditions of tranching:	–	
ISIN	n. m.	n. m.
Type of security	**Senior**	**Mezzanine**
Class	A	B
Rating	not rated	not rated
Quotation	–	–
Issue date	21 December 2015	21 December 2015
Legal maturity	30 November 2028	30 November 2028
Call option	10% Clean Up Call	10% Clean Up Call
Expected duration	–	–
Rate	–	–
Subordinated level	–	Sub A
Reference Position	1,731,221,292 €	41,997,282 €
Reference Position at the end of accounting period	1,250,080,967 €	41,997,282 €
Security subscribers	UniCredit Bank Austria AG	hedged by protection seller

E – Risk report (CONTINUED)

Originator: UniCredit Bank Austria AG

ISIN	n.m.
Type of security	**Junior**
Class	C
Rating	not rated
Quotation	–
Issue date	21 December 2015
Legal maturity	30 November 2028
Call option	10% Clean Up Call
Expected duration	–
Rate	–
Subordinated level	Sub A and B
Reference Position	93,327,293 €
Reference Position at the end of accounting period	91,248,431 €
Security subscribers	hedged by protection seller

*) Synthetic securitizations carried out using the Supervisory Formula Approach ("Supervisory Formula Approach – SFA") as required by article 262 of Regulation (EU) n. 575/2013 (Capital Requirements Regulation – CRR), and earlier by circular 263/2006 of the Bank of Italy.

In case of absence of eligible external rating and if PD and LGD estimations can be provided, the CRR (Art. 259 1. b) requires that the calculation of capital requirements for the various tranches of the securitization shall be performed using the Supervisory formula, in accordance with art. 262, taking care to provide the following five elements:

1. the capital requirement on the securitized assets calculated using the IRB approach (kIRB);
2. the level of credit support of the concerned tranche;
3. the thickness of the tranche;
4. the number of securitized assets;
5. the average LGD.

Then, using the Supervisory Formula Approach, it is possible to calculate the risk equivalent amount for a securitization tranche related to its seniority, granularity, support level and risk of the underlying.

E – Risk report (CONTINUED)

Originator: UniCredit Leasing (Austria) GmbH

NAME	SUCCESS 2015	
Type of securitisation:	Traditional	
Originator:	UNICREDIT LEASING (AUSTRIA) GMBH	
Issuer:	SUCCESS 2015 B.V.	
Servicer:	UNICREDIT LEASING (AUSTRIA) GMBH	
Arranger:	UNICREDIT BANK AG	
Target transaction:	Funding	
Type of asset:	Leasing Assets (Vehicle and Equipment)	
Quality of asset:	Performing Loans	
Closing date:	11 September 2015	
Nominal value of disposal portfolio:	325,300,000 €	
Net amount of preexisting writedown/writebacks :	–	
Disposal Profit & Loss realized :	–	
Portfolio disposal price:	325,300,000 €	
Guarantees issued by the Bank:	–	
Guarantees issued by Third Parties:	–	
Bank lines of credit:	–	
Third Parties lines of credit:	–	
Other credit enhancements:	Subordinated Loan 4,618,000 €	
Other relevant information:		
Rating agencies:	Fitch & DBRS	
Amount of CDS or other supersenior risk transferred:	–	
Amount and Conditions of tranching:		
ISIN	XS1317727698	XS1317727938
Type of security	**Senior**	**Junior**
Class	A	B
Rating	AAA	not rated
Quotation	listed Luxembourg Stock Exchange	not listed
Issue date	11 September 2015	11 September 2015
Legal maturity	31 October 2029	31 October 2029
Call option	10% clean up call	
Expected duration	6 Years	6 Years
Rate	3M Euribor + 0.47%	3M Euribor + 2%
Subordinated level	–	sub A
Reference Position	230,900,000 €	94,400,000 €
Reference Position at the end of accounting period	230,900,000 €	94,400,000 €
Security subscribers	European Investment Bank	UniCredit Leasing (Austria) GmbH

E – Risk report (CONTINUED)

E.3 – Liquidity risk

Qualitative information

Basel 3 sets a liquidity standard under stressed conditions in the short-term maturity range (Liquidity Coverage Ratio – LCR). Under this standard, net outflows of liquidity are required to be covered by high-quality liquid assets to the extent of 100% by 2018. The phase-in arrangements introduced in 2015 require the LCR to reach 70% in 2016 and 80% in 2017. In the medium-term and long-term range, compliance with the Net Stable Funding Ratio (NSFR 100%) will be mandatory from 2018, requiring full funding of the assets side. In a separate Basel 3 project, UniCredit Bank Austria AG established the technical infrastructure to meet all reporting requirements for all relevant entities in Bank Austria. On the basis of new deposit products and the optimised structure of assets and liabilities of Bank Austria, and of the bank's holdings of high-quality liquid assets (cash and government bonds), the ratios required by law are exceeded. As at 31 December 2016, the Liquidity Coverage Ratio at Bank Austria was about 134%; in the final quarter of 2016, daily LCR levels averaged over 150%.

The new liquidity requirements have been integrated in the planning and risk monitoring process to ensure compliance with the liquidity ratios at all times. Both ratios have been defined as key indicators in the Risk Appetite.

General information, processes and management model

In line with Group standards, Bank Austria deals with liquidity risk as a central risk in banking business by introducing and monitoring short- term and long-term liquidity requirements. In this context the liquidity situation for the next few days and months and also for longer periods is analysed against a standard scenario and stress scenarios. Methods and procedures of liquidity analysis, analyses of the degree of liquidity of customer positions, management responsibilities and reporting lines in this area have been laid down in the Liquidity Policy, which includes a contingency plan in the event of a liquidity crisis.

Liquidity management in Bank Austria is an integral part of UniCredit Group liquidity management. In line with the Group-wide distribution of tasks, UniCredit Bank Austria AG as liquidity reference bank (LRB) ensures the consolidation of liquidity flows and the funding for Austrian subsidiaries. The flow of funds is thereby optimised and external funding is reduced to the necessary extent.

E – Risk report (CONTINUED)

Sluggish credit demand, high deposit volume throughout 2016 and an increase in bond holdings for liquidity purposes result in a very comfortable liquidity position of UniCredit Bank Austria AG. The demerger of CEE subsidiaries as part of the reorganisation as at 1 October 2016 further improved the liquidity ratios.

Liquidity management methods and control

In medium-term and long-term liquidity management, assets must be covered by liabilities to a minimum extent of 90%/85%/80% over a period of 1/3/5 years. This limit must be observed at Group level and at individual bank level. At individual currency level, absolute limits for cross-currency funding arrangements have been defined for each bank of the Group; these limits are largely geared to the above-mentioned liquidity ratios. At Group level, the liquidity ratio as at year-end 2016 was 1.20 (2015: 1.08) for > 1 year, 1.18 (2015: 1.07) for > 3 years and 1.27 (2015: 1.09) for > 5 years. The further improvement in the liquidity ratios is due to the demerger of CEE business.

For the purpose of short-term liquidity management, volume limits have been implemented in Bank Austria at group level and at individual bank level for maturities up to three months, which limit all Treasury transactions and the securities portfolio of the respective bank. Liquidity fluctuations resulting from customers' investment decisions have also been taken into account via a liquidity buffer. Volume limits are also established for open maturities in various currencies to keep down the risk of a need for follow-up funding in the event that foreign currency markets dry up.

These limits were essentially observed at all levels. If a limit is exceeded, this will trigger the defined escalation process and a report will be presented to the relevant risk committee.

Liquidity stress test

UniCredit Bank Austria AG performs liquidity stress tests for Bank Austria and for individual banks on a regular basis, using a standardised Group-wide instrument and standardised Group-wide scenarios. These scenarios describe the effects of market-driven or name-driven crisis signals on liquidity inflows and outflows, with assumptions also being made about the behaviour of non-banks.

The liquidity outflows expected to occur in stress situations are compared with available liquidity reserves (essentially, securities – government bonds – and credit instruments eligible as collateral at the central bank) to examine the banks' risk-taking capacity in the maturity range of up to one year.

The following table shows the composition of Bank Austria's liquidity reserve as at 31 December 2016:

BANK AUSTRIA – COMPOSITION OF LIQUIDITY RESERVE	€ MILLION
Cash and balances with central banks	2,626
Level 1 assets	18,404
Level 2 assets	123
Other assets eligible as collateral for central bank borrowings	5,332
Liquidity reserve	**26,484**

A simulated name and market crisis, with assumptions regarding deposit renewals and loan renewals by customers, increased drawdowns on credit lines, margin obligations in connection with derivatives business and rating downgrades currently give a "time-to-wall horizon" of over one year in terms of liquidity; the required minimum period is one month.

E – Risk report (CONTINUED)

Quantitative information

Banking group: breakdown by residual contractual maturity of financial assets and liabilities 2016 (€ million)

	31 DEC. 2016								
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
Assets	**8,270**	**1,733**	**697**	**8,434**	**6,888**	**3,761**	**4,076**	**25,402**	**38,830**
Government securities	–	–	–	–	402	102	719	9,441	2,956
Other debt securities	–	–	–	1	16	1,040	873	1,413	1,709
Units in investment funds	1	–	–	–	–	–	–	–	–
Loans	8,269	1,733	697	8,433	6,471	2,619	2,484	14,548	34,165
Banks	*1,208*	*1,299*	*2*	*6,059*	*4,684*	*1,634*	*858*	*1,267*	*1,271*
Customers	*7,061*	*434*	*695*	*2,374*	*1,787*	*984*	*1,626*	*13,281*	*32,894*
Liabilities	**42,680**	**881**	**301**	**1,336**	**7,881**	**1,735**	**2,232**	**19,284**	**11,893**
Deposits and current accounts	41,473	738	132	1,299	850	1,441	1,478	6,847	1,117
Banks	*1,012*	*563*	*10*	*685*	*188*	*65*	*316*	*1,252*	*888*
Customers	*40,460*	*176*	*122*	*614*	*662*	*1,376*	*1,162*	*5,594*	*229*
Debt securities	2	142	168	29	844	245	672	10,019	5,678
Other liabilities	1,205	1	1	8	6,188	49	82	2,418	5,098
Off-balance sheet transactions	**1,091**	**13**	**2**	**92**	**34**	**115**	**161**	**8,416**	**67,851**
Physically settled financial derivatives									
long positions	1,808	2,101	20	327	74	155	353	313	4
short positions	1,808	2,101	20	327	74	155	353	313	4
Cash settled financial derivatives									
long positions	184	485	135	327	237	139	194	1,500	3,765
short positions	184	485	135	327	237	139	194	1,500	3,765
Deposits to be received									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Irrevocable commitments to disburse funds									
long positions	396	118	252	252	167	397	708	7,555	3,039
short positions	229	118	252	252	167	397	708	7,555	3,039
Written guarantees	6	12	2	9	31	68	119	474	600
Financial guarantees received	918	–	–	82	4	47	42	7,943	67,251
Physically settled credit derivatives									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Cash-settled credit derivatives									
long positions	–	–	–	–	–	5	–	309	60
short positions	–	–	–	–	–	5	–	309	60

The breakdown by maturity reflects items of companies within the group of banks which are subject to regulatory supervision. This distribution is made on the basis of the period between the balance sheet date and the first following yield review date. For fixed-rate transactions the residual life is the period from the balance sheet date to final maturity. On-balance sheet items are disclosed at their carrying value. Derivatives are shown, under the double entry method, at settlement value for those with underlying securities and at the notional value for those without underlying securities; options are shown at their delta equivalent value.

E – Risk report (CONTINUED)

Breakdown by residual contractual maturity of financial assets and liabilities 2015 (€ million)

	31 DEC. 2015								
	ON DEMAND	1 TO 7 DAYS	7 TO 15 DAYS	15 DAYS TO 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
Assets	**20,102**	**4,710**	**3,132**	**5,228**	**13,099**	**7,960**	**12,634**	**52,782**	**57,524**
Government securities	–	42	4	125	349	538	1,237	11,955	7,847
Other debt securities	4	4	3	30	249	591	1,575	1,759	2,202
Units in investment funds	1	–	–	–	–	–	–	–	–
Loans	20,097	4,664	3,125	5,073	12,501	6,831	9,822	39,068	47,475
Banks	*8,682*	*3,885*	*2,070*	*1,161*	*8,038*	*2,041*	*936*	*988*	*2,156*
Customers	*11,415*	*778*	*1,056*	*3,912*	*4,463*	*4,790*	*8,886*	*38,081*	*45,319*
Liabilities	**69,809**	**1,774**	**3,661**	**4,289**	**12,586**	**9,092**	**13,647**	**32,186**	**18,051**
Deposits and current accounts	68,336	1,442	3,038	3,989	6,039	6,746	9,785	12,575	1,195
Banks	*2,552*	*140*	*705*	*138*	*145*	*85*	*623*	*1,560*	*787*
Customers	*65,784*	*1,303*	*2,332*	*3,851*	*5,893*	*6,660*	*9,162*	*11,014*	*408*
Debt securities	10	46	267	103	546	1,952	2,786	12,390	11,278
Other liabilities	1,463	285	357	197	6,001	394	1,076	7,221	5,578
Off-balance sheet transactions	**1,588**	**5**	**30**	**178**	**284**	**382**	**410**	**17,558**	**62,274**
Physically settled financial derivatives									
long positions	191	1,318	134	568	1,277	627	813	2,521	137
short positions	191	1,318	134	568	1,277	627	813	2,521	137
Cash settled financial derivatives									
long positions	246	1,624	2,150	2,202	4,423	3,313	4,655	19,384	13,268
short positions	419	1,621	2,135	2,211	4,423	3,319	4,674	19,415	13,278
Deposits to be received									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Irrevocable commitments to disburse funds									
long positions	1,602	5	30	375	610	837	3,370	8,009	5,107
short positions	1,767	5	30	209	692	820	3,336	7,991	5,107
Written guarantees	152	1	12	16	213	111	326	1,386	733
Financial guarantees received	1,774	1	3	5	153	259	68	16,186	61,551
Physically settled credit derivatives									
long positions	–	–	–	–	–	–	–	5	–
short positions	–	–	–	–	–	–	–	5	–
Cash-settled credit derivatives									
long positions	–	–	–	–	–	–	5	314	60
short positions	–	–	–	–	–	–	5	314	60

E – Risk report (CONTINUED)

Funding

Following the demerger of its subsidiaries in Central and Eastern Europe, Bank Austria focuses on various liquidity requirements stemming from Basel 3 (e.g. Liquidity Coverage Ratio), which are already taken into account in planning and liquidity management; this is reflected in initiatives taken in the Austrian market to reshape commercial funding, rebalancing its weight towards more stable longer-term funding sources. Funding provided to commercial business units in the Group takes into account relevant costs like own liquidity cost, country risk premiums and insurance cost.

The following table shows the funding structure as at 31 December 2016:

BANK AUSTRIA	31 DEC. 2016
Deposits from customers	**61%**
sight deposits	46%
savings accounts	27%
term deposits	26%
Deposits from banks	**18%**
unsecured business	77%
secured business	5%
central bank operations	6%
loro/nostro positions	10%
supranational funding	3%
Capital market funding	**21%**
unsecured issuances	45%
covered bonds	46%
subordinated bonds	9%
TOTAL PORTFOLIO	**100%**

In the 2016 financial year, Bank Austria adapted the funding structure. Capital markets played a less significant role for funding in 2016 than in 2015, a development which was also due to organisational changes.

E.4 – Market risk

Market risk management at Bank Austria encompasses all activities in connection with our Markets and Corporate Treasury Sales operations and management of the balance sheet structure in Vienna and at subsidiaries. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the committees (including MACO) designated by the Management Board. At Bank Austria, market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of all positions associated with market risk. Most of the positions held in Bank Austria are attributable to the banking book. Bank Austria uses uniform Group-wide risk management procedures for all market risk positions. These procedures provide aggregate data and

E – Risk report (CONTINUED)

make available the major risk parameters for the various risk takers once a day. These procedures provide aggregate data and make available the major risk parameters for the various risk takers once a day. Besides Value at Risk[1] (VaR), other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) limit (determined for the trading book with a separate observation period), incremental risk charge[2] (IRC) limits, the stress test warning limit (limiting losses when a pre-defined stress event is applied) and granular market risk limits[3] (GML).

As mentioned above, Bank Austria uses a standard measurement procedure which is also applied in UniCredit Group. The model, approved in 2011, is used for internal risk management and for determining regulatory capital requirements for market risk. Bank Austria is embedded in the market risk governance framework of UniCredit Group and leverages on the group-wide risk management platform UGRM. The group-wide Front-to-Back Office platform "Murex" and UGRM form an integrated risk system.

The internal model (IMOD) is based on historical simulation with a 500-day market data time window for scenario generation. It is applied by Market & Liquidity Risk within Bank Austria and is being further developed in cooperation with UniCredit. Further development includes reviewing the model as part of back-testing procedures, integrating new products, implementing requirements specified by the Management Board and the Market Risk Committee, and executing the Model Maintenance Report on a quarterly basis. For internal risk management purposes, the calculation was adjusted to the negative interest rate environment and consequently an application was submitted for approval of a major change in the model, required for determining regulatory capital.

Two aspects of market risk measurement at Bank Austria were modified in 2016. One of these modifications was classified by the regulator (ECB) as being material.

Until December 2015, interest rate scenarios for the calculation of Value at Risk in the Group-wide UniCredit market risk model were limited at 0 (flooring). Given the negative interest rate environment in several currencies (the euro in particular), the calculations did not fully correctly reflect market risk associated with changes in these currencies. The regulator classified the inclusion of negative interest rates in the VaR scenarios as material, and therefore it was possible to calculate the relevant capital requirements only after the regulator's approval (June 2016). The second modification was an adjustment to the market standard in the valuation of collateralised transactions, with a distinction being made between collateralised and uncollateralised transactions in the interest rate scenarios used. This change was not classified as material by the regulator and was used immediately in August 2016.

Other future changes in the Group-wide model relate to the incremental risk charge and the valuation of non-EUR interest rate options, whose impact on Bank Austria is regarded as being low.

Risk governance

A new product process (NPP) has been established for the introduction of new products in the area of market risk in which risk managers play a decisive role in approving products. The risk model covers all major risk categories: interest rate risk and equity risk (both general and specific), credit spread risk, currency risk and commodity position risk. The IMOD is subject to an annual review by Group Internal Validation (GIV) and internal audit. The structure of the risk performance report presented at MACO's meetings, which are held every two weeks, covers (stress) sensitivities in addition to VaR, and utilisation levels in the areas of IRC and SVaR (both for the regulatory trading books) as well as the presentation of results using the total return approach. Regular and specific stress tests complement the information provided to MACO and the Management Board.

Stress testing

Bank Austria conducts a rigorous programme of stress testing for market risk and IRC. The results are reviewed and discussed in the MACO at least quarterly or on an ad-hoc basis given unfavourable market developments. Macro scenarios show the potential adverse impacts of global developments with specific effects on the respective risk categories, while stress sensitivities of individual risk factors or groups of risk factors show the potential adverse impacts on partial market segments. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The bank analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the bank's results. These assumptions of extreme movements are dependent on currency, region, liquidity and the credit rating, and are set by Market Risk after consultation with experts in other areas of the bank (e.g. research, trading, and Market Risk UniCredit). Bank Austria takes part in the UniCredit Group-wide Open Market Risk Forum (OMRF), which is the platform for CRO units to discuss stress test results and agree on further common group-wide scenario definitions. The ICAAP scenarios are updated at least annually and are used for stress test analyses, stress test limit monitoring and the regulatory stress report throughout UniCredit Group.

1) Value at Risk (VaR) is calculated daily with a 99% quantile based on 500 P/L strips and scaled on a 10-day horizon for the regulatory RWA calculation. / 2) The incremental risk charge (IRC) maps migration and default risks for a defined time period and confidence interval (1 year, 99.9%). The scope of application includes CDSs and bond positions in the trading book. / 3) E.g. BPV or CPV limits, which describe the sensitivity to changes in interest rates or credit spreads.

E – Risk report (CONTINUED)

Fair value measurement

In addition to the IMOD results, the P/L is determined on a total return basis for both the trading and banking books and is communicated to senior management on a daily basis. The fair value measurement principles defined in IFRS 13 have been implemented. In this context the presentation of results also reflects CVAs/DVAs (Credit/Debit Valuation Adjustments) and FundVA (Funding Valuation Adjustment) for OTC derivatives. The implementation of OIS discounting in the context of valuation directly in the front office means that the OIS adjustment is no longer applicable. Reporting covers the components reflected in IFRS-based profit and the marking to market of all investment positions regardless of their recognition in the IFRS-based financial statements ("total return"). The daily P/L explanation is supported by the Intranet application "ERCONIS"; results are available to Bank Austria's trading and risk management units broken down by portfolio, income statement item and currency.

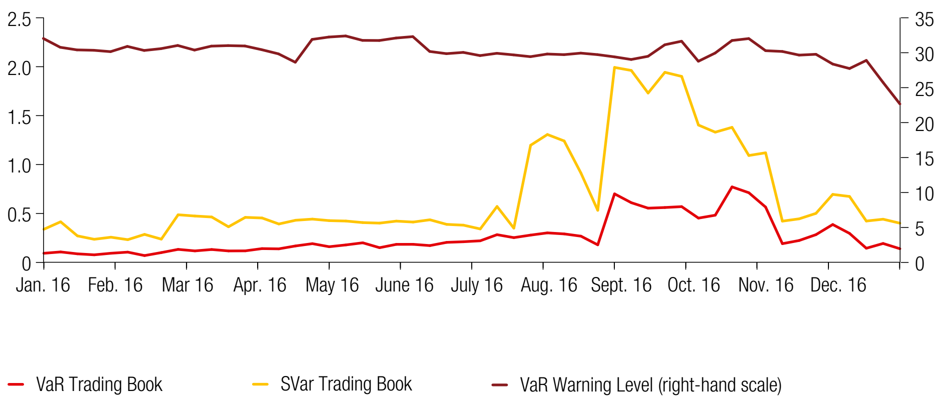
Prudent valuation

The regulatory approach to prudent valuation in the trading book is implemented primarily by Market Risk and further developed on an ongoing basis through cooperation within UniCredit Group. A Group-wide Independent Price Verification (IPV) process ensures the independence and reliability of valuation and risk measurement. The front-end system "Murex" is supplied with the "golden copy" market data of UniCredit Group for daily valuation purposes. The Group-wide "golden copy" is drawn up by competence centres which are structured by asset class and independent of trading operations. Moreover, UniCredit Bank Austria AG takes part in meetings of the asset-class committees, which address and resolve valuation and market-data issues. The regulatory principle of prudence is met by determining all relevant Additional Valuation Adjustments (AVA).

Market risk

The chart below shows the VaR for the trading book and the banking book (i. e. "warning level") in 2016 and the VaR and SVaR for the trading book.

VaR and SVaR of Bank Austria Group in 2016 (€ million)



By year-end 2016, the total VaR for the trading book and the banking book of Bank Austria (top line, "VaR – Warning Level") was about €22.7 million (year-end 2015: €82 million). The comparative VaR figure for Bank Austria's trading and banking books without CEE operations at the end of 2015 would have been about €33 million. The SVaR for the regulatory trading book (yellow line, "SVaR – Trading Book") was €0.5 million at the end of 2016 (year-end 2015: €10 million). The VaR for the trading book (light red line) amounted to €0.2 million at the end of 2016 (year-end 2015: €3 million). Credit spread risk and interest rate risk account for most of the total risk in the trading and banking books of Bank Austria. Other risk categories are less significant by comparison.

E – Risk report (CONTINUED)

As of 31 December 2016, the entire interest rate position for Bank Austria's trading book and banking book for major currencies was composed as follows:

Basis point values (BPVs) of Bank Austria, 2016

(in €) Granular Market Limits Warning Level

		AS AT 31 DECEMBER 2016						ANNUAL AVERAGE 2016, MINIMUM/MAXIMUM		
		0 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 TO 10 YEARS	OVER 10 YEARS	TOTAL	MAXIMUM	MINIMUM	ABSOLUTE AVERAGE *)
Europe	EUR	−150,306	−291,833	−753,130	−772,332	522,252	−1,445,348	−1,152,610	−1,694,965	1,419,995
	CHF	85,590	2,740	−3,311	3,988	3,427	92,434	120,124	81,053	98,368
	GBP	−1,322	285	440	1,160	−1	563	14,711	563	7,654
New EU countries	BGN	540	4,836	−1,148	−62	–	4,167	4,167	−9,068	1,747
	CZK	−3,045	1,489	3,191	−256	0	1,380	1,380	−7,953	2,772
	HUF	−326	325	−133	−846	−1	−980	10,960	−980	1,804
	PLN	−3,529	−120	−2,719	–	–	−6,367	1,604	−8,328	3,695
	RON	−844	−372	−92	31	–	−1,277	3,332	−2,518	1,455
Central and Eastern	RUB	566	−1,291	−3,868	–	–	−4,592	−115	−5,050	1,912
Europe incl. Turkey	TRY	−248	−36	−236	–	–	−520	1,373	−868	425
Overseas – highly	USD	9,816	15,243	−782	7,193	6,273	37,743	50,442	−130,417	74,564
developed countries	JPY	4,280	−1,408	1,506	−156	0	4,222	6,150	1,995	4,433
Other countries	XAU	732	–	–	–	–	732	1,679	197	853
	CNH	55	1,697	4,524	616	–	6,892	7,688	−8,241	2,525
	BPV<500	−292	306	−1	23	0	36	466	−2,086	837
TOTAL		**−58,330**	**−268,137**	**−755,759**	**−760,641**	**531,950**	**−1,310,918**	**−1,101,731**	**−1,728,871**	**1,371,323**

*) Monthly average.

Basis point values (BPVs) of Bank Austria, 2015

(in €, excluding CEE) Granular Market Limits Warning Level

		AS AT 31 DECEMBER 2015					
		0 TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 3 YEARS	3 TO 10 YEARS	OVER 10 YEARS	TOTAL
Europe	EUR	106,540	−566,534	−687,861	−949,108	294,886	−1,802,077
	CHF	75,730	19,126	−1,270	12,245	2,591	108,422
	GBP	544	554	132	1,765	177	3,172
New EU countries	BGN	−3	−8	−20	−16	–	−48
	CZK	50	−2,114	−458	−24	−3	−2,549
	HUF	248	−295	2,065	−996	−3	1,019
	PLN	−3,389	−2,112	−40	–	–	−5,541
	RON	−590	−123	−417	−52	–	−1,182
Central and Eastern	RUB	−137	−8	−3	–	–	−148
Europe incl. Turkey	TRY	62	−214	9	0	–	−144
Overseas – highly	USD	−10,822	−44,742	−15,219	−41,061	2,670	−109,175
developed countries	JPY	3,586	−101	368	1,080	0	4,933
Other countries	XAU	676	216	–	–	–	892
	CNH	0	−1	–	–	–	−1
	BPV<500	−373	−1,233	42	204	–	−1,360
TOTAL		**172,121**	**−597,590**	**−702,672**	**−975,962**	**300,317**	**−1,803,786**

E – Risk report (CONTINUED)

By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by curve and maturity band.

Credit spread basis-point values (CPVs) of Bank Austria in 2016 (excluding CEE) (in €)

CPVS IN €	SECTOR	31 DEC. 2015	31 DEC. 2016	MAXIMUM	MINIMUM	AVERAGE
Main sectors	ABSs	–166,780	–125,750	–125,750	–165,949	–147,555
	Financial	–135,433	–165,080	–165,080	–224,110	–209,153
Corporates	Basic Materials	–7,525	–1,800	–	–7,042	–4,238
	Industrial	–28,943	–28,520	–28,520	–31,397	–30,080
	Consumer Non cyclical	–5,147	–7,140	–5,395	–7,155	–6,260
	Others	–36,850	–24,830	–24,830	–38,632	–31,306
Government	Europe	–5,417,664	–4,759,360	–4,759,360	–5,656,582	–5,324,841
	Others	–86,855	–112,080	–30,464	–141,196	–75,332
TOTAL 2016		**– 5,885,198**	**– 5,224,560**	**– 5,139,399**	**– 6,272,064**	**– 5,828,765**

Measured by the total basis-point value, Bank Austria's credit spread position in 2016 without the CEE operations ranged between –€6.3 million and –€5.1 million. At the end of 2015, Bank Austria's credit spread position including the CEE operations was about €11.4 million.

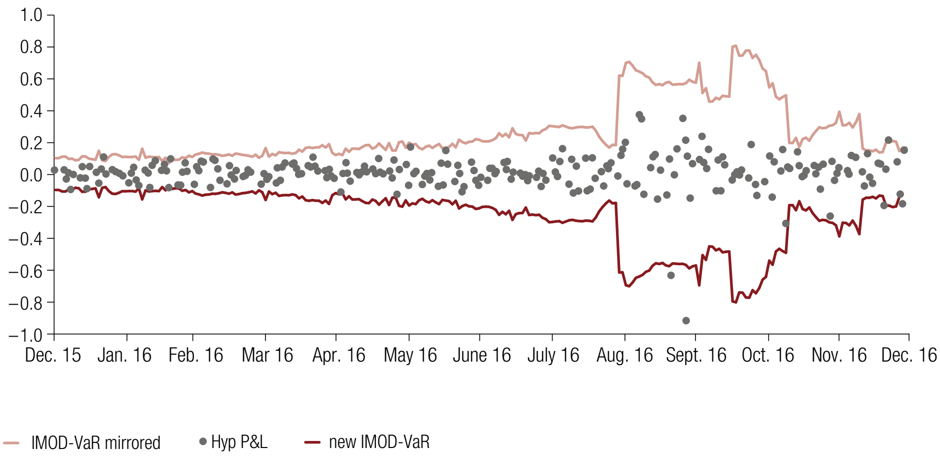
Overall, Treasury-near instruments continue to account for the largest part of the credit spread positions. The financials and corporates exposure is very low by comparison. The positions of asset-backed securities (ABSs) and mortgage-backed securities (MBSs) were further reduced in 2016, primarily through redemptions.

Backtesting

Bank Austria performs a daily backtesting of both the hypothetical and actual (i.e. economic P/L excluding fees, commissions, and net interest income) changes in the portfolio's value in accordance with Article 366 of the CRR. As at 30 December 2016, the number of backtesting overshootings (negative change in value larger than model result) for UniCredit Bank Austria AG in both P/L dimensions was lower than 5, thus the addend for the VaR multiplier for the number of overshootings is zero.

The chart below shows the hypothetical P/L backtesting time series for Bank Austria's regulatory trading book; the hypothetical P/L is based on hypothetical changes in the portfolio value assuming unchanged positions.

Backtesting time series for the regulatory trading book of Bank Austria, 2016 (€ million)



E – Risk report (CONTINUED)

Capital requirements for market risk

The parameters used for calculating capital requirements are a 10-day holding period, a confidence level of 99% and a multiplier of 3.2 set in respect of the Value-at-Risk figures which is used in determining the capital requirement for market risk.

As of 31 December 2016, the following capital requirements resulted for Bank Austria in connection with Value at Risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):
- VaR: €4.1 million
- SVaR: €7.7 million
- IRC: €0.1 million

As of 31 December 2015, the following capital requirements resulted for Bank Austria (excluding CEE units) in connection with Value at Risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):
- VaR: €9.5 million
- SVaR: €7.5 million
- IRC: €0.5 million

Management of balance sheet structure

The transfer pricing system applied throughout the Group and the application of the principle of causation enable the bank to determine contribution margins from customer transactions in the bank's business divisions. The risk committees of the bank ensure that the bank's overall liquidity and interest rate gap structure is optimised. Factors taken into account in this context include the costs of compensation for assuming interest rate risk, liquidity costs and country risk costs associated with foreign currency financing at the former CEE banking subsidiaries, which will decline further.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of maturity and interest rate sensitivity by means of analyses of historical time series, and taken into account in the banks' overall risk position.

To assess the bank's balance-sheet and profit structure, the Value-at-Risk approach is used, complemented by a scenario analysis concerning the simulation of future net interest income under different interest rate scenarios ("earnings perspective").

The low and partly negative interest rates in the Group's main currencies had a negative impact on interest margins as deposit rates were at or close to zero in many cases. Taking into account the current pricing of loans, our simulation calculations show a significant deterioration of net interest if interest rates move into negative territory as a result of further reductions.

Legal provisions require the measurement at Group level of "interest rate risk in the banking book" in relation to the bank's capital by comparing a change in the market value of the banking book after a 2% interest rate shock with the Group's net capital resources. In the event that such an interest rate shock absorbs more than 20% of a bank's net capital resources, the bank supervisory authority could require the bank to take measures to reduce risk. The revised requirements of the supervisory authorities (EBA, Basel) in regard to interest rate risk in the banking book are generally taken into account through the Group's ERMAS project. Regulatory requirements generally provide for underlying customer business to be broadened with regard to available options (especially against the background of a negative interest rate environment) and base risks while significantly expanding scenario and stress analyses to cover present-value and interest-income dimensions.

A 2% interest rate shock absorbs about 3.17% (2015: 5.22%) of the Group's net capital resources as at the end of 2016. The decrease is primarily due to the demerger of CEE business. This means that the figure for Bank Austria is far below the outlier level of 20%.

E.5 – Financial derivatives

Derivatives shown in the following tables are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different counterparties. Bank Austria's business volume in derivatives focuses on interest rate contracts.

Regulatory trading portfolio: end of period notional amounts (€ million)

	31 DEC. 2016		31 DEC. 2015	
DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Debt securities and interest rate indexes	**32,233**	**6,207**	**49,243**	**58**
Options	6,890	–	8,248	–
Swaps	24,520	5,384	40,235	–
Forward	823	823	760	–
Futures	–	–	–	58
Others	–	–	–	–
Equity instruments and stock indexes	**1,712**	**–**	**2,808**	**–**
Options	1,712	–	2,790	–
Swaps	–	–	–	–
Forward	–	–	18	–
Futures	–	–	–	–
Others	–	–	–	–
Gold and currencies	**9,868**	**–**	**34,173**	**181**
Options	1,935	–	2,588	–
Swaps	1,142	–	12,146	–
Forward	6,791	–	19,439	181
Futures	–	–	–	–
Others	–	–	–	–
Commodities	**348**	**–**	**357**	**–**
Other underlyings	**–**	**–**	**22**	**–**
TOTAL	**44,161**	**6,207**	**86,604**	**238**

Banking book: end of period notional amounts – Hedging derivatives (€ million)

	31 DEC. 2016		31 DEC. 2015	
DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Debt securities and interest rate indexes	**62,964**	**9,303**	**110,923**	**–**
Options	2,524	–	3,399	–
Swaps	60,440	9,303	107,523	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Equity instruments and stock indexes	**–**	**–**	**–**	**–**
Options	–	–	–	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Gold and currencies	**17,921**	**–**	**23,359**	**–**
Options	–	–	–	–
Swap	13,502	–	20,949	–
Forward	4,420	–	2,411	–
Futures	–	–	–	–
Others	–	–	–	–
Commodities	**–**	**–**	**–**	**–**
Other underlyings	**–**	**–**	**–**	**–**
TOTAL	**80,885**	**9,303**	**134,282**	**–**

For information on the presentation of hedging transactions see section A.5.3.3 Hedge accounting and sections B.5 and C.21.

E – Risk report (CONTINUED)

Banking book: end-of-period notional amounts – Other derivatives

(€ million)

DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	31 DEC. 2016		31 DEC. 2015	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Debt securities and interest rate indexes	**–**	**–**	**–**	**–**
Options	–	–	–	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Equity instruments and stock indexes	**–**	**–**	**130**	**–**
Options	–	–	130	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Gold and currencies	**–**	**–**	**–**	**–**
Options	–	–	–	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Commodities	**–**	**–**	**–**	**–**
Other underlyings	**–**	**–**	**–**	**–**
TOTAL	**–**	**–**	**130**	**–**

Financial derivatives – breakdown by product

(€ million)

TRANSACTION TYPES/UNDERLYINGS	31 DEC. 2016				31 DEC. 2015			
	POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE		POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE	
	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Regulatory trading portfolio	**1,095**	**16**	**1,089**	**9**	**2,804**	**3**	**2,598**	**–**
Options	154	–	127	–	227	–	188	–
Interest rate swaps	668	16	687	9	1,100	–	1,121	–
Cross currency swaps	61	–	72	–	1,187	–	1,004	–
Equity swaps	–	–	–	–	1	–	–	–
Forward	213	0	203	1	276	2	273	–
Futures	–	–	–	–	–	1	–	–
Others	–	–	–	–	13	–	13	–
Banking book – Hedging derivatives	**2,660**	**1**	**2,151**	**2**	**3,290**	**–**	**2,782**	**–**
Options	38	–	220	–	37	–	174	–
Interest rate swaps	2,528	1	1,826	2	3,076	–	2,260	–
Cross currency swaps	89	–	98	–	168	–	339	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	4	–	7	–	9	–	9	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Banking book – Other derivatives	**–**	**–**	**–**	**–**	**1**	**–**	**2**	**–**
Options	–	–	–	–	1	–	2	–
Interest rate swaps	–	–	–	–	–	–	–	–
Cross currency swaps	–	–	–	–	–	–	–	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	–	–	–	–	–	–	–	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
TOTAL	**3,755**	**17**	**3,241**	**11**	**6,095**	**3**	**5,382**	**–**

E – Risk report (CONTINUED)

OTC financial derivatives – residual life: notional amounts

(€ million)

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Regulatory trading book	**15,728**	**18,673**	**9,761**	**44,161**
Financial derivative contracts on debt securities and interest rates	7,992	15,961	8,280	32,233
Financial derivative contracts on equity securities and stock indexes	246	401	1,065	1,712
Financial derivative contracts on exchange rates and gold	7,174	2,278	416	9,868
Financial derivative contracts on other values	315	33	–	348
Banking book	**20,393**	**34,318**	**26,174**	**80,885**
Financial derivative contracts on debt securities and interest rates	14,436	26,493	22,035	62,964
Financial derivative contracts on equity securities and stock indexes	–	–	–	–
Financial derivative contracts on exchange rates and gold	5,957	7,825	4,139	17,921
Financial derivative contracts on other values	–	–	–	–
TOTAL 31 DEC. 2016	**36,121**	**52,991**	**35,935**	**125,047**

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Regulatory trading book	**33,359**	**29,207**	**24,039**	**86,604**
Financial derivative contracts on debt securities and interest rates	8,933	20,186	20,124	49,243
Financial derivative contracts on equity securities and stock indexes	378	1,435	995	2,808
Financial derivative contracts on exchange rates and gold	23,784	7,469	2,920	34,173
Financial derivative contracts on other values	263	116	–	379
Banking book	**49,300**	**48,429**	**36,684**	**134,412**
Financial derivative contracts on debt securities and interest rates	41,106	39,540	30,277	110,923
Financial derivative contracts on equity securities and stock indexes	–	–	130	130
Financial derivative contracts on exchange rates and gold	8,194	8,889	6,277	23,359
Financial derivative contracts on other values	–	–	–	–
TOTAL 31 DEC. 2015	**82,658**	**77,635**	**60,722**	**221,016**

Credit derivatives: end of period notional amounts

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	REGULATORY TRADING BOOK		BANKING BOOK		REGULATORY TRADING BOOK		BANKING BOOK	
TRANSACTION CATEGORIES	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)	WITH A SINGLE COUNTER-PARTY	WITH MORE THAN ONE COUNTER-PARTY (BASKET)
Protection buyer's contracts								
Credit default products	13	–	–	–	13	5	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
TOTAL	**13**	**–**	**–**	**–**	**13**	**5**	**–**	**–**
Protection seller's contracts								
Credit default products	362	–	–	–	362	5	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
TOTAL	**362**	**–**	**–**	**–**	**362**	**5**	**–**	**–**

E – Risk report (CONTINUED)

Credit derivatives – residual life: notional amount

(€ million)

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Regulatory trading book:	**5**	**309**	**60**	**374**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	5	309	60	374
Banking book:	**–**	**–**	**–**	**–**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	–	–	–	–
TOTAL 31 DEC. 2016	**5**	**309**	**60**	**374**

UNDERLYING/RESIDUAL MATURITY	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Regulatory trading book:	**5**	**320**	**60**	**385**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	5	320	60	385
Banking book:	**–**	**–**	**–**	**–**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	–	–	–	–
TOTAL 31 DEC. 2015	**5**	**320**	**60**	**385**

E.6 – Currency risk

Assets and liabilities in foreign currency

(€ million)

	31 DEC. 2016				31 DEC. 2015			
	USD	JPY	CHF	OTHER	USD	JPY	CHF	OTHER
Financial assets	**3,594**	**327**	**9,637**	**2,447**	**15,498**	**332**	**10,961**	**46,365**
Debt securities	8	–	–	60	462	–	–	6,763
Equity securities	–	–	–	–	–	–	–	32
Loans to banks	1,145	12	170	1,328	3,775	19	55	11,337
Loans to customers	2,436	315	9,467	1,058	11,238	313	10,867	27,065
Other financial assets	6	–	–	–	22	–	40	1,169
Other assets	**9**	**–**	**6**	**–**	**25**	**–**	**2**	**891**
Financial liabilities	**4,833**	**80**	**114**	**1,458**	**15,127**	**183**	**458**	**31,565**
Deposits from banks	1,543	1	21	871	1,889	1	41	2,882
Deposits from customers	2,302	17	92	499	12,228	15	361	26,789
Debt securities in issue	984	62	–	88	1,007	166	–	1,854
Other financial liabilities	4	–	–	–	3	–	55	39
Other liabilities	**4**	**–**	**1**	**–**	**31**	**–**	**1**	**2,831**

CHF risk

From year-end 2015 to year-end 2016, **CHF lending volume** was reduced by €2.2 billion to €9.9 billion (before loan loss provisions). About one half of the reduction resulted from the demerger of CEE subsidiaries (where CHF loans account for a comparatively low proportion of total lending volume). The other half of the reduction was achieved in the Retail Banking segment, which accounted for about 78 %, or €7.7 billion, of the total CHF lending volume.

Loan loss provisions for the performing portfolio of Austrian real estate loans in respect of exchange rate risk and coverage shortfall risk of repayment vehicles rose by €39.3 million to €273.2 million, mainly as a result of parameter adjustments. As at 31 December 2016, the provision for IBNR losses on CHF loans amounted to €32 million (31 December 2015: €28.7 million).

Other currency risks

The effects of the CEE demerger on the total CHF volume were comparatively small. USD volume, on the other hand, decreased substantially, with customer loans down by about 75 % to €2.5 billion (before loan loss provisions).

The FX translation reserve improved from –€4,797 million as at 31 December 2015 to +€1 million as at 31 December 2016. The negative amount of the previous year resulted mainly from equity interests in CEE companies, with the currencies of Russia, Ukraine and Turkey accounting for a major portion of the total amount; the CEE demerger has fully eliminated the negative amount.

E – Risk report (CONTINUED)

E.7 – Counterparty risk

Trading in derivatives at Bank Austria is primarily related to the hedging of positions entered into vis-à-vis customers.

Contracts are valued at current prices using recognised and tested models. Market values show the contract values as at the balance sheet date, positive current market values and estimated future market values indicate the potential default risk arising from the relevant activity.

For the purposes of portfolio management and risk limitation in connection with derivatives, securities lending transactions and repurchase agreements, UniCredit Bank Austria AG uses an internal counterparty risk model (IMM). The model is based on a Monte Carlo path simulation for risk management in derivatives and securities financing business with banks and customers to estimate the potential future exposure at portfolio level for each counterparty.

The counterparty risk model is used across UniCredit Group. For the purposes of regulatory capital requirements and internal risk control, the model applies an expected shortfall of 87.5 % (equals a 95 % quantile) and 3,000 scenarios with 52 gridpoints. Furthermore, the model is based on a margin period of risk harmonised on a Group-wide basis, and on the use of default conditional metrics.

The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes.

The simulation calculations are performed for all major types of transactions, e. g. forward foreign exchange transactions, commodity futures transactions, interest rate instruments, securities lending transactions and repurchase agreements, equity-related, commodity-related or inflation-related instruments and credit derivatives. Other (exotic) products are taken into account with an add-on factor (depending on volatility and maturity).

In 2016, the counterparty risk model used across UniCredit Group was extended to cover negative interest rates (with regard to the pricing functions used and scenario generation). The extended model is already applied for internal risk control. As soon as ECB approval is available, the model will additionally be activated to support negative interest rates also for the calculation of capital requirements.

Line utilisation for derivatives business is available online in the central treasury system MLC ("Murex Limit Controller"). The MLC treasury system is the central limit system used by UniCredit Bank Austria AG. In addition to current line utilisation – at customer level – resulting from derivatives and securities financing transactions, the system shows utilisation levels for money-market, issuer and settlement risk.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business through strict use of master agreements, through collateral agreements and break clauses. In combination with the very good average credit rating of our business partners, management takes proper account of default risk.

In addition to determining the potential future exposure for internal risk control purposes, the path simulation also enables the bank to calculate the average exposure and the modified average exposure (exposure at default) pursuant to Basel 3, as well as the effective maturity of the exposure and the "stressed EPE" for each counterparty. This makes it possible to include counterparty risk in a Basel 3-compliant internal model to calculate capital requirements. The regulatory exposure at default is calculated at netting-set level. A netting set is a group of transactions between the bank and a customer which is subject to a legally enforceable bilateral netting agreement.

UniCredit Bank Austria AG has implemented the requirements in the area of counterparty credit risk resulting from the publications of the Basel Committee (Basel 3) and the Capital Requirements Regulation (CRR). The regulatory requirements include the calculation of normal counterparty exposure and of stressed counterparty exposure (comparable with the stressed VaR in market risk), the capital backing for market risk in respect of credit valuation adjustments (CVA market risk) and stricter standards for collateral management and margining. The requirements to be met with regard to stress testing and backtesting in respect of counterparty credit risk have also been implemented at UniCredit Bank Austria AG. Backtesting is performed at regular intervals – at the level of individual counterparties and at overall bank level – to review the model quality on a regular basis.

E – Risk report (CONTINUED)

Moreover, in accordance with the European Market Infrastructure Regulation (EMIR), the central clearing obligation for OTC derivatives was implemented at UniCredit Bank Austria AG. UniCredit Bank Austria AG is a clearing member of the London Clearing House (LCH Clearnet) and also performs the clearing function for CEE banks of UniCredit Group. Furthermore, UniCredit Bank Austria AG clears repurchase agreements at the EUREX central counterparty.

The Group-wide IT systems are used for calculating counterparty risk arising from derivatives business , securities lending transactions and repurchase agreements, and for determining risk arising from other risk types. This ensures that exposures resulting from derivatives business as well as money-market risk, issuer risk and settlement risk are calculated centrally using the Group-wide IT systems (FRE – Full Revaluation Engine, AGE – Aggregation Engine). Moreover, country risk is calculated and reported separately for external and internal country risk.

Separate reporting on counterparty credit risk is in place with a view to informing UniCredit Bank Austria AG's Market Risk Committee (MACO) and Derivative Committee (DECO) of current exposure trends, stress testing, collateral management and wrong way risk while also providing additional information relevant to risk management.

Based on the calculation method of counterparty credit risk used in the group-wide risk systems, derivative transactions, repurchase agreements and securities lending transactions resulted in the following exposures for Bank Austria at the end of the year:

Exposure by sector (€ million)

Sector	2016	2015
Financial services sector	723	1,325
Trade and industry	677	771
Central clearing counterparties (CCP)	349	895
Real estate	306	263
Energy	94	174
Public sector	44	27
Total	**2,190**	**3,460**

Exposure by rating class (€ million)

Rating class	2016	2015
1	535	1,041
2	975	1,163
3	215	264
4	215	633
5	172	157
6	53	154
7	14	32
8	4	4
9	3	5
	8	3

E.8 – Country risk and sovereign risk

Risk associated with cross-border transactions with all customer groups is reflected in country risk ("transfer and convertibility risk"; country risk includes, for example, loans to foreign corporate customers or banks). Risk associated with the state itself (e.g. the purchase of government bonds) is reflected in sovereign risk, irrespective of whether such risk is cross-border or local risk. Both risks are assessed via a UniCredit Group-wide credit process. Country limits and sovereign limits are assessed by the responsible risk management team, approved by the relevant body having approval authority, and assigned to UniCredit subsidiaries according to business needs. In general, cross-border business is not limited for countries which are presumed less risky, e.g. the US, Japan, core EU countries; for all other countries, cross-border business is limited via the assigned country limit. Sovereign risk is in each case limited via counterparty limits. The overall bond exposure is monitored via nominal credit risk limits and market risk limits. Impairment losses are recognised, if necessary, according to international financial reporting standards.

Breakdown of sovereign debt securities by country and portfolio (€ million)

	31 DEC. 2016			31 DEC. 2015		
COUNTRY/PORTFOLIO	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Austria	**7,672**	**8,715**	**8,727**	**7,919**	**9,115**	**9,124**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	7,570	8,612	8,612	7,807	9,002	9,002
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	102	103	116	111	113	121
Spain	**2,208**	**2,373**	**2,373**	**1,358**	**1,473**	**1,473**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	2,200	2,367	2,367	1,350	1,467	1,467
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	8	6	6	8	6	6
Luxembourg	**783**	**814**	**814**	**606**	**624**	**624**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	783	814	814	606	624	624
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Italy	**750**	**903**	**903**	**750**	**918**	**918**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	750	903	903	750	918	918
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
France	**720**	**746**	**746**	**330**	**348**	**348**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	720	746	746	330	348	348
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Bulgaria	**70**	**75**	**75**	**1,173**	**1,233**	**1,233**
HFT financial assets/liabilities (net exposures)	–	–	–	5	5	5
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	70	75	75	1,164	1,223	1,223
Loans and receivables	–	–	–	4	4	5
Held-to-maturity investments	–	–	–	–	–	–

E – Risk report (CONTINUED)

COUNTRY/PORTFOLIO	31 DEC. 2016 NOMINAL VALUE	31 DEC. 2016 BOOK VALUE	31 DEC. 2016 FAIR VALUE	31 DEC. 2015 NOMINAL VALUE	31 DEC. 2015 BOOK VALUE	31 DEC. 2015 FAIR VALUE
Romania	**65**	**75**	**75**	**1,375**	**1,516**	**1,516**
HFT financial assets/liabilities (net exposures)	–	–	–	39	45	45
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	65	75	75	1,336	1,471	1,471
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Czech Republic	**30**	**36**	**36**	**1,448**	**1,633**	**1,633**
HFT financial assets/liabilities (net exposures)	–	–	–	8	9	9
Financial assets at FV through P&L	–	–	–	57	57	57
Available for sale	30	36	36	1,384	1,567	1,567
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Slovakia	**5**	**6**	**6**	**673**	**756**	**756**
HFT financial assets/liabilities (net exposures)	–	–	–	7	8	8
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	5	6	6	659	741	741
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	7	7	7
Hungary	**–**	**–**	**–**	**1,538**	**1,765**	**1,765**
HFT financial assets/liabilities (net exposures)	–	–	–	19	21	21
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	–	–	–	1,518	1,744	1,744
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Russia	**–**	**–**	**–**	**881**	**861**	**863**
HFT financial assets/liabilities (net exposures)	–	–	–	13	12	12
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	–	–	–	683	649	649
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	186	200	202
Croatia	**–**	**–**	**–**	**796**	**810**	**810**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	–	–	–	796	810	810
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Other Countries	**745**	**671**	**671**	**1,749**	**1,693**	**1,694**
HFT financial assets/liabilities (net exposures)	115	–	–	179	29	29
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	629	671	671	1,557	1,651	1,651
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	13	13	14
TOTAL	**13,047**	**14,415**	**14,427**	**20,597**	**22,745**	**22,757**

E – Risk report (CONTINUED)

Breakdown of sovereign debt securities by portfolio

(€ million)

	31 DEC. 2016					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	1	–	14,305	–	110	14,415
Total portfolio of debt securities	2	–	15,672	297	236	16,207
% Portfolio	50.00 %	0.00 %	91.28 %	0.00 %	46.51 %	88.95 %
RECAST	31 DEC. 2015					
	HELD FOR TRADING (NET EXPOSURES)	FINANCIAL ASSETS AT FAIR VALUE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	LOANS	HELD-TO-MATURITY INVESTMENTS	TOTAL
Book value of sovereign portfolio	129	57	22,216	4	339	22,745
Total portfolio of debt securities	169	57	24,572	638	484	25,919
% Portfolio	76.45 %	99.63 %	90.41 %	0.70 %	70.06 %	87.75 %

Sovereign exposures are bonds issued by and loans granted to central banks, governments and other public sector entities. ABSs are not included.

Breakdown of sovereign loans by country

(€ million)

	BOOK VALUE	
COUNTRY	31 DEC. 2016	31 DEC. 2015
Austria	4,997	5,026
Indonesia	262	322
Gabon	180	195
Ghana	102	104
Philippines	90	97
Sri Lanka	82	90
Laos	74	77
Vietnam	65	66
Honduras	59	55
Angola	57	3
Bosnia and Herzegovina	35	192
Serbia	6	318
Croatia	–	2,551
Slovenia	–	210
Other	376	708
TOTAL ON-BALANCE SHEET EXPOSURE	**6,384**	**10,016**

E – Risk report (CONTINUED)

E.9 – Operational risk

UniCredit Bank Austria AG has used the Advanced Measurement Approach (AMA) since the beginning of 2008. A revised AMA model for operational risk capital calculation, approved in July 2014 by Banca d'Italia and all local regulators of UniCredit subsidiaries using the AMA, has been used since the third quarter of 2014.

Austrian subsidiaries
Schoellerbank and UniCredit Leasing Austria GmbH apply the AMA in the area of operational risk.

Implementation of disclosure requirements pursuant to the Capital Requirements Regulation (CRR)
Within UniCredit Group, comprehensive disclosure (under the Pillar 3 disclosure requirements pursuant to the CRR) is carried out by the parent company UniCredit on its website, based on the consolidated financial position in its function as EU parent bank of Bank Austria. Bank Austria is a significant subsidiary pursuant to Article 13 of the CRR and, for the 2016 financial year, discloses information regarding its capital resources ("own funds", Article 437 of the CRR), capital requirements (Article 438 of the CRR), capital buffers (Article 440 of the CRR), credit risk adjustments (Article 442 of the CRR), remuneration policy (Article 450 of the CRR), leverage ratio (Article 451 of the CRR) and use of credit risk mitigation techniques (Article 453 of the CRR).

The disclosure by Bank Austria is available at its website www.bankaustria.at /Investor Relations/Disclosure according to Basel 2 and 3 (CRR).

Operational risk (OpRisk) is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risks – see also "E.13 – Legal risks"). For example, compensation paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud are subject to accurate and consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital to be held for operational risk is based.

Loss data are collected, and processes are optimised, in close coordination and cooperation across departments and units including Internal Audit, Compliance, Legal Affairs, ICT & Security Management and the insurance sector. Over the years, UniCredit Bank Austria AG has taken numerous measures in the various divisions to manage and reduce operational risk. Thus data security measures, measures to ensure the confidentiality and integrity of stored data, access authorisation systems, the two-signatures principle, and a large number of monitoring and control processes as well as staff training programmes have been implemented among other measures.

In line with other types of risk, UniCredit Bank Austria AG – like UniCredit Group – has built up a decentralised operational risk management framework based on representatives within divisions and at banking subsidiaries – Divisional OpRisk Managers (DORM) and OpRisk Managers – in addition to central operational risk management. While the main task of central risk management is to define the methods used and to perform risk measurement and analysis, decentralised risk managers are responsible for taking measures to reduce, prevent, or take out insurance against, risks.

Activities in 2016 focused on:
- integrating OpRisk strategy issues of 2015 and monitoring by reference to key performance indicators in the Permanent Work Group (a cross-divisional OpRisk work group which holds regular meetings);
- integrating the new approach to monitoring OpRisk exposures on the basis of Expected Loss for Operational Risk (ELOR), which replaced the OpRisk Warning Levels used in the past;
- drawing up a risk-sensitive approach to allocating the OpRisk capital requirement within the Bank Austria sub-group;
- preparing the transfer of, and transferring, organisational responsibility for the CEE banking subsidiaries to UniCredit Group;
- drawing up an approach to implementing the UniCredit Group OpRisk ICT Assessment Framework for UniCredit Bank Austria AG and providing support for the implementation at relevant Bank Austria sub-group legal entities;
- revising the KRI Monitoring Framework for more effective risk measurement.

A network of independent functions and teams are involved in managing and controlling risks, providing the Management Board with sufficient information on the risk situation and enabling the Management Board to manage risk. The analysis of the general ledger for OpRisk relevance confirmed the comprehensive and complete OpRisk data collection.

E – Risk report (CONTINUED)

The task of dealing with operational risk issues is performed by a separate Operational & Reputational Risk Committee (OpRRiCo), whose meetings are held on a quarterly basis and are attended by the Chief Risk Officer, the Head of Strategic Risk Management & Control, the Head of UniCredit Operational Risk Management, Compliance, Internal Audit and the Divisional Operational Risk Managers. The Committee is a major step towards integrating operational risk in the bank's processes; its main tasks are to report on current operational risk issues and developments, to approve operational risk-relevant documents, to report losses and serve as a body to which unresolved issues are referred.

E.10 – Reputational risk

UniCredit Group has identified reputational risk as the current or future risk of a decline in profits as a result of a negative perception of the Bank's image by customers, counterparties, shareholders, investors, employees or regulators.

A separate unit (OpRisk, RepRisk & Credit Risk Validation) within the CRO management function has been entrusted with strategic management and monitoring of reputational risk since 2012.

Reputational risk activities in 2016 focused mainly on the continuation of providing support to subsidiaries in further implementing and expanding structures, policies and training, on monitoring and reporting cases of reputational risk and trends with regard to relevant topics, and on enhancing awareness of reputational risk management through training activities within UniCredit Bank Austria AG and subsidiaries.

In 2017 activities with regard to reputational risk will focus on:
- intensifying training activities within UniCredit Bank Austria AG and for Austrian subsidiaries to enhance risk awareness and ensure the application of implemented reputational risk policies;
- continuing to monitor and report cases of reputational risk and trends with regard to relevant topics.

E.11 – Business risk

Business risk is defined as unexpected adverse changes in business volume and/or margins which cannot be attributed to other types of risk. Adverse impacts of such changes on profitability result mainly from a significant deterioration in market conditions, changes in the competitive position or customer behaviour, and from changes in the legal environment.

Business risk measurement thus measures the influence of external factors on a decline in profits and the effect on the market value.

As part of general income and cost management, operational management of business risk is the responsibility of the individual business units.

E.12 – Financial investment risk and real estate risk

In dealing with risks arising from the bank's shareholdings and equity interests, Bank Austria takes into account potential market price fluctuations in its equity holdings in listed and unlisted companies.

Not included are equity interests in consolidated subsidiaries of Bank Austria because risks associated with such companies are determined and recorded under the various other risk types. The portfolio includes various strategic investments; real estate holding companies are taken into account in real estate risk.

Financial investment risk and real estate risk are covered by a value-at-risk approach under the ICAAP.

E.13 – Legal risks

Provisions are generally made for legal proceedings where impending losses are likely or certain but the amount and timing of the losses are uncertain. In such cases, provisions are made in an amount that is deemed appropriate in light of the particular circumstances and in accordance with the applicable accounting principles, with due regard to the principle of prudence and the principle of appropriate and reliable estimate.

E – Risk report (CONTINUED)

Legal risks for which provisions have been made

In line with the above policy, provisions have been made in the amount of the estimated risk for the following pending legal proceedings and the following other proceedings. In accordance with IAS 37 information which would seriously prejudice the relevant company's position in the dispute may be omitted:

Madoff

Background

UniCredit Bank Austria AG ("Bank Austria") and certain of its affiliates and indirect subsidiaries have been sued or investigated in the wake of a Ponzi scheme perpetrated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was exposed in December 2008.

Austrian civil proceedings

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 65 with a claimed amount totaling €21.7 million plus interest remain. The claims in these proceedings are either that Bank Austria breached certain duties regarding its function as prospectus controller, or that Bank Austria improperly advised certain investors (directly or indirectly) to invest in those funds, or a combination of these claims. The Austrian Supreme Court has issued 16 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, 9 final Austrian Supreme Court decisions have been in favour of Bank Austria. In one case the Supreme Court did not accept Bank Austria's extraordinary appeal, thus rendering binding the decision of the Court of Appeal in favour of the claimant. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled five times with respect to prospectus liability, twice in favour of Bank Austria and three times in favour of the claimant. In a prospectus liability case with Primeo and Herald investments the Austrian Supreme Court ruled in favour of Bank Austria.

While we cannot predict with certainty the impact of these decisions on the remaining Herald cases, future rulings may be adverse to Bank Austria.

In respect of the Austrian civil proceedings pending as against Bank Austria related to Madoff's fraud, Bank Austria has made provisions for an amount considered appropriate to the current risk.

Austrian criminal proceedings

Bank Austria has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that Bank Austria breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund and certain tax issues. The criminal proceedings are still at the pre-trial stage. The pre-trial proceedings on the tax issues were dismissed in September 2016, since the tax authorities confirmed in a final report that all taxes had been correctly paid.

Proceedings in the United States

Claims by the SIPA Trustee

In December of 2010, the bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS filed, as one of a number of cases, a case in a United States Federal Court against several dozen defendants, including HSBC, UniCredit S.p.A., Bank Austria and certain of its affiliates (the "HSBC" case).

In the HSBC case, the SIPA Trustee sought to recover several billion dollars for common law claims and avoidance claims (also known as "claw back" claims). The common law claims were dismissed in 2011 and no further appeals from that decision are pending. In 2015, the SIPA Trustee voluntarily dismissed with prejudice the avoidance claims made in the HSBC case against UniCredit S.p.A and the Alternative Investments Division of Pioneer ("PAI") and without prejudice against Bank Austria, all following certain settlements, not involving UniCredit S.p.A., PAI and Bank Austria, which the SIPA Trustee regarded as having satisfied such claims. The avoidance claims against BA Worldwide Fund Management Ltd ("BAWFM"), an indirect subsidiary of Bank Austria remain pending. They are currently subject to a request that they be dismissed because the relevant provisions of United States law do not apply extra-territorially. Certain current or formerly affiliated persons named as defendants in the HSBC case may have rights to indemnification from UniCredit S.p.A. and its affiliated entities.

E – Risk report (CONTINUED)

Claim by SPV OSUS Ltd.
Bank Austria and certain of its affiliates – UniCredit S.p.A., BAWFM, PAI – have been named as defendants, together with approximately 40 other defendants, in a lawsuit filed in the Supreme Court of the State of New York, County of New York, on December 12, 2014, by SPV OSUS Ltd. The complaint asserts common law based claims in connection with the Madoff Ponzi scheme, principally that defendants aided and abetted and/or knowingly participated in Madoff's scheme. The case is brought on behalf of investors in BLMIS and claims damages in an unspecified amount. The action filed by SPV OSUS Ltd. is in the initial stages.

Certain potential consequences
In addition to the foregoing proceedings and investigations stemming from the Madoff case against UniCredit Bank Austria AG, its affiliates and some of their respective employees and former employees, additional Madoff-related proceedings may be filed in the future in the United States, Austria or elsewhere. Such potential future proceedings could be filed against UniCredit Bank Austria AG, its affiliates, their respective employees and former employees. The pending or possible future actions may have negative consequences for UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its affiliates intend to defend themselves vigorously against the Madoff-related claims and charges. Save as described above, for the time being it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Alpine Holding GmbH
Alpine Holding GmbH (a limited liability company) issued a bond in every year from 2010 to 2012. In the years 2010 and 2011, UniCredit Bank Austria AG acted as Joint Lead Manager, each year together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings began. Numerous bondholders then started to send letters to the banks involved in the issuance of the bonds, specifying their demands. At least as far as UniCredit Bank Austria AG is concerned, bondholders substantiated their claims mainly by referring to prospectus liability of the Joint Lead Managers and only in a minority of cases also to bad investment advice by the banks which sold the bonds to their customers. At this time, civil proceedings including three class actions filed by the Federal Chamber of Labour (with the claimed amount totalling about €20.5 million) have been initiated by investors in which UniCredit Bank Austria AG, among other banks, has been named as defendant. The key aspect is prospectus liability. These civil proceedings are mainly pending in the first instance. No final decisions have been issued so far against UniCredit Bank Austria AG. In addition to the foregoing proceedings against UniCredit Bank Austria AG stemming from the Alpine insolvency, additional Alpine-related actions have been threatened and may be filed in the future. The pending or future actions may have negative consequences for UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to defend itself vigorously against these claims. At this stage, it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Austrian criminal proceedings
Several involved persons have been named as defendants in criminal proceedings in Austria which concern the Alpine bankruptcy case. UniCredit Bank Austria AG has joined these proceedings as private party. Unknown responsible persons of the issuing banks involved are formally also investigated by the public prosecutor's office. The criminal proceedings are at the pre-trial stage.

Financial sanctions matters
Recently, violations of US sanctions and certain US dollar payment practices have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control ("OFAC"), the US Department of Justice ("DOJ"), the District Attorney for New York County ("DANY"), the US Federal Reserve ("Fed") and the New York Department of Financial Services ("DFS"), depending on the individual circumstances of each case.

UniCredit Bank Austria AG has initiated a voluntary investigation of its historic compliance with applicable U.S. financial sanctions and has identified certain historic non-transparent practices. It is possible that investigations into past compliance practices may be extended to one or more of our subsidiaries and/or affiliates. The scope, duration and outcome of any such review or investigation will depend on facts and circumstances specific to each individual case. UniCredit Bank Austria AG is updating its regulators as appropriate and remediation activities are ongoing. Although we cannot at this time determine the form, extent or the timing of any resolution with any relevant authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could lead to liquidity outflows and could potentially negatively affect the net assets and net results of UniCredit Bank Austria AG and one or more of its subsidiaries in any particular period.

E – Risk report (CONTINUED)

Legal risks for which provisions have not yet been made

In line with the above policy, no provision has been made for the following pending legal proceedings. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

Valauret S.A.

In 2001, the plaintiffs, Valauret S.A. and Hughes de Lasteyrie du Saillant, bought shares in the French company Rhodia S.A. The plaintiffs argue that they suffered losses as a result of the drop in Rhodia share prices between 2002 and 2003, allegedly caused by previous fraudulent actions by members of the company's board of directors, which made the financial statements untruthful and misleading.

In 2004, the plaintiffs filed a petition claiming damages against the board of directors, the external auditors, and Aventis S.A. (the alleged majority shareholder of Rhodia S.A.). Subsequently, they extended their claim to other parties, amounting to a total of 14 defendants, including UniCredit Bank Austria AG, against which a petition was filed at the end of 2007, as successor entity of Creditanstalt AG. The plaintiffs argue that the latter was involved in the aforementioned alleged fraudulent activities, as it was the credit institution of one of the companies involved in said activities. Valauret S.A. is seeking damages of €129.8 million in addition to legal costs and Hughes de Lasteyrie du Saillant is seeking damages of €4.39 million.

In UniCredit Bank Austria AG's opinion, the claim that Creditanstalt AG was involved in fraudulent activities is without grounds. In 2006, prior to UniCredit Bank Austria AG being included as a defendant, the civil proceedings were suspended following the opening of criminal proceedings. In December 2008, the Commercial Court of Paris suspended the civil proceedings against UniCredit Bank Austria AG as well.

Negative interest rates

After the Swiss National Bank (SNB) surprisingly discontinued the Swiss franc's link to the euro in the middle of January 2015, the variable indicator (e.g. CHF Libor 1M) in some existing loan agreements became negative. As long as the negative indicator does not exceed the margin, the method used by Bank Austria for charging interest for existing loan agreements with no other specific stipulation will not change. This means that the rate of interest payable by the customer may be lower than the margin in such cases (example: indicator minus 0.5% and margin 1.2% = debit interest rate 0.7%). If the calculated debit interest rate becomes negative, however, Bank Austria will not apply that rate but a debit interest rate of 0.00001% – in line with Bank Austria's legal view that the borrower is in each case required to pay interest at a minimum rate. The borrower will therefore pay interest at the above-mentioned minimum rate even if the negative indicator exceeds the margin (example: indicator minus 1.3% and margin 1.2% = debit interest rate applied is 0.00001%, not minus 0.1%). The Austrian Association for Consumer Information (Verein für Konsumenteninformation – VKI) has filed a class action against this practice. On 30 September 2015 a negative decision was rendered by the Commercial Court in Vienna against Bank Austria. According to this decision Bank Austria would have to pay out negative interest (in FX loans) to consumers. Bank Austria has appealed against this decision. On 23 December 2015, a positive decision was rendered by the Regional Appeal Court of Vienna in favour of Bank Austria, dismissing the suit of VKI for lack of standing without addressing the merits of the case. This decision is not legally binding and a ruling of the Austrian Supreme Court (Oberster Gerichtshof) on the merits of the case is still to be expected.

UniCredit Bank Austria AG has started to provide for an interest rate floor in new loan agreements without also stipulating a cap. In September 2016 the VKI filed a second class action against this practice with regard to all kinds of variable indicators (CHF Libor and EURIBOR). UniCredit Bank Austria AG has objected to this claim and filed a statement of defence. The judgement of the court of first instance was served in January 2017. The court ruled in favour of the plaintiff, taking the view that, in case an interest rate floor is provided for, also an "adequate" cap has to be set, without, however, giving any further explanation as to how such cap should be determined. UniCredit Bank Austria AG has filed an appeal against this decision.

Initiation of administrative penalty proceedings referring to Anti Money Laundering

During an on-site visit in 2014, the FMA identified four weaknesses regarding UniCredit Bank Austria AG's strategies and procedures for combating money laundering and financing of terrorism. Regarding two of those weaknesses, the FMA initiated proceedings accusing UniCredit Bank Austria AG of not having in place adequate strategies and procedures until the respective remedial actions were closed. If the FMA concludes that UniCredit Bank Austria AG has violated applicable regulations, UniCredit Bank Austria AG would have to pay a fine in accordance with Section 99d of the Austrian Banking Act (Bankwesengesetz – BWG). It cannot currently be predicted whether UniCredit Bank Austria AG will be sanctioned by the FMA in this case and, if a sanction is indeed imposed, how high the fine will be. Also, UniCredit Bank Austria AG could take legal action if such a fine is imposed.

E – Risk report (CONTINUED)

E.14 – Information on the squeeze-out pursuant to the Austrian Federal Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) of the holders of bearer shares in UniCredit Bank Austria AG

The company's Annual General Meeting on 3 May 2007 adopted a resolution concerning the planned squeeze-out. The legal actions for rescission and declaration of nullity brought against various resolutions adopted at the Annual General Meeting on 3 May 2007 were terminated in spring 2008. The squeeze-out was entered in the Register of Firms on 21 May 2008. After that date, former minority shareholders initiated proceedings for a review of the cash compensation offered by UniCredit. An expert has been appointed in these proceedings to review the amount of the cash compensation paid; the expert report is now available and essentially confirms the adequacy of the cash compensation paid in connection with the squeeze-out. A decision by the court of first instance in this case is not yet available.

E.15 – Report on key features of the internal control and risk management systems in relation to the financial reporting process

The Management Board is responsible for establishing and designing internal control and risk management systems which meet the company's requirements in relation to the financial reporting process.

The objective of the internal control system is to assist management in assuring internal controls in relation to financial reporting which are effective and are improved on an ongoing basis. The system is geared to complying with rules and regulations and creating conditions which are conducive to performing specific controls in key accounting processes.

Following the integration of the Bank Austria Group in UniCredit Group, the Italian Savings Law, Section 262 (detailed descriptions of processes, risk and control for minimising risk in preparing financial statements) in particular, must be complied with in addition to the existing internal control system.

Pursuant to the "262 Savings Law", the CEO and the CFO are liable, under civil and criminal law, for any violation of the legal provisions. They are also responsible for subsidiaries defined by UniCredit S. p. A. within the group of consolidated companies.

Internal Audit performs independent and regular reviews of compliance with legal provisions and internal rules also in the area of accounting. The Head of Internal Audit reports directly to the Management Board and provides the Chairman of the Supervisory Board with quarterly reports.

Control environment

The basic aspect of the control environment is the corporate culture in which management and all employees operate. UniCredit S. p. A., the parent company of UniCredit Bank Austria AG, works to maintain effective communication and convey the corporate values defined in the Integrity Charter. The Integrity Charter embodies the UniCredit Group's identity and is based on the following shared values: fairness, transparency, respect, reciprocity, freedom to act, and trust.

The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

All accounting entries are made within the guidelines established in the Accounting Policy, and release follows defined instruction and control criteria. Appropriate processes have been implemented and are reviewed by Internal Audit.

E – Risk report (CONTINUED)

Risk assessment

In the course of the "262 Savings Law" project, the persons having process responsibility identified risks in relation to the financial reporting process and described them in detail using the method defined by UniCredit S.p.A. These risks are monitored on an ongoing basis and checked for up-to-dateness at least on a half-yearly basis. The focus is on those risks which are typically considered to be material.

To meet the "262 Savings Law" requirements, controls pursuant to the methodology used by UniCredit S.p.A. are required to be performed at least on a half-yearly basis (for full-year and half-year reporting). Such control evidence must be kept on file for 10 years by the person having process responsibility. Any controls that do not meet the relevant criteria are identified under this method and reported to management together with a proposal for a solution.

Controls

All controls are applied in the current business process to ensure that potential errors or deviations in financial reporting are prevented or detected and corrected. Controls range from a management review of results for the various periods to specific reconciliation of accounts and the analysis of continuous accounting processes.

The levels of hierarchy are designed so that an activity and the control of that activity is not performed by the same person (four-eyes principle). In the course of the preparation of financial reports, the general ledger accounts are reconciled with business and front-end systems.

IT security controls are a cornerstone of the internal control system. Defined IT controls are documented under "262 Savings Law" and audited by external auditors pursuant to "International Standards for Assurance Engagements" (ISAE) No. 3402.

Information and communication

Management regularly updates rules and regulations for financial reporting and communicates them to all employees concerned.

Moreover, regular discussions on financial reporting and on the rules and regulations applicable in this context take place in various bodies and are repeatedly communicated to UniCredit Bank Austria AG. Employees in Financial Accounting receive regular training in new methods of international financial reporting in order to identify risks of unintended misreporting at an early stage.

To perform monitoring and control functions with a view to proper financial accounting and reporting, extensive financial information is made available at key levels of the bank. Relevant information is not only provided to the Supervisory Board and the Management Board, middle management levels also receive detailed reports.

Monitoring

As part of the implementation of the internal control system pursuant to the "262 Savings Law", instruments were introduced to monitor the effectiveness of controls. In connection with the compulsory half-yearly certification process for the preparation of the management report, the persons having process responsibility are required to carry out tests to check the up-to-dateness of descriptions and the effectiveness of controls. It must be ascertained whether the controls work according to their design and whether the persons who perform controls have the competence/authority and qualifications required to perform the controls effectively.

All persons having process responsibility confirm by means of certification that their processes are adequately documented, risks have been identified and controls have been evaluated with a view to deriving measures to minimise risk.

The Management Board of UniCredit Bank Austria AG receives the certifications of UniCredit Bank Austria AG and of the subsidiaries defined by UniCredit S.p.A. within the group of consolidated companies, in the form of a consolidated management report on a half-yearly basis, and provides UniCredit S.p.A. and the public with confirmation of the reliability and effectiveness of the internal control system pursuant to the "262 Savings Law" in the context of the financial statements for the first six months and the annual financial statements.

F – Additional disclosures

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F – Additional disclosures (CONTINUED)

F.1 – Supervisory Board and Management Board

The following persons were members of the Management Board of UniCredit Bank Austria AG in 2016:
Chairman and Chief Executive Officer: Robert ZADRAZIL (from 1 March 2016), Willibald CERNKO (until 29 February 2016)
Deputy Chairman: Romeo COLLINA (from 1 October 2016), Carlo VIVALDI (until 30 September 2016)
Members: Helmut BERNKOPF (until 31 March 2016), Romeo COLLINA (from 1 March 2016 to 30 September 2016), Mirko D. BIANCHI (until 30 September 2016), Dieter HENGL, Gregor HOFSTÄTTER-POBST (from 1 October 2016), Jürgen KULLNIGG, Doris TOMANEK, Robert ZADRAZIL (until 29 February 2016)

The following persons were members of the Supervisory Board of UniCredit Bank Austria AG in 2016:
Chairman: Erich HAMPEL
Deputy Chairman: Ranieri De MARCHIS (from 7 November 2016), Paolo FIORENTINO (until 30 September 2016)
Members: Mirko D. BIANCHI (from 8 November 2016), Alessandro DECIO (until 31 March 2016), Massimiliano FOSSATI (from 5 August 2016), Olivier Nessime KHAYAT, Alfredo MEOCCI, Marina NATALE, Vittorio OGLIENGO (until 7 November 2016), Gianni Franco PAPA (from 15 January 2016), Karl SAMSTAG, Eveline STEINBERGER-KERN, Ernst THEIMER, Adolf LEHNER, Michaela VRZAL (until 22 September 2016), Barbara WIEDERNIG, Alfred FÜRLER, Mario PRAMENDORFER (from 23 September 2016), Barbara TITZE (from 20 May 2016), Robert TRAUNWIESER (until 19 May 2016), Wolfgang TRUMLER

As at 31 December 2016, there were the following interlocking relationships with UniCredit S.p.A.:
- Five members of the Supervisory Board of UniCredit Bank Austria AG were members of the Executive Management Committee of UniCredit.
- One member of the Management Board of UniCredit Bank Austria AG was a member of the Executive Management Committee of UniCredit.

F.2 – Related party disclosures

Related party disclosures as at 31 December 2016 (€ million)

	PARENT COMPANY	UNCONSOLIDATED SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT OF ENTITY OR ITS PARENT	OTHER RELATED PARTIES	TOTAL
Loans and advances	7,079	8,703	839	114	3	87	16,826
Equity instruments	–	–	–	–	–	–	–
Other receivables	–	68	0	–	–	–	68
TOTAL ASSETS	**7,079**	**8,771**	**839**	**114**	**3**	**87**	**16,894**
Deposits	767	1,981	6,250	7	9	64	9,077
Other financial liabilities	–	177	–	–	–	–	177
Other liabilities	10	13	2	–	–	–	25
TOTAL LIABILITIES	**777**	**2,171**	**6,251**	**7**	**9**	**64**	**9,278**
Guarantees issued by the group	205	551	13	–	–	0	771
Guarantees received by the group	1,408	151	–	–	–	–	1,558

F – Additional disclosures (CONTINUED)

Related party disclosures as at 31 December 2015 (€ million)

	PARENT COMPANY	UNCONSOLIDATED SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT OF ENTITY OR ITS PARENT	OTHER RELATED PARTIES	TOTAL
Loans and advances	3,523	3,681	1,249	2,052	4	340	10,929
Equity instruments	–	154	7	–	–	–	161
Other receivables	15	3,650	3	1	–	–	3,669
TOTAL ASSETS	**3,539**	**7,485**	**1,259**	**2,052**	**4**	**340**	**14,759**
Deposits	7,764	1,730	8,665	14	16	282	18,471
Other financial liabilities	184	3,882	8	19	–	0	4,093
Other liabilities	54	15	0	0	–	0	69
TOTAL LIABILITIES	**8,003**	**5,626**	**8,673**	**33**	**16**	**283**	**22,633**
Guarantees issued by the group	231	569	9	153	–	44	1,006
Guarantees received by the group	3,198	399	–	494	–	18	4,112

F.2.1 – Information on members of the Management Board, the Supervisory Board and the Employees' Council of UniCredit Bank Austria AG

F.2.1.1 – Emoluments of members of the Management Board and the Supervisory Board

The emoluments paid by UniCredit Bank Austria AG to Management Board members in the 2016 financial year (excluding payments into pension funds) totalled €2,357,373.62 (comparable emoluments in 2015 totalled €3,065 thousand). Of this total, €1,571,499.26 (2015: €2,306 thousand) related to fixed salary components and €785,874.36 (2015: €759 thousand) were variable salary components. Moreover, a provision was made for variable remuneration for 2015 (subject to malus) in the amount of €1,045,333.00, which may be paid in subsequent years pursuant to the same legal provisions governing compensation. Several members of the Management Board receive their emoluments from companies which are not included in the group of consolidated companies of Bank Austria. These emoluments granted to Management Board members for activities in UniCredit Bank Austria AG and in subsidiaries in the 2016 financial year amounted to €3,296,493.14 (2015: €4,079 thousand) and are partly (2016: €776,833.17; 2015: €1,057 thousand) charged to UniCredit Bank Austria AG. These Management Board members also received emoluments for activities which are not connected with the Bank Austria Group but are in the interest of UniCredit Group.

Payments to former members of the Management Board and their surviving dependants (excluding payments into pension funds) totalled €8,008,877.58. (Of this total, €4,565,502.80 was paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,627,319.61 was paid to former Management Board members of Österreichische Länderbank AG, which merged with Zentralsparkasse in 1991, and their surviving dependants.) The comparative figure for 2015 was €8,773 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €10,383.64 (2015: €4 thousand).

The emoluments of the Supervisory Board members active in the 2016 business year totalled €306,158.62 (2015: €330 thousand) for UniCredit Bank Austria AG, and €1,180.00 (2015: €2 thousand) for the two credit associations.

F.2.1.2 – Loans to members of the Management Board and of the Supervisory Board

Loans to members of the Management Board amounted to €331,680.67 (2015: €406 thousand), utilised overdraft facilities were €33,595.46 (2015: €41 thousand). Repayments during the business year totalled €33,944.68 (2015: €40 thousand).

Loans to members of the Supervisory Board amounted to €953,976.64 (2015: €622 thousand). Overdraft facilities utilised by Supervisory Board members totalled €37,002.74 (2015: €65 thousand). Repayments during the business year totalled €63,146.01 (2015: €54 thousand).

Loans to the Supervisory Board include those made to members of the Employees' Council who are members of the Supervisory Board. The maturities of the loans range from five to thirty years. The rate of interest payable on these loans is the rate charged to employees of UniCredit Bank Austria AG.

F – Additional disclosures (CONTINUED)

F.2.2 – Related party disclosures

In order to ensure full compliance with legislative and regulatory provisions currently in effect as regards disclosure of transactions with related parties, UniCredit has adopted procedures for identifying related-party transactions designed to ensure that appropriate information is provided to enable compliance with the obligations of the Directors of UniCredit, as a listed company and the parent company of the Group.

Transactions carried out within the Group and/or generally with Austrian and foreign related parties are executed as a rule on an arm's length basis, on the same terms and conditions as those applied to transactions entered into with independent third parties. The same principle applies to services rendered.

Pursuant to IAS 24, Bank Austria's related parties include:
- companies belonging to UniCredit Group and companies controlled by UniCredit but not consolidated;
- associates and joint ventures;
- UniCredit's "key management personnel";
- close family members of key management personnel and companies controlled (or jointly controlled) by key management personnel or their close family members;
- Group employee post-employment benefit plans.

Information on the share capital and exercise of special rights

As at 31 December 2016, the subscribed capital of UniCredit Bank Austria AG amounted to €1,681,033,521.40, all of which was represented by registered ordinary shares.

As at 31 December 2016, UniCredit S.p.A. held a direct interest of 99.996% in UniCredit Bank Austria AG.

The registered shares with restricted transferability which are held by "Privatstiftung zur Verwaltung von Anteilsrechten (AVZ Stiftung)", a private foundation under Austrian law, and by "Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG Region Wien (Betriebsratsfonds)", the Employees' Council Fund of the Employees' Council of Employees of UniCredit Bank Austria AG in the Vienna region, have a long tradition and carry special rights based on historical developments: for specific resolutions to be adopted at a general meeting of shareholders, the holders of registered shares with restricted transferability have to be present when the resolutions are adopted. The relevant resolutions are specified in Article 20 (13) and (14) of UniCredit Bank Austria AG's Articles of Association.

Restated Bank of the Regions Agreement (ReBoRA)

The "Restated Bank of the Regions Agreement" is a syndicate agreement concluded between UniCredit, "AV-Z Stiftung" and "Betriebsratsfonds". In the ReBORA, "AV-Z Stiftung" and "Betriebsratsfonds" have given an undertaking to UniCredit to the effect that if they want to sell UniCredit Bank Austria AG shares, they will first offer such shares held by them to UniCredit. If UniCredit does not accept the offer, the relevant contracting party could sell the UniCredit Bank Austria AG shares to a third party. In this case UniCredit has a right of preemption.

Under this agreement concluded in 2006, "AV-Z Stiftung" had the right, until 31 March 2016, to nominate two members of the Supervisory Board of UniCredit Bank Austria AG. Thereafter it can nominate one member of the Supervisory Board for the duration of the guarantee issued by "AV-Z Stiftung" and the Municipality of Vienna.

Transfer of CEE business

In connection with the transfer of CEE business, UniCredit S.p.A. has given certain undertakings in favour of UniCredit Bank Austria AG with regard to the future business activities and capital structure of UniCredit Bank Austria AG; the majority of the obligations on the part of UniCredit S.p.A. will end at the end of June 2024.

There are no compensation agreements between UniCredit Bank Austria AG and members of its Management Board and Supervisory Board or its employees in the case of a public takeover offer.

Cooperation agreement

In the course of the integration of HVB (now UniCredit Bank AG) into the UniCredit group of companies, HVB has been assigned the role of centre of competence for markets and investment banking for the entire corporate group. Among other things, UniCredit Bank AG acts as counterparty for derivative transactions conducted by UniCredit companies in this role. For the most part, this involves hedge derivatives that are externalised on the market via UniCredit Bank AG. UniCredit Bank Austria AG and UniCredit Bank AG signed a corresponding cooperation agreement for 10 years in 2010.

F – Additional disclosures (CONTINUED)

F.2.3 – Other information on related party relationships

Under Section 92 (9) of the Austrian Banking Act, "Privatstiftung zur Verwaltung von Anteilsrechten" ("AV-Z Stiftung", a private foundation under Austrian law) serves as deficiency guarantor for all liabilities of UniCredit Bank Austria AG in the event of the company's insolvency. The board of trustees of the private foundation has ten members. These included two members of the Supervisory Board of UniCredit Bank Austria AG.

After the change in the legal form of Anteilsverwaltung-Zentralsparkasse into a private foundation ("AV-Z Stiftung") in 2001, the Municipality of Vienna serves as deficiency guarantor for all outstanding liabilities, and obligations to pay future benefits, of UniCredit Bank Austria AG (then Bank Austria Aktiengesellschaft) which were entered into prior to and including 31 December 2001.

F.3 – Share-based payments

Description of payment agreements based on own equity instruments

Outstanding instruments

Group Medium & Long Term Incentive Plans for selected employees include equity-settled share-based payments in the following categories:

- **Stock Options** allocated to selected Top & Senior Managers and Key Talents of the Group;
- **Group Executive Incentive System** that offers to eligible Group Executives a variable remuneration for which payment will be made within five years. The beneficiary will receive the payment by cash and/or by Unicredit shares; the payments are related to the achievement of performance conditions (other than marked conditions) stated in the Plan Rules;
- **Group Executive Incentive System (Bonus Pool)** that offers to eligible Group Executives and relevant employees identified following regulatory rules, a bonus structure composed of upfront (following the moment of performance evaluation) and deferred payments in cash and in shares, to be paid over a period of ranging from 1 to 6 years (first year upfront and 4 or 5 years deferred). This payment structure will guarantee the alignment with shareholder interests and will be subject to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and Country/Division level) and clawback conditions (as legally enforceable) as defined in Plan Rules (both non-market vesting conditions);
- **Employee Share Ownership Plan (ESOP – Let's Share)** that offers to eligible Group employees the possibility to buy UniCredit ordinary shares with the following advantage: granting of free ordinary shares ("Free Shares" or rights to receive them) measured on the basis of the shares purchased by each Participant ("Investment Shares") during the "Enrolment Period". The granting of free ordinary shares is subordinated to vesting conditions (other than market conditions) stated in the Plan Rules.

It is also noted that, according to Banca d'Italia Circular 285 (VII update dated 19 November 2014), the equity-settled share-based payments, represented by deferred payments in UniCredit ordinary shares not subject to vesting conditions, are used for the settlement of the golden parachute (e.g. severance) for the relevant employees.

Measurement model

Stock Options

The Hull and White Evaluation Model has been adopted to measure the economic value of Stock Options.
This model is based on a trinomial tree price distribution using the Boyle's algorithm and estimates the early exercise probability on the basis of a deterministic model connected to:

- reaching a Market Share Value equals to an exercise price-multiple (M);
- probability of beneficiaries' early exit (E) after the end of the vesting period.

Economic and equity effects will be recognised on the basis of the instruments' vesting period.

No new Stock Options were issued to Management Board members during 2016; members of the Management Board did not exercise Stock Options. The Stock Options of Management Board members in 2011 reflected a portion of the bonus for 2011 with deferred payment (payment in 2012 and subsequent years). The Plan was evaluated in 2016. All rights have lapsed.

F – Additional disclosures (CONTINUED)

Stock Options – Management Board members

	YEAR IN WHICH STOCK OPTIONS WERE GRANTED *)	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANSFERABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2016 IN EUR 2)
Management Board	2004	10,500	1,882	4.018	22.42	03 Sept. 2008	9 years	1)	No	10,479
Management Board	2005	129,000	23,119	4.817	26.88	25 Nov. 2009	9 years	1)	No	136,069
Management Board	2006	126,100	22,600	5.951	33.21	28 June 2010	9 years	1)	No	160,021
Management Board	2007	175,414	31,438	7.094	39.58	13 July 2011	6 years	1)	No	233,160
Management Board	2008	769,709	137,947	4.185	23.35	25 June 2012	6 years	1)	No	504,313
Management Board	2009	–	–	0	0.00	–	–	–	–	–
Management Board	2010	–	–	1.807	11.90	31 July 2014	–	–	–	–
Management Board	2011	–	–	4.01	4.01	01 July 2016	6 years	1)	–	–
Management Board	2012	–	–	0	0.00	–	–	–	–	–
Management Board	2013	–	–	0	0.00	–	–	–	–	–
Management Board	2014	–	–	0	0.00	–	–	–	–	–
Management Board	2015	–	–	0	0.00	–	–	–	–	–
Management Board	2016	–	–	0	0.00	–	–	–	–	–
Total Management Board	**2004–2016**	**1,210,723**	**216,986**	**–**	**–**	**–**	**–**	**–**	**–**	**1,044,043**

No new Stock Options were issued to executives and other employees in the years from 2011 to 2016; no Stock Options were exercised.

Stock Options – executives and other employees

	YEAR IN WHICH STOCK OPTIONS WERE GRANTED *)	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANSFERABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2016 IN EUR 2)
Executives	2007	639,648	114,433	7.094	39.58	13 July 2011	6 years	1)	No	850,220
Executives	2008	1,504,195	269,100	4.185	23.35	25 June 2012	6 years	1)	No	985,549
Total Executives	**2007–2008**	**2,143,843**	**383,534**	**–**	**–**	**–**	**–**	**–**	**–**	**1,835,769**
Other employees	2007	231,495	41,414	7.094	39.58	13 July 2011	6 years	1)	No	307,703
Other employees	2008	451,947	80,853	4.185	23.35	25 June 2012	6 years	1)	No	296,116
Total other employees	**2007–2008**	**683,442**	**122,268**	**–**	**–**	**–**	**–**	-	**–**	**603,819**
Total Stock Options	**2004–2008**	**4,038,008**	**722,787**	**–**	**–**	**–**	**–**	**–**	**–**	**3,483,630**

1) Stock Options are restricted to the beneficiary's name and cannot be sold, assigned, pledged or transferred in any way. In the event of the beneficiary's death, claims under Stock Options may be transferred in full or in part to the beneficiary's heirs.
2) The estimated value of the Long Term Incentive Plans (LTIP) was determined on the basis of fair value as at 31 December 2016:

YEAR	FAIR VALUE STOCK OPTION	FAIR VALUE PERFORMANCE SHARE
LTIP 2004	0.998	–
LTIP 2005	1.0548	–
LTIP 2006	1.269	*Plan expired*
LTIP 2007	1.3292	*Plan expired*
LTIP 2008	0.6552	*Plan expired*
LITP 2010 (2011–2013)	*Rights lapsed*	*Rights lapsed*
LITP 2011 (2012–2015)	*Rights lapsed*	*Rights lapsed*

*) Date of resolution passed by the Group's Board of Directors

F – Additional disclosures (CONTINUED)

Group Executive Incentive System

The amount of the incentive is determined on a basis of the achievement of quantitative and qualitative goals stated by the plan. In particular, the overall evaluation of the employee's relevant manager expresses as a percentage, from a minimum of 0% to a maximum of 150% (non-market vesting conditions).

This percentage, adjusted by the application of a risk/opportunity factor – Group Gate – at first payment multiplied by the Bonus Opportunity, determines the effective amount that will be paid to the beneficiary.

Economic and net equity effects will be accrued on the basis of the instruments' vesting period.

Group Executive Incentive System (Bonus Pool)

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

Economic and net equity effects will be accrued on the basis of the instruments' vesting period.

Group Executive Incentive System "Bonus Pool 2015" – Shares

The economic value of Performance Shares is measured considering the share market price at the grant date less the present value of the future dividends during the vesting period.

The plan is divided into clusters, each of which can have two or three instalments of share-based payments spread over a period defined according to Plan rules.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM – BONUS POOL 2015			
	INSTALMENT (2018)	INSTALMENT (2019)	INSTALMENT (2020)	INSTALMENT (2021)
Date of Bonus Opportunity Economic Value granting (Grant Date)	21 January 2015	21 January 2015	21 January 2015	21 January 2015
Date of Board resolution (to determine number of shares)	15 March 2016	15 March 2016	15 March 2016	15 March 2016
Vesting Period start-date	1 January 2015	1 January 2015	1 January 2015	1 January 2015
Vesting Period end-date	31 December 2015	31 December 2017	31 December 2018	31 December 2019
UniCredit Share market price (€)	3.411	3.411	3.411	3.411
Economic value of vesting conditions (€)	−0.261	−0.492	−0.814	−1.175
Performance Shares' fair value per unit at the grant date (€) *)	**3.150**	**2.919**	**2.597**	**2.236**

*) The same fair value per unit is used for the quantification of costs connected to share-based payments for the settlement of the golden parachute.

Group Executive Incentive System 2016 (Bonus Pool)

New Group Incentive system 2016 is based on a bonus pool approach, aligned with regulatory requirements and market practices, it defines:
- sustainability, through direct link with entity results and alignment with relevant risk categories, utilising specific indicators linked to risk appetite;
- link between bonuses and organisation structure, defining the pool on a country/division level with further review at Group level;
- bonuses allocated to Executives and other relevant employees, on the basis of European Bank Authority (EBA) rules and local regulations;
- payment structure has been defined in accordance with regulatory provisions qualified by Directive 2013/36/EU (CRD IV) and will be distributed in a period of six years by using a mix of shares and cash.

All profit-or-loss and net equity effects related to the plan will be booked during the vesting period.

Employee Share Ownership Plan (Let's Share for 2016)

The following table shows the measurements and parameters used in relation to Free Shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2015.

F – Additional disclosures (CONTINUED)

Measurement of Free Shares ESOP for 2016

	FREE SHARES
Date of Free Shares delivery to Group employees	29 July 2016
Vesting Period start-date	29 July 2016
Vesting Period end-date	29 July 2017
Discount Shares' fair value per unit (€)	2.058

All profit-or-loss and net equity effects related to free shares will be booked during the vesting period (except adjustments, according to Plan Rules, that will be booked during the next closing after the vesting period).

The Let's Share for 2016 Plan provides for the use of shares to be purchased on the market. To that end, Participants give a mandate to a broker to purchase the shares to be transferred into an account opened in their name.

Other information

UniCredit Group Employee Share Ownership Plan 2016 ("Let's Share for 2017")

In April 2016 the Ordinary Shareholders' Meeting approved the "UniCredit Group Employee Share Ownership Plan 2016" ("Let's Share for 2017") that offers to eligible Group employees the opportunity to purchase UniCredit ordinary shares at favourable conditions in order to reinforce employees' sense of belonging and commitment to achieve the corporate goals.

With reference to Let's Share for 2017, according to UniCredit discretionary evaluation, there may be two main election windows:
1st election window: by the end of the second quarter of 2017;
2nd election window: by the end of the fourth quarter of 2017.

Let's Share for 2017 envisages the following elements:
- during the "Enrolment Period", which will be communicated to the Participants in due time, they can buy UniCredit ordinary shares ("Investment Shares") by means of monthly or one-off contributions taken from their current account;
- at the first month of the Enrolment Period, each Participant will receive, in the form of shares ("Free Shares"), a discount equal to 25% of shares purchased; the Free Shares will be locked up for one year ("Holding Period"). The Participant will lose the entitlement to the Free Share if, during the Holding Period, he/she will no longer be an employee of a UniCredit Group Company unless the employment has been terminated for one of the specific reasons stated in the Rules of the Plan. In some countries, for fiscal reasons, it will not be possible to grant the Free Shares at the beginning of the Enrolment Period: in that case an alternative structure is offered that provides to the Participants of those countries the right to receive the Free Shares at the end of the Holding Period ("Alternative Structure");
- during the "Holding Period", the Participants can sell the Investment Shares purchased at any moment, but they will lose the corresponding Free Shares (or rights to receive them).

The Free Shares are qualified as "Equity-Settled Share-based Payments" as Participants will receive UniCredit equity Instruments as consideration for the services rendered to the legal entity where they are employed. The fair value will be measured at the beginning of Enrolment Period according to the price paid by Participants to acquire the first instalment of the Investment Shares on the market.

All profit-or-loss and net equity effects related to Let's Share for 2017 will be booked during the Holding Period.

Let's Share for 2017 did not have any effect on the 2016 consolidated financial statements.

Effects on profit or loss

All share-based payments granted after 7 November 2002 whose vesting period ends after 1 January 2005 are included within the scope of the IFRS 2.

F – Additional disclosures (CONTINUED)

Financial statement presentation related to share-based payments (€ thousand)

	2016	2015
Costs/revenues	**−2,874**	**−5,965**
connected to equity-settled plans	−2,874	−5,965
connected to cash-settled plans	–	–
Debts for cash-settled plans	**–**	**–**

F.4 – Employees

In 2016 and 2015, the Bank Austria Group employed the following average numbers of staff (full-time equivalents):

Employees

	2016	2015
Salaried staff	28,052	35,783
Other employees	–	32
TOTAL*)	**28,052**	**35,815**
of which: in Austria	*6,773*	*7,198*
of which: abroad	*21,279*	*28,617*

*) Average full-time equivalents of staff employed in the Bank Austria Group, excluding employees on unpaid sabbatical or maternity/paternity leave.

The decline in the number of employees is due to the transfer of CEE operations. As at 31 December 2016, staff employed by Bank Austria totalled 6,347 FTEs.

F.5 – Auditors' fees

(pursuant to Section 238 (1) 18 and Section 251 (1) of the Austrian Business Code)

The following table shows the fees charged by the auditors of the consolidated financial statements for the 2016 financial year in the following categories:

Auditors' fees (€ thousand)

	2016	2015
Fees for the audit of the financial statements and the consolidated financial statements	**5,149**	**5,453**
Deloitte Austria	3,671	4,187
Austrian Savings Bank Auditing Association	1,478	1,266
Other services involving the issuance of a report	**1,879**	**631**
Deloitte Austria	1,833	625
Austrian Savings Bank Auditing Association	46	6
Tax consulting services	**2**	**113**
Deloitte Austria	2	113
Austrian Savings Bank Auditing Association	–	–
Other services	**1,148**	**1,422**
Deloitte Austria	23	341
Austrian Savings Bank Auditing Association	1,125	1,081
TOTAL	**8,177**	**7,619**

F – Additional disclosures (CONTINUED)

F.6 – Geographical distribution

Disclosures pursuant to Section 64 no. 18 of the Austrian Banking Act ("country-by-country reporting")

Section 64 no. 18 of the Austrian Banking Act requires disclosure of specific information on a country-by-country basis. Information on the country in which each of our subsidiaries in the Group has its registered office is given in section A.9. In addition, the following information is required to be given on a consolidated basis, broken down by country:

COUNTRY	NET INTEREST INCOME (€ million)	OPERATING INCOME (€ million)	TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS (€ million)	TAX EXPENSE (INCOME) RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS (€ million)	EMPLOYEES (FTE)
Austria	954	1,718	–355	–57	6,244
Hungary	7	7	4	–1	37
Slovakia	1	4	0	0	39
Poland	0	4	–3	0	27
Other countries	–1	1	–1	0	0
TOTAL	**962**	**1,734**	**–354**	**–58**	**6,347**

The Bank Austria Group received the following subsidies from public sector entities:

UniCredit Bank Austria AG, Austria

The Municipality of Vienna serves as deficiency guarantor for the following items in the statement of financial position under a guarantee totalling €5,708 million:

Items in the statement of financial position (€ million)

	31 DEC. 2016	31 DEC. 2015
Deposits from banks	310	367
Deposits from customers	476	540
Debt securities in issue	1,666	1,814
of which: subordinated	*1,648*	*1,784*
Other liabilities	134	60
Provisions for post-retirement benefit obligations	3,122	2,766
Total	**5,708**	**5,548**

F – Additional disclosures (CONTINUED)

F.7 – Effects of netting agreements on the statement of financial position

Assets and liabilities subject to accounting offsetting or under master netting agreements and similar ones (€ millon)

	31 DEC. 2016					
	GROSS AMOUNTS OF FINANCIAL ASSETS	FINANCIAL LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION: FINANCIAL INSTRUMENTS	RELATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION: CASH COLLATERAL RECEIVED	NET AMOUNTS
Assets						
1) Derivatives	3,631	–	3,631	–3,587	–45	–
2) Repos	7,812	–	7,812	–	–	7,812
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2016	**11,443**	**–**	**11,443**	**–3,587**	**–45**	**7,812**
Liabilities						
1) Derivatives	3,142	–	3,142	–2,686	–457	–
2) Repos	425	–	425	–425	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2016	**3,567**	**–**	**3,567**	**–3,478**	**–457**	**–368**

	31 DEC. 2015					
	GROSS AMOUNTS OF FINANCIAL ASSETS	FINANCIAL LIABILITIES OFFSET IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION: FINANCIAL INSTRUMENTS	RELATED AMOUNTS NOT NETTED IN THE STATEMENT OF FINANCIAL POSITION: CASH COLLATERAL RECEIVED	NET AMOUNTS
Assets						
1) Derivatives	5,298	–	5,298	–4,043	–448	806
2) Repos	5,718	–	5,718	–227	–	5,491
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2015	**11,016**	**–**	**11,016**	**–4,271**	**–448**	**6,297**
Liabilities						
1) Derivatives	4,730	–	4,730	–4,036	–218	476
2) Repos	215	–	215	–215	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2015	**4,946**	**–**	**4,946**	**–4,251**	**–218**	**476**

The above table shows the potential netting of derivatives (recognised financial assets and liabilities) which are subject to an enforceable ISDA Master Netting Agreement and Cash Settlement Agreement, which cannot be offset in the statement of financial position and for which the entity currently has the right, legally enforceable, to offset the recognised amounts in case of insolvency or termination.

F – Additional disclosures (CONTINUED)

F.8 – Assets pledged as security

Assets used to guarantee own liabilities and commitments

(€ million)

	31 DEC. 2016	31 DEC. 2015
Financial instruments held for trading	–	–
Financial instruments designated at fair value	–	–
Financial instruments available for sale	5,622	7,095
Financial instruments held to maturity	51	214
Loans and receivables with banks	1,237	1,060
Loans and receivables with customers	26,317	29,249
Property. plant and equipment	–	–
TOTAL	**33,227**	**37,618**

F.9 – Transfer of financial assets

In the ordinary course of business, the Group enters into transactions that result in the transfer of financial assets, primarily debt and equity securities and loans and advances to customers. The transferred financial assets continue either to be recognised in their entirety, or are derecognised in their entirety.

The Group transfers financial assets primarily through the following transactions:
- Sale and repurchase of securities
- Securitisation activities in which loans and advances to customers or investment securities are transferred to special-purpose entities or to investors in the notes issued by special-purpose entities. Every special-purpose entity is assessed in order to evaluate whether consolidation is required in accordance with IFRS 10.

Other transactions:
Assets include loans and receivables as well as securities which are collateral for the bank's own liabilities and are not derecognised. The bank's own liabilities for which such collateral was provided primarily include cover pools of public-sector covered bonds and mortgage bonds, and for funded UniCredit Bank Austria bonds, funding transactions with the European Central Bank and other collateral arrangements.

F – Additional disclosures (CONTINUED)

Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

(€ million)

	31 DEC. 2016										
	FINANCIAL ASSETS HELD FOR TRADING		AVAILABLE-FOR-SALE FINANCIAL ASSETS		HELD-TO-MATURITY INVESTMENTS		LOANS AND RECEIVABLES WITH BANKS		LOANS AND RECEIVABLES WITH CUSTOMERS		
TYPE/PORTFOLIOS	A	B	A	B	A	B	A	B	A	B	TOTAL
Balance-sheet assets	**–**	**–**	**592**	**–**	**–**	**–**	**–**	**–**	**241**	**–**	**833**
Debt securities	–	–	592	–	–	–	–	–	–	–	592
Loans and receivables	–	–	–	–	–	–	–	–	241	–	241
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Associated financial liabilities	**–**	**–**	**561**	**–**	**–**	**–**	**–**	**–**	**231**	**–**	**792**
Deposits from customers	–	–	136	–	–	–	–	–	231	–	367
Deposits from banks	–	–	425	–	–	–	–	–	–	–	425
Debt securities in issue	–	–	–	–	–	–	–	–	–	–	–
TOTAL 31 DEC. 2016	**–**	**–**	**31**	**–**	**–**	**–**	**–**	**–**	**10**	**–**	**41**
	31 DEC. 2015										
	FINANCIAL ASSETS HELD FOR TRADING		AVAILABLE-FOR-SALE FINANCIAL ASSETS		HELD-TO-MATURITY INVESTMENTS		LOANS AND RECEIVABLES WITH BANKS		LOANS AND RECEIVABLES WITH CUSTOMERS		
TYPE/PORTFOLIOS	A	B	A	B	A	B	A	B	A	B	TOTAL
Balance-sheet assets	**54**	**–**	**739**	**–**	**–**	**–**	**–**	**–**	**724**	**–**	**1,517**
Debt securities	54	–	739	–	–	–	–	–	–	–	793
Loans and receivables	–	–	–	–	–	–	–	–	724	–	724
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Associated financial liabilities	**54**	**–**	**655**	**–**	**–**	**–**	**–**	**–**	**330**	**–**	**1,039**
Deposits from customers	54	–	235	–	–	–	–	–	–	–	289
Deposits from banks	–	–	420	–	–	–	–	–	101	–	521
Debt securities in issue	–	–	–	–	–	–	–	–	230	–	230
TOTAL 31 DEC. 2015	**–0**	**–**	**84**	**–**	**–**	**–**	**–**	**–**	**394**	**–**	**478**

A= Financial assets sold and fully recognised
B= Financial assets sold and partially recognised

The carrying amounts are equal to the fair values.

F – Additional disclosures (CONTINUED)

F.10 – Subordinated assets / liabilities

(€ million)

	31 DEC. 2016	31 DEC. 2015
Financial assets held for trading	–	1
Financial assets designated at fair value	–	–
Available-for-sale financial assets	39	38
Held to maturity investments	–	–
Loans and receivables with banks	254	1,129
Loans and receivables with customers	240	255
Non-current assets and disposal groups classified as held for sale	–	–
Subordinated assets	**533**	**1,423**
Deposits from banks	–	–
Deposits from customers	96	98
Debt securities in issue	1,928	5,057
Liabilities included in disposal groups classified as held for sale	–	93
Subordinated liabilities	**2,024**	**5,247**

The total amount of expenses for subordinated liabilities in 2016 was €176 million (2015: €208 million).

F.11 – Trust assets and trust liabilities

(€ million)

	31 DEC. 2016	31 DEC. 2015
Loans and receivables with banks	1,943	1
Loans and receivables with customers	318	674
Equity securities and other variable-yield securities	–	7,646
Debt securities	–	18,990
Other assets	30	1,140
TRUST ASSETS	**2,292**	**28,452**
Deposits from banks	105	8,765
Deposits from customers	214	19,427
Debt securities in issue	1,935	–
Other liabilities	38	259
TRUST LIABILITIES	**2,292**	**28,452**

F.12 – Guarantees given and commitments

(€ million)

	31 DEC. 2016	31 DEC. 2015
Financial guarantees given to:	**1,327**	**4,610**
Banks	186	1,093
Customers	1,141	3,517
Commercial guarantees given to:	**7,972**	**13,196**
Banks	2,672	4,355
Customers	5,300	8,841
Other irrevocable commitments to disburse funds	**12,875**	**19,942**
Banks	850	1,343
Usage certain	*850*	*1,287*
Usage uncertain	–	*56*
Customers	12,025	18,599
Usage certain	*11,922*	*14,985*
Usage uncertain	*103*	*3,614*
Underlying obligations for credit derivatives: sales of protection	**–**	**–**
Assets used to guarantee others' obligations	**0**	**10**
Other commitments	**17**	**1,015**
TOTAL	**22,191**	**38,773**

F – Additional disclosures (CONTINUED)

F.13 – Return on assets

Disclosure pursuant to Section 64 (1) 19 of the Austrian Banking Act

	2016	2015
Net profit in € million	729	1,232
Total assets in € million	105,785	193,638
Return on assets	0.69 %	0.64 %

F.14 – Consolidated capital resources and regulatory capital requirements

Capital management

Bank Austria, as part of UniCredit Group, places a high priority on capital management and capital allocation. The Bank's capital management strategy is characterised by a strong commitment to maintaining a sound capital base; the strategy is based on a risk-oriented and earnings-oriented allocation of capital to achieve the highest possible shareholder value.

At present, Bank Austria's internal capital is set at a level that will cover adverse events with a probability of 99.90 % (confidence interval).

At the same time regulatory capital ratio targets (Common Equity Tier 1 and capital adequacy ratio) are set so as to be consistent with regulatory expectations and the Risk Appetite Framework defined by the bank.

Capital management activities form a major part of the Group's planning and budgeting process as well as within ICAAP processes. Bank Austria is regularly monitoring capital evolution and regulatory trends at country level and at Group level.

Capital management activities comprise:
- planning and budgeting processes:
  – proposals as to risk propensity, development and capitalisation objectives
  – analysis of RWA development and changes in the regulatory framework
  – proposals for the financial plan and an appropriate dividend policy (MDA)
- monitoring processes
  – analysis and monitoring of limits for Pillar 1 and Pillar 2
  – analysis and monitoring of the capital ratios of the Bank Austria Group

Capital is managed dynamically which means that Bank Austria prepares the financial plan, monitors capital ratios for regulatory purposes on an ongoing basis and anticipates the appropriate steps required to achieve the goals set.

Capital requirements

The capital requirements pursuant to the Capital Requirements Regulation comprise requirements resulting from credit risk, all types of risk in the trading book, commodities risk and foreign-exchange risk outside the trading book, operational risk and the CVA risk.

Regulatory developments – Basel 3 / CRD IV. CRR

The final Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) for the implementation of Basel 3 in the European Union were published in the EU Official Journal on 27 June 2013. The new legal framework replaces Capital Requirements Directives 2006/48/EC and 2006/49/EC and came into force in Austria on 1 January 2014.

After the framework is fully implemented (2019), Basel 3 will consist of stricter requirements for regulatory capital with a minimum of Common Equity Tier 1 Capital of 4.5 % of RWA, Total Tier 1 Capital of 6 % and Total Capital of 8 %.

F – Additional disclosures (CONTINUED)

In addition, all banks will be required to hold a capital conservation buffer consisting of Common Equity Tier 1 Capital of 2.5 % on top of the new minimum requirements. This will lead to an effective minimum capital requirement of 7 % Common Equity Tier 1 Capital, 8.5 % Tier 1 Capital and 10.5 % Total Capital.

Furthermore, Member States can set a buffer requirement to dampen excess lending growth (counter-cyclical buffer up to 2.5 %). The Austrian Capital Buffer Regulation (Kapitalpuffer-Verordnung – KP-V) of December 2015 set the counter-cyclical capital buffer for major loan exposures in Austria at 0 % from 1 January 2016. In addition, the authorities can set systemic risk buffers (SRB) and capital surcharges for systemically important banks. Under the KP-V, the SRB is currently set at 2 % from 2019. A transitional rule provides for a step-by-step increase (2016: 0.25 %, 2017: 0.5 %, 2018: 1 % and 2019: 2 %). If an authority imposes the systemic risk buffer and the systemic bank surcharge is applicable, the higher of the two will apply.

Development of the Bank Austria Group's capital resources

In 2016, the total capital ratio increased compared with the previous year, as against both the actual figure as at 31 December 2015 and the pro-forma figure determined on the basis of the CEE demerger. This was mainly due to the shareholder contribution of €1 billion made by the parent company in August 2016. This means that Bank Austria has a sound capital base to meet the capital requirements pursuant to Article 92 of the CRR in conjunction with Article 129 ff of CRD IV (capital requirements, Pillar I). No Tier 2 capital was issued in 2016.

Consolidated capital resources (€ million)

	31 DEC. 2016	31 DEC. 2015
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681
Reserves (incl. profit) and minority interests	6,139	13,602
Adjustments to Common Equity Tier 1	–1,578	–878
Transitional adjustments to Common Equity Tier 1*)	157	–244
Common Equity Tier 1 (CET1)	**6,398**	**14,162**
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	119	90
Adjustments to Additional Tier 1	0	0
Transitional adjustments to Additional Tier 1*)	–119	–90
Additional Tier 1 (AT1)	**0**	**0**
Tier 1 capital (T1=CET1+AT1)	**6,398**	**14,162**
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	1,106	4,897
Adjustments to Tier 2 capital	46	158
Transitional adjustments to Tier 2 capital*)	–167	–146
Tier 2 capital (T2)	**986**	**4,909**
Total regulatory capital (TC=T1+T2)	**7,383**	**19,070**

*) according to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 Dec. 2013

Total risk exposure amount (€ million)

	31 DEC. 2016	31 DEC. 2015
a) Credit risk pursuant to standardised approach	10,862	69,241
b) Credit risk pursuant to internal ratings-based (IRB) approach	20,557	43,920
c) Other (contribution to default fund of a central counterparty [CCP])	2	3
Credit risk	31,421	113,164
Position. foreign exchange and commodity risk	147	3,974
Operational risk	3,852	10,716
Risk positions for credit value adjustments (CVA)	27	405
TOTAL RISK EXPOSURE AMOUNT	**35,446**	**128,259**

Capital ratios

	31 DEC. 2016	31 DEC. 2015
Common Equity Tier 1 ratio*)	18.0 %	11.0 %
Tier 1 ratio*)	18.0 %	11.0 %
Total capital ratio*)	20.8 %	14.9 %

*) based on all risks

F – Additional disclosures (CONTINUED)

By deviation from IFRS 11, the Yapı Kredi sub-group companies were included on a proportionate basis in the calculation of consolidated capital resources and consolidated capital requirements for the comparative period 2015. On account of the CEE demerger, these companies are no longer relevant for 2016.

The calculation of consolidated regulatory capital and consolidated regulatory capital requirements as at 31 December 2016 is based, in conformity with the CRR, on International Financial Reporting Standards (IFRS).

F.15 – Trading book

Information pursuant to Section 64 (1) 15 of the Austrian Banking Act

(€ million)

	2016	2015
Securities (carrying amount)	6	5
Derivatives (notional amount)	46,449	43,266

F.16 – Events after the reporting period

There are no major events after the reporting period.

Concluding Remarks of the Management Board

of UniCredit Bank Austria AG

The Management Board of UniCredit Bank Austria AG has prepared the consolidated financial statements for the financial year beginning on 1 January 2016 and ending on 31 December 2016 in accordance with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union. The management report of the Group was prepared in accordance with the Austrian Business Code and is consistent with the consolidated financial statements.

The consolidated financial statements and the management report of the Group contain all required disclosures; in particular, events of special significance which occurred after the end of the financial year, and other major circumstances that are significant for the future development of the Group have been appropriately explained.

Vienna, 24 February 2017

Robert Zadrazil
CEO Commercial & Private Banking, Support Services
(Chief Executive Officer)

Romeo Collina
COO Chief Operating Officer
(Deputy CEO)

Dieter Hengl
Corporate & Investment Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Resources

Report of the Auditors

Auditors’ report

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of UniCredit Bank Austria AG, Vienna (the Company), and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under section 245a UGB and the Austrian Banking Act.

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of UniCredit Bank Austria AG in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Representation and Valuation of Restructuring Measures (see Notes to the Consolidated Financial Statements, C.25 and C.26)

Description and issue

The already undertaken and further planned restructuring measures of UniCredit Bank Austria AG, as well as other adjustments to the Multi Year Plan 2016–2019 of UniCredit S.p.A have led to the building of restructuring provisions particularly for staff measures in 2015 and 2016.

The restructuring provisions for staff measures from last year together with those accumulated during 2016 have been largely used in 2016. Therefore, as of 31 December 2016 the restructuring provisions amounted to EUR 49.5 mn, while liabilities for staff measures amounted to EUR 545.3 mn.

The staff measures include various agreements resp. offers for the termination of the employment contracts. The calculation of the remaining provision amount is based on numerous assumptions.

Due to their significance for the financial statements, the complexity of calculations and the underlying assumptions we identified the restructuring provisions and the usage of last year’s restructuring provisions for staff measures as a key audit matter.

Our response

We critically examined the management`s assumptions and estimations for the major parameters regarding the restructuring provisions, based on UniCredit Bank Austria AG’s past experience regarding staff measures.

We identified and examined the key processes, controls and calculation models, which were the basis for the calculation of the restructuring provisions, the accounting for the provisions’ usage and the calculation of the liabilities.

We examined the adequacy of the information contained in the notes to the consolidated financial statements.

Valuation of Associated Companies (see Notes to the Consolidated Financial Statements, A.5.4 and B.15)

Description and issue

UniCredit Bank Austria AG holds shares amounting to 49.15% in Oesterreichische Kontrollbank, 27.17% in Oberbank AG, 29.78% in

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Report of the Auditors (CONTINUED)

BKS Bank AG and 47.38 % in Bank für Tirol und Vorarlberg AG (BTV AG). The shares in these companies are disclosed under the balance sheet item "Shares in Associated Companies and Joint Ventures", they are accounted for using the equity methods and their carrying amount before impairments as of 31 December 2016 was EUR 1,793.8 mn. The market value of the exchange-listed companies Oberbank AG, BKS Bank AG and BTV AG was clearly below the sum of book values per 31 December 2016. The earnings of Oesterreichischen Kontrollbank AG are declining. Both of the above represent impairment indicators.

For assessing the value of the participations the bank performs Value in Use calculations, which are disclosed in the Notes to the Consolidated Financial Statements. The expected distributable amounts are of considerable discretionary nature and represent the best estimates of UniCredit Bank Austria AG's Management. Minor modifications to these assumptions or to the computed discount rate can lead to significant deviations in the results.

Based on the impairment tests for 31 December 2016, UniCredit Bank Austria AG impaired its shares in BTV AG by EUR 46.0 mn and its shares in Oesterreichische Kontrollbank AG by EUR 13.7 mn.

Due to the sensitivity of the valuation model and the considerable discretionary nature of the assumptions we identified the valuation of the affiliated companies as a key audit matter.

Our response

The adequacy of the valuation model and of the applied discount rate was examined based on the IAS 36 requirements and on current capital market data. Additionally, sensitivity analyses regarding valuation results were conducted and checks regarding the mathematical correctness of the calculations were performed.

We critically examined the assumptions made and the estimations for the major parameters regarding the calculations and furthermore compared the assumptions with past performance and planning precision. The used figures were discussed with management and responsible employees and tested for plausibility based on internal and external forecasts.

Impairment of loans and advances (see Notes to the Consolidated Financial Statements, E.2)

Description and Issue

To account for the risk of losses in credit portfolios, risk provisions are built in the form of impairment allowances for loans and advances. At 31 December 2016, gross loans and advances (to customers and credit institutions) before impairments amounted to EUR 83,852.2 mn, against which loan impairment provisions of EUR 2,163.8 mn were recorded.

UniCredit Bank Austria AG uses different methods to determine the amount of impairment provisions, depending on the credit quality and volume of the respective receivables (see the notes to the consolidated financial statements, E.2).

As the calculation of impairment allowances for loans and advances – whether derived on an individual- or portfolio basis – represents an estimation, which is substantially determined by the identification of impairment events, the estimation of expected cash-flows resp. the calculation of parameters depicting the latter, we identified the amount of impairment allowances of loans and advances as a key audit matter.

Our response

To assess the adequacy of impairments, we reviewed the key processes and models in credit risk management, as well as a sample of loans. We identified and tested key controls in the credit process, especially in the ongoing monitoring and in the early warning process of potentially non-performing borrowers. We examined the internal control system for the correct application of rating models and collateral valuation.

We examined the bank's internal control system for assessing the reliability of the implemented models for the determination of collective provisions (backtesting, ongoing monitoring and regular validation of models and parameters; re-estimation and if necessary recalibration based on updated time series, discussion in relevant committees) regarding design and implementation. We regularly analyzed the risk committees' protocols regarding possible impacts on the consolidated financial statements, retraced the provided analyses on backtesting and reestimations and critically assessed the performed IT- and model validations. Our credit risk specialists examined the reliability of the estimations of material regulatory models that are also used for collective provisioning, based on fundamental model characteristics.

We examined the adequacy of individual provisions based on a sample of test cases. Apart from the adherence to internal guidelines referring to rating, collateral assignment and –valuation, we examined whether major impairment events were identified. For this, we tested loans and advances that had not been identified by management as defaulted to form our own assessment as to whether events with major impact on the repayment capability of the borrower had occurred. For non-performing loans we critically assessed the estimated cash flows that are expected from redemptions and collateral, and retraced the present value calculation.

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Report of the Auditors (CONTINUED)

Representation and Valuation of legal risks (see Notes to the Consolidated Financial Statements, E.13)

Description and issue
UniCredit Bank Austria AG is exposed to various legal risks, which can have material impacts on the bank's financial statements, such as litigation costs or compensation claims. Moreover, such costs can also arise as a consequence of supervisory and regulatory audits or investigations due to administrative prosecutions. On the one hand, there is an inherent risk that these risks are not recognized and accounted for in the financial statement in a timely manner, while on the other hand the valuation of these risks are an estimation by management which allows for a considerable amount of discretion.

UniCredit Bank Austria AG builds provisions for those proceedings for which it is possible to make reliable predictions of the outcome or of the potential losses. For these cases provisions are built in such an amount that is deemed appropriate by UniCredit Bank Austria AG, based on the given circumstances and in accordance with accounting principles. Issues with a potentially material impact, for which no provisions for compensation claims or penalties were recorded at the reporting date, besides the legal risks provisions, are described in the Notes.

As legal risks can have a material impact on the consolidated financial statements and as their valuation relies on management judgments which are of a considerable discretionary nature, we identified them as a key audit matter.

Our response
We assessed the processes related to the identification of legal risks and the building of provisions and evaluated the effectiveness of the identified key controls.

We discussed the underlying assumptions and estimations for the largest provisions with management and responsible employees and have critically assessed them. Moreover, we critically questioned cases for which no provisions were built.

We requested external confirmation from lawyers for major open legal cases and, based on these, we critically assessed the Board's assessment.

We have examined the reports and correspondence with Supervisory Authorities, Internal Audit reports and the reports of the Complaints Office in order to detect indications of other possible legal risks.

We critically assessed the Notes to the Consolidated Financial Statements, as to whether the risks and the assumptions and estimations of UniCredit Bank Austria AG are disclosed in a sufficiently clear and objective way, and if they contain information about all essential legal risks that were identified.

Other Information

Management is responsible for the other information. The other information contain all information in the annual report but does not include the consolidated financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements under section 245a UGB and the Austrian Banking Act, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Report of the Auditors (CONTINUED)

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report of the Auditors (CONTINUED)

Report on the Audit of the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code and the Austrian Banking Act.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

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

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Engagement Partner

The engagement partner responsible for the audit is Herwig Hierzer on behalf of Austrian Savings Bank Auditing Association and Peter Bitzyk on behalf of Deloitte Audit Wirtschaftsprüfungs GmbH.

Consolidated financial statements for 2016
UniCredit Bank Austria AG, Vienna

Vienna, 24 February 2017

Austrian Savings Bank Auditing Association
Auditing Board

Herwig Hierzer	**Reinhard Gregorich**
Certified Accountant	Auditor

Deloitte Audit Wirtschaftsprüfungs GmbH

Peter Bitzyk	**Gottfried Spitzer**
Certified Accountant	Certified Accountant

The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors' report, without the express written consent of the auditors.

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Report of the Supervisory Board for 2016

In the reporting period the Supervisory Board performed its duties and obligations defined by law and in the Articles of Association and in the rules of procedure without any restrictions, and it advised the Management Board at regular intervals and supervised the Management Board's activities. In 2016, the Supervisory Board held six meetings and passed twelve resolutions by written circular vote. To ensure optimum performance of its duties, the Supervisory Board created four committees from among its members. The Supervisory Board was involved in all decisions of fundamental importance and passed resolutions on matters within its competence after in-depth analyses. During the intervals between meetings, the members of the Supervisory Board were available to the Management Board for advice. The Chairman of the Supervisory Board in particular maintained regular contact with the Management Board and with the Chairman of the Management Board to exchange views on current issues and major developments of the bank.

Focus of the Supervisory Board's activity

In the 2016 financial year, the Management Board regularly provided information to the Supervisory Board, in writing and orally and in a timely and comprehensive manner, on business policy, financial developments, results, changes in regulatory requirements, and on risk management, liquidity management and capital management. The Supervisory Board in this way constantly performed its supervisory and advisory functions after in-depth analyses and consideration of all relevant facts.

The multi-year plan 2015-2019 was repeatedly a subject of highly intensive deliberations, and resolutions were passed in this context. Other issues on which the Supervisory Board's activity focused in 2016 included the demerger of the "CEE Business" operations/"DeLorean" project and the "Bank Austria Reloaded" project. The Supervisory Board received reports on developments at UniCredit Turn-Around Management GmbH (UCTAM), on large exposures pursuant to Section 28b of the Austrian Banking Act, on measures in connection with the review of credit risk performed by Oesterreichische Nationalbank, Austria's central bank, pursuant to Section 70 of the Austrian Banking Act, on the transfer – under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) – of employees to the state scheme managed by the Austrian Pension Insurance Institution (Pensionsversicherungsanstalt – PVA), and on letters of comfort issued in the period from July 2015 to June 2016.

In addition to the appointment of persons authorised to represent and act on behalf of the bank, the Bank Austria Group funding ceiling applicable for 2016 and the 2016 Audit Plan including the budget and resources for Internal Audit Bank Austria Group were presented to the Supervisory Board for approval.

The Supervisory Board held elections to its various committees as a result of changes in the composition of the Supervisory Board, and discussed a change in the Audit Committee's rules of procedure. With regard to the Management Board, the Supervisory Board passed resolutions concerning the distribution of responsibilities and representation rules of the Management Board, and an adaptation of the Management Board's rules of procedure. In the context of Management Board changes, the Supervisory Board appointed new Management Board members and renewed the term of office of other Management Board members as well as appointing a new Chairman of the Management Board and his deputy.

As far as equity interests are concerned, the reporting period saw the transfer of Ukrsotsbank to Alfa Group, the restructuring of Immobilien Holding Group and WED Group and the squeeze-out of minority shareholders at UniCredit Bank Czech Republic and Slovakia, a.s., and at UniCredit Banka Slovenija d.d.

Another focal area of the Supervisory Board's activity related to various measures in connection with the separate financial statements and the consolidated financial statements including the audit reports, and the election of the auditors of the separate financial statements and the consolidated financial statements for the 2017 financial year. The Supervisory Board also dealt with information on the use of advance approval of loans to members of the Supervisory Board and the Management Board as well as other related parties for 2015 as defined in Section 28 (1) and (4) of the Austrian Banking Act, and with advance approval for 2017.

The Supervisory Board was constantly provided with information, through written and oral presentations, on the main issues dealt with by the Supervisory Board Committees and on the results of their meetings.

Committee activities

The Credit/Risk Committee held five meetings and passed twelve resolutions by written circular vote. All loans approved under the Management Board's approval authority were brought to the Credit/Risk Committee's notice and the Committee passed resolu-

Report of the Supervisory Board for 2016 (CONTINUED)

tions on loan applications requiring its approval. The Committee regularly discussed the risks that were discernible in Austria and Central and Eastern Europe in the context of the loan portfolio, market risk and liquidity risk. Special attention was given to aspects of risk associated with Turkey, Russia, the FX loan portfolio and Brexit. The presentations were supplemented by reports on operational risk, reputational risk, ICAAP and risk appetite, and by the resolutions passed in this context. The activities of the Committee moreover included timely reports on specific risk exposures and current information on regulatory capital, funding and liquidity management. Finally, the Committee also dealt with the 2016 risk strategy, the recovery and resolution plan, and large exposures pursuant to Section 28b of the Austrian Banking Act.

The Audit Committee held four meetings, which were also regularly attended by representatives of the auditors. The Committee closely discussed the separate financial statements and the consolidated financial statements as well as the audit reports, and provided the Supervisory Board with information on these topics. The Committee was regularly informed by Compliance on focal areas of compliance-related activity and in this context received project reports, the annual report of the Anti-Money Laundering Officer and of the Securities Compliance Officer, and the 2016 Compliance Plan. Several status reports covered Governance Rules. Internal Audit presented comprehensive and detailed quarterly reports, which also intensively dealt with CEE-related topics and the UniCredit Bank Austria Internal Audit Charter. Other activities by the Audit Committee included the Complaint Management analysis of 2015 and the results of the 2016 Managerial ICS Assessment. Furthermore, the Committee dealt with findings by the supervisory authorities, monitoring of the financial reporting process with due regard to the "262 Savings Law", and the report on risk management. The auditors provided information on changes in the legal framework for audits of financial statements and the Audit Committee's extended tasks. The Audit Committee also dealt with the proposal concerning the election of the auditors for the 2017 financial year and with the management letter of the auditors as well as giving its approval to the engagement letter.

The Strategy and Nomination Committee held two meetings and passed five resolutions by written circular vote, mainly in connection with the extension of the terms of members of, and new appointments to, the Management Board and the replacement of members who left the Supervisory Board. The Committee also performed its task of making proposals to the Supervisory Board for the election of the Chairman and Deputy Chairman of the Management Board. The "Bank Austria Reloaded" project was presented in detail and discussed in depth. In addition to the Fit&Proper re-evaluation of members of the Management Board and Supervisory Board, the Committee focused on revising the job description of Management Board members including candidate profiles, and on senior management appointments and the gender balance in the bank.

The Remuneration Committee held one meeting and passed three resolutions by written circular vote. In addition to general information on the implementation of the regulatory framework, the Committee focused on the adjustment of 2015 and 2016 Group Policies, the bonus payment for 2015, the adaptation of the 2015 Group Incentive System for local risk takers and the 2016 Group Incentive System. Other selected focal areas were the 2016 Group Compensation Policy, the performance targets set for Management Board members and control functions for 2016, and a resolution on the "Bank Austria Reloaded" project.

Supervisory Board and Management Board changes

The following members of the Supervisory Board resigned in 2016: Alessandro Decio with effect from 31 March 2016, Paolo Fiorentino with effect from 30 September 2016 and Vittorio Ogliengo with effect from 7 November 2016. At the Extraordinary General Meeting on 15 January 2016, Gianni Franco Papa was elected to the Supervisory Board with immediate effect. At the Ordinary General Meeting on 5 August 2016, Massimiliano Fossati was elected as a new member of the Supervisory Board with immediate effect. At the Extraordinary General Meeting on 7 November 2016, the following persons were elected as new members of the Supervisory Board: Ranieri De Marchis with immediate effect and Mirko D. Bianchi with effect from 8 November 2016.

Robert Traunwieser and Michaela Vrzal left the Supervisory Board with effect from 19 May 2016 and 22 September 2016, respectively. In accordance with a decision taken by the Employees' Council, they were replaced by Barbara Titze and Mario Pramendorfer with effect from 20 May 2016 and 23 September 2016, respectively.

Willibald Cernko, Chief Executive Officer, resigned from the Management Board with effect from 29 February 2016. The Supervisory Board appointed Robert Zadrazil as Mr Cernko's successor as Chief Executive Officer with effect from 1 March 2016. The Supervisory Board passed a resolution extending Mr Zadrazil's

Report of the Supervisory Board for 2016 (CONTINUED)

term of office as a Management Board member until 30 September 2020 while also extending the term of office of Dieter Hengl as a Management Board member until 31 July 2020. Carlo Vivaldi, Deputy Chief Executive Officer, resigned from the Management Board with effect from 30 September 2016. The Supervisory Board appointed Romeo Collina as Deputy Chief Executive Officer with effect from 1 October 2016, following Mr Collina's appointment to the Management Board with effect from 1 March 2016 to 28 February 2019.

Helmut Bernkopf and Mirko Bianchi resigned from the Management Board with effect from 31 March 2016 and 30 September 2016, respectively. The Supervisory Board appointed Gregor Hofstätter-Pobst to the Management Board with effect from 1 October 2016 to 30 September 2019.

The Supervisory Board appreciates the strong commitment of, and services rendered to the bank by, the members who left the Management Board and the Supervisory Board.

Details of the composition of the Supervisory Board and the Supervisory Board Committees and of the Management Board in the past financial year are given in the "Supervisory Board and Management Board of UniCredit Bank Austria AG" section of the annual report.

Audit of the separate financial statements and consolidated financial statements

The accounting records, the 2016 separate financial statements and the management report were audited by the Auditing Board of the Austrian Savings Bank Auditing Association and by Deloitte Audit Wirtschaftsprüfungs GmbH. As the audit did not give rise to any objections and the legal requirements were fully complied with, the auditors' report was expressed without qualification.

The Supervisory Board endorsed the findings of the audit, agreed with the separate financial statements and management report presented by the Management Board, and approved the 2016 separate financial statements, which were thereby adopted pursuant to Section 96 (4) of the Austrian Joint Stock Companies Act.

The 2016 consolidated financial statements were audited by the Auditing Board of the Austrian Savings Bank Auditing Association and by Deloitte Audit Wirtschaftsprüfungs GmbH for consistency with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union, and the management report of the Group was audited for consistency with the Austrian legal provisions. The audit did not give rise to any objections and the legal requirements were fully complied with. In the opinion of the auditors, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of the results of the Group's operations and its cash flows for the financial year beginning on 1 January 2016 and ending on 31 December 2016, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The auditors certified that the management report of the Group was consistent with the consolidated financial statements, and that the legal requirements for exemption from the obligation to prepare also separate consolidated financial statements pursuant to Austrian law were met, and they expressed their unqualified opinion.

The Supervisory Board has endorsed the findings of the audit.

A word of thanks

The Supervisory Board thanks the Management Board, all employees and the employees' representatives for their valuable performance, which made 2016 another successful year for the company.

Vienna, 3 March 2017

The Supervisory Board

Erich Hampel
Chairman of the Supervisory Board

Statement by Management

We state to the best of our knowledge that the consolidated financial statements prepared in accordance with the applicable financial reporting standards provide a true and fair view of the financial position and performance of the Group, and that in the management report of the Group the business trends including business results and the position of the Group have been presented in such a way as to provide a true and fair view of the financial position and performance of the Group, and that the management report of the Group describes the material risks and uncertainties to which the Group is exposed.

Vienna, 24 February 2017

The Management Board

Robert Zadrazil
CEO Commercial & Private Banking, Support Services
(Chief Executive Officer)

Romeo Collina
COO Chief Operating Officer
(Deputy CEO)

Dieter Hengl
Corporate & Investment Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Resources

Supervisory Board and Management Board

of UniCredit Bank Austria AG

Information regarding the Management Board

Chairman

Willibald Cernko, born 1956
Chief Executive Officer (CEO)
Member from 1 April 2003 until 31 December 2007 and Chairman from 1 October 2009 until 29 February 2016

Robert Zadrazil, born 1970
Chief Executive Officer (CEO)
Commercial & Private Banking, Support Services
Member from 1 October 2011 and Chairman from 1 March 2016, end of the current term of office: 30 September 2020

Deputy Chairman

Carlo Vivaldi, born 1965
CEE Banking
Deputy Chairman from 16 February 2015 until 30 September 2016

Romeo Collina, born 1953
Chief Operating Officer (COO)
Member from 1 March 2016 and Deputy Chairman from 1 October 2016, end of the current term of office: 28 February 2019

Members

Helmut Bernkopf, born 1967
Commercial Banking
From 1 January 2013 until 31 March 2016

Mirko D. Bianchi, born 1962
Chief Financial Officer (CFO)
From 1 June 2015 until 30 September 2016

Dieter Hengl, born 1964
Corporate & Investment Banking
From 1 August 2011, end of the current term of office: 31 July 2020

Gregor Hofstätter-Pobst, born 1972
Chief Financial Officer (CFO)
From 1 October 2016, end of the current term of office: 30 September 2019

Jürgen Kullnigg, born 1961
Chief Risk Officer (CRO)
From 1 November 2012, end of the current term of office: 31 October 2018

Doris Tomanek, born 1956
Human Resources
From 7 May 2010, end of the current term of office: 6 May 2019

Information regarding the Supervisory Board

The term of office of elected members will end with the Annual General Meeting in 2018. The employees' representatives are delegated to the Supervisory Board without a time limit.

Chairman

Erich Hampel, born 1951
Former Chairman of the Management Board of UniCredit Bank Austria AG
(Member and Deputy Chairman from 1 October 2009 until 2 November 2011, Chairman from 2 November 2011)

Deputy Chairman

Paolo Fiorentino, born 1956
Deputy General Manager – COO
UniCredit S.p.A.
(Member from 4 May 2006, Chairman from 21 January 2011 until 2 November 2011, Deputy Chairman from 2 November 2011 until 30 September 2016)

Ranieri De Marchis, born 1961
Co-Chief Operating Officer
UniCredit S.p.A.
(Member and Deputy Chairman from 7 November 2016)

Members

Mirko D. Bianchi, born 1962
Group Chief Financial Officer
UniCredit S.p.A.
(from 8 November 2016)

Alessandro Decio, born 1966
(from 14 February 2013 until 31 March 2016)

Massimiliano Fossati, born 1968
Group Chief Risk Officer
UniCredit S.p.A.
(from 5 August 2016)

Supervisory Board and Management Board (CONTINUED)

Olivier Nessime Khayat, born 1963
Co-Head of Corporate and Investment Banking Division
UniCredit S.p.A.
(from 16 May 2013)

Alfredo Meocci, born 1953
(from 14 February 2013)

Marina Natale, born 1962
Head of Strategy, Business Development & M&A
UniCredit S.p.A.
(from 9 May 2015)

Vittorio Ogliengo, born 1958
Head of CIB Italy
UniCredit S.p.A.
(from 4 May 2006 until 7 November 2016)

Gianni Franco Papa, born 1956
General Manager
UniCredit S.p.A.
(from 15 January 2016)

Karl Samstag, born 1944
Deputy Chairman of the Management Board
Privatstiftung zur Verwaltung von Anteilsrechten
(from 4 May 2006)

Eveline Steinberger-Kern, born 1972
Managing Director
The Blue Minds Company GmbH
(from 4 May 2015)

Ernst Theimer, born 1947
Chairman of the Management Board
Privatstiftung zur Verwaltung von Anteilsrechten
(from 7 July 2010)

Delegated by the Employees' Council

Christine Buchinger, born 1968
Member of the Central Employees' Council
(from 23 January 2017)

Alfred Fürler, born 1959
Member of the Central Employees' Council
(from 30 December 2015 until 22 January 2017)

Adolf Lehner, born 1961
Chairman of the Central Employees' Council
(from 4 December 2000)

Mario Pramendorfer, born 1973
Member of the Central Employees' Council
(from 23 September 2016)

Barbara Titze, born 1967
Member of the Central Employees' Council
(from 20 May 2016)

Robert Traunwieser, born 1955
Member of the Central Employees' Council
(from 24 April 2009 until 19 May 2016)

Wolfgang Trumler, born 1967
Member of the Central Employees' Council
(from 2 February 2015)

Michaela Vrzal, born 1962
First Deputy Chairman of the Central Employees' Council
(from 27 June 2014 until 22 September 2016)

Barbara Wiedernig, born 1961
Chairman of the Employees' Council Styria
(from 24 April 2009)

Representatives of the Supervisory Authorities

Commissioner
Hans-Georg Kramer
Federal Ministry of Finance

Deputy Commissioner
Ulrike Huemer
Chief Executive Office of the City of Vienna

State Cover Fund Commissioner
Alfred Katterl

Deputy State Cover Fund Commissioner
Christian Wenth

Trustee pursuant to the Austrian Mortgage Bank Act
Bernhard Perner

Deputy Trustee pursuant to the Austrian Mortgage Bank Act
Gabriela Offner

Supervisory Board and Management Board (CONTINUED)

The Supervisory Board formed the following permanent committees:

Credit/Risk Committee:
Chairman:
Alessandro Decio (Member and Chairman from 11 March 2013 until 31 March 2016)
Massimiliano Fossati (Member and Chairman from 5 August 2016)

Deputy Chairman:
Erich Hampel (Member and Deputy Chairman from 8 May 2015)

Members:
Mirko D. Bianchi (from 8 November 2016)
Olivier Nessime Khayat (from 8 May 2015)
Vittorio Ogliengo (Chairman from 13 July 2006 until 21 January 2011, member from 21 January 2011 until 7 November 2016)
Eveline Steinberger-Kern (from 8 May 2015)

Delegated by the Employees' Council:
Adolf Lehner (from 2 May 2006)
Wolfgang Trumler (from 2 February 2015)
Barbara Wiedernig (from 11 March 2011)

Audit Committee:
Chairman:
Ernst Theimer (Member and Chairman from 8 May 2015)

Deputy Chairman:
Erich Hampel (Member and Deputy Chairman from 2 November 2011)

Members:
Alessandro Decio (from 11 March 2013 until 31 March 2016)
Massimiliano Fossati (from 5 August 2016)
Marina Natale (from 9 May 2015)
Gianni Franco Papa (from 15 January 2016)

Delegated by the Employees' Council:
Adolf Lehner (from 2 May 2006)
Wolfgang Trumler (from 23 September 2016)
Michaela Vrzal (from 27 June 2014 until 22 September 2016)
Barbara Wiedernig (from 2 February 2015)

Remuneration Committee:
Chairman:
Erich Hampel (Deputy Chairman from 1 October 2009 until 3 June 2013, Chairman from 3 June 2013)

Deputy Chairman:
Paolo Fiorentino (Chairman from 21 January 2011 until 3 June 2013, Deputy Chairman from 3 June 2013 until 30 September 2016)
Ranieri De Marchis (Member and Deputy Chairman from 7 November 2016)

Members:
Gianni Franco Papa (from 15 January 2016)

Delegated by the Employees' Council:
Adolf Lehner (from 6 November 2011)
Michaela Vrzal (from 27 June 2014 until 22 September 2016)
Barbara Wiedernig (from 23 September 2016)

Strategic & Nomination Committee:
Chairman:
Paolo Fiorentino (Member and Chairman from 21 January 2011 until 30 September 2016)
Ranieri De Marchis (Member and Chairman from 7 November 2016)

Deputy Chairman:
Erich Hampel (Member from 4 November 2009 until 21 January 2011, Deputy Chairman from 21 January 2011)

Members:
Mirko D. Bianchi (from 8 November 2016)
Vittorio Ogliengo (from 13 July 2006 until 7 November 2016)
Gianni Franco Papa (from 15 January 2016)

Delegated by the Employees' Council:
Adolf Lehner (from 2 May 2006)
Michaela Vrzal (from 27 June 2014 until 22 September 2016)
Barbara Wiedernig (from 23 September 2016)

Supervisory Board and Management Board (CONTINUED)

Vienna, 24 February 2017

The Management Board

Robert Zadrazil
CEO Commercial & Private
Banking, Support Services
(Chief Executive Officer)

Romeo Collina
COO Chief Operating
Officer
(Deputy CEO)

Dieter Hengl
Corporate & Investment
Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Resources

II. UniCredit Bank Austria AG

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Preliminary remarks on the financial statements

of UniCredit Bank Austria AG for 2016

UniCredit Bank Austria Aktiengesellschaft, the parent company of the Bank Austria Group, presents its balance sheet as at 31 December 2016 and its profit and loss account for the year ended 31 December 2016, as well as the management report and the notes pursuant to Austrian law.

The consolidated financial statements of the Bank Austria Group for the financial year beginning on 1 January 2016 and ending on 31 December 2016 were prepared in accordance with International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the European Union. The annual report of the UniCredit Bank Austria Group, which includes, inter alia, the consolidated financial statements, as well as the Group's management report and notes may be downloaded from the Investor Relations/Financial Reports site of Bank Austria's website (http://ir-en.bankaustria.at → Financial Reports).

The two reporting formats – under IFRSs and under the Austrian Business Code/Austrian Banking Act (UGB/BWG) – cannot be compared with one another because the operations covered by the financial statements differ (consolidated financial statements versus separate financial statements of the Group's parent company), and the valuation and accounting principles are also different.

The annual report of the Group gives readers information on the status of the group of companies controlled by UniCredit Bank Austria AG. The consolidated financial statements provide international comparability, a fair value-based presentation of the financial position and performance, and more detailed information, for example through segment reporting.

UniCredit Bank Austria AG's separate financial statements, prepared in accordance with Austrian rules, fulfil other important functions, especially under supervisory aspects. They are also the basis for determining the profit available for distribution under Austrian law and the dividend of UniCredit Bank Austria AG. In making an economic evaluation of the bank, users of the separate financial statements should take into account especially the extensive financial relations between the parent company and its banking subsidiaries. For this reason the financial statements of the Group provide more comprehensive information.

Management Report of UniCredit Bank Austria AG

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Management Report (CONTINUED)

1. Report on business developments and the economic situation

1.1. Business developments

Relaxed monetary policy of ECB poses unremitting challenges

The policy of the European Central Bank (ECB) continued to strongly influence Austria's banking sector in 2016. Moderate economic growth and low inflation, which moved into negative territory in the euro area in early 2016, prompted the ECB to step up its quantitative monetary easing efforts. In March 2016 the ECB Governing Council decided to lower interest rates. Since then, the main refinancing rate has been 0%. The marginal lending rate was also cut, by five basis points, to 0.25%, and the deposit rate was reduced by 10 basis points to minus 0.4%. In addition, the ECB expanded its asset purchase programme, underway since March 2015, from €60 billion to €80 billion per month while including corporate bonds (without banks) in its programme. In June 2016 the ECB launched a series of targeted longer-term refinancing operations, each with a maturity of four years. The additional quantitative easing measures led to a further interest rate decline on money markets. The 3-month Euribor fell even faster into negative territory, to minus 0.32% at the end of 2016. In Europe, long-term interest rates initially also continued to fall in response to the ECB's monetary policy. Yields on German ten-year government bonds were negative for the first time in June 2016. Interest rate spreads between the peripheral countries and the German benchmark widened again, largely reflecting uncertainty after the British people, at the end of June 2016, voted to leave the EU. But the financial market turbulence eased fairly quickly, supported by the improved global economic outlook. Long-term interest rates have again been moving upwards since the presidential election in the USA, which was unexpectedly won by Donald Trump in November 2016. Yields on German ten-year government bonds were 0.4% at the end of January 2017, while yields on Austrian ten-year government bonds were almost 20 basis points higher. Donald Trump's announcement of a fiscal stimulus plan for the US economy was well-received by markets. Equity markets closed 2016 at, or close to, their annual highs. The MSCI world index advanced by over 5% in 2016. Germany's Dax stock index rose by almost 7%, and Austria's ATX index by over 9%, making it one of the best performers. In December, the ECB announced its intention to extend its asset purchase programme until the end of 2017, albeit at a reduced pace of €60 billion per month as from March 2017. This heralds the beginning of the end of quantitative easing in Europe. According to an announcement by the ECB Governing Council, key interest rates will remain at current or lower levels over and beyond the timeline set for the securities purchase programme.

Global and European economic environment

Economic conditions for the banking sector in 2016 were shaped by a moderate slowdown of global growth to about 3%. The global economy proved to be fairly resilient to the uncertainty created by anxiety over China's growth in early 2016, the decision of the British people in the middle of the year to leave the European Union, and the surprising outcome of the US presidential election. Besides other factors, the resilience is explained by slightly stronger year-on-year growth of emerging economies, which met the challenges presented in 2016 in the form of low commodities prices, sluggish foreign trade and financial market volatility. The growth of the global economy was driven by India, and to a lesser extent China, as well as by Brazil and Russia, although in the case of the latter countries only because their economies were impacted to a lesser extent than in the previous year. In 2016, the moderate growth of industrial countries was strongly influenced by the weaker growth of the US economy, which slowed down by one percentage point to 1.6%. In the first half of the year, in particular, growth was impacted by the knock-on effects of the stronger US dollar, the decline in investment in the energy sector as a result of the trend in oil prices, and a substantial reduction in inventory. The US economy started to pick up in the second half of the year as these effects wore off.

● The European economy remained on a sound path of recovery throughout the year, notwithstanding the many different growth signals. Economic growth in the euro area reached a respectable 1.7% and thereby exceeded the trend rate for the second year in succession. Economic growth in Europe was driven by the stable upward trend in domestic demand, supported by fiscal stimulus and low oil prices. Consumption remained robust, helped by strong growth in employment, resulting in a further decline in unemployment, and by low inflation, which averaged only 0.2% in 2016 despite an energy-price induced rise at the end of the year. Investment growth remained sound in the face of great uncertainty. Exports, on the other hand, were unable to provide any impetus to growth despite the advantages of a persistently weak euro; global demand remained sluggish.

Viewed in the context of individual countries, the recovery in the euro area continued to gain momentum on a broad front: with GDP growth of 3.2%, Spain was once again easily the best performer among the large euro area members. In France, economic growth stabilised at a moderate 1.2%, and Italy continued to experience steady recovery at a low level, with growth rising to 0.9%. The German economy expanded at a rate above the euro area average in 2016. Austria's most important trading partner recorded GDP growth of 1.9%.

Management Report (CONTINUED)

Economic situation and market developments in Austria

● In Austria, the recovery process consolidated in 2016, with the growth momentum accelerating towards the end of the year after a previously moderate upward trend. Rising from 1 % in 2015 to 1.5 % in 2016, GDP growth returned to euro area levels after an interval of three years. The revival of the Austrian economy is largely explained by fiscal stimulus measures in 2016. A tax reform took effect at the beginning of the year, resulting in tax relief of about €3.5 billion. With a slight time lag, the tax reform boosted private consumption, a development which was particularly apparent in the second half of the year: after stagnating for three years, private consumption grew by 1.5 % in real terms to become an engine of economic growth in Austria. The upturn in consumption was supported by low inflation, which led to a rise in real incomes. Although one of the highest inflation rates in Europe, average inflation in Austria remained low at 0.9 % in 2016 as the stronger upward pressure from a number of services (hotels and restaurants, leisure and culture, rents) was offset by lower oil prices. A significant factor which contributed to the favourable developments in private consumption in 2016 was the stabilisation of the labour market following an acceleration of growth in employment to 1.6 % compared with the previous year. For the first time since 2011, this balanced out the rise in the labour supply, which is largely attributable to migration, and ended the upward trend in the unemployment rate. According to national criteria, unemployment was 9.1 % in 2016, the same as in the previous year. Austria's unemployment rate based on Eurostat averaged 6 % in 2016.

In addition to consumption, investments also showed discernible growth in Austria for the first time in several years. Gross fixed capital formation expanded by 3.1 %, after a moderate increase of 0.7 % in the previous year. Favourable financing conditions, the need for replacement investments, which had been postponed over a long period of time, and strong growth in Austria's population above all led to a jump in investments in plant and equipment, most notably in the automotive sector. The improved business sentiment moreover ended the three-year contraction in construction activity.

The revival of the global economy towards the end of the year supported foreign demand in Austria, which was previously at a low ebb. The Bank Austria Purchasing Managers' Index closed 2016 at 56.3 points, the highest level in five years and a development primarily explained by an increase in export orders. Given sluggish global trade throughout 2016, export growth was however weaker than in the previous year. Foreign trade did not contribute to economic growth in Austria in 2016 as stronger consumption and more dynamic investment activity led to an increase in imports.

● In Austria, demand for loans remained moderate in 2016 despite economic recovery. Demand for corporate loans, in particular, was weak, with de facto volume stagnation during the year. This is ascribed to moderate investment activity but primarily to the ample liquidity of companies in Austria. Deposits from companies grew by almost 10 %. The main reason for the weak demand for credit recorded by Austria's banks despite economic recovery was however the growing significance of alternative finance opportunities in light of the surplus liquidity in the corporate sector. In line with the structure of the Austrian economy, companies met a large proportion of their funding requirements outside Austria in the form of intra-group financing arrangements as well as through commercial credit. While companies also raised funds through bond issues, this practice was less pronounced than the use of cross-border financing.

In the area of personal loans, a decline in the volume of consumer loans compared with an unabated strong increase in the volume of housing construction loans, with growth of over 5 % exceeding the level of 2015. Investments by private households focused on short-term deposits in 2016. These accounted for much of the monetary wealth formation, which again expanded more strongly. Demand for mutual funds remained robust in 2016, while life insurance policies experienced a net decline. Strong disinvestment was seen in the area of long-term bonds, leading to a renewed reduction in the proportion accounted for by this investment form in the portfolios of Austrian households in 2016.

Major events in 2016

As part of "Transform 2019", the UniCredit Group's new strategic plan, Bank Austria initiated far-reaching adjustments through its strategic reorientation under "Bank Austria Reloaded".

Bank Austria's equity interests in companies in Central and Eastern Europe (CEE) were transferred to the Milan-based Group holding company as at 1 October 2016 (with retroactive effect to 1 January 2016). While the elimination of Bank Austria's function as sub-holding company has significantly reduced the Group's complexity, Bank Austria remains by far the largest bank in Austria by total assets on a stand-alone basis. Regardless of where the equity investments in the CEE banking subsidiaries are held, Bank Austria's internationally active corporate customers will benefit from full service continuity. The full expertise and customary high quality of services and advice and the UniCredit banking network in Central and Eastern Europe will continue to be available to them.

Further digitalisation and the streamlining of processes and the product range are key components of the Bank Austria Reloaded programme which is currently being implemented. In addition to a reduction of staffing levels, which is one of the measures taken under the Bank Austria Reloaded project, a number of cost and revenue initiatives have been launched.

Management Report (CONTINUED)

The staff reduction, based on the principles of voluntary decisions and a socially acceptable approach, is being carried out through an exit offer programme successfully implemented in 2016 and through normal staff turnover.

The switch from a defined-benefit pension scheme, which covered a number of active employees, to a defined-contribution pension scheme under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) significantly relieves the cost burden on Bank Austria. The reduction of the provision for post-employment benefits will considerably reduce volatility in staff costs (caused by various factors including changes in the discount rate applied) in the future. As explained in the 2015 Annual Report, the rights to future pension benefits for a large number of those persons for whom Bank Austria previously assumed the obligations of the mandatory social insurance scheme were transferred to the Austrian state social insurance scheme as at 29 February 2016.

A liability was recognised for this purpose, and for financial compensation payments to the employees for the resulting disadvantages, already in the 2015 financial statements, in accordance with the legal situation applicable at the time. On 16 March 2016, the National Council of the Republic of Austria passed an amendment to the ASVG which requires the payment of 22.8% of the most recent contribution base, instead of the previously applicable 7.0%, for the transfer of rights to future pension benefits to the Austrian Pension Insurance Institution (Pensionsversicherungsanstalt – PVA) by other pension insurers. This led to an increase in the relevant liability to €791 million in 2016. In January 2017, Bank Austria received the relevant official notices. The additional amount was partly offset through use of the available restructuring provision while the remaining amount was a charge included in the item “Integration costs” within staff costs.

UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective, and for all those employees who, under a commitment to provide defined benefits, left the company to take retirement not later than 31 December 2016. The discount rate applied to pension and similar obligations in the amount of €3.9 billion included in the balance sheet for this purpose was 1.6% (previous year: 2.05%).

Balance sheet developments in 2016

Major balance sheet items – comparison of year-end 2016/2015 levels

Bank Austria transferred management control of CEE companies and the related CEE sub-holding company functions to UniCredit S.p.A. as at 1 October 2016 (“CEE carve-out”). The reorganisation took place pursuant to Section 2 (1) 7 of the Austrian Demerger Act and Section 33 (6) of the Austrian Reorganisation Tax Act, with retroactive effect to 1 January 2016.

The balance sheet at 31 December 2016 therefore shows the remaining Bank Austria Group without CEE business.

The previous year’s figures were adjusted to reflect the CEE demerger.

Quite generally, UniCredit Bank Austria AG’s balance sheet at 31 December 2016 reflects the target structure which was to be achieved through the bank’s reorientation: an Austrian universal bank focused on classic commercial banking business with customers.

2016 balance sheet – structure and changes
(overview of combined balance sheet items)

	31 DEC. 2016 € BILLION	*PROPORTION %*	2015 ADJ. FOR CEE [1]	CHANGE OVER 2015 +/– € BILLION	CHANGE OVER 2015 +/– %
Assets					
Treasury bills and other bills eligible for refinancing at central banks	12.2	*11.91%*	11.1	1.1	9.74%
Loans and advances to credit institutions	17.7	*17.30%*	20.9	–3.2	–15.21%
Loans and advances to customers (item 4)	60.6	*59.07%*	61.9	–1.3	–2.13%
Bonds and other fixed-income securities; shares and other variable-yield securities (items 5+6)	3.7	*3.60%*	5.6	–1.9	–33.96%
Equity interests and shares in group companies (items 7+8)	2.4	*2.35%*	2.3	0.1	2.97%
Other assets items	5.9	*5.78%*	4.2	1.7	40.60%
Total assets	**102.6**	***100.00%***	**106.0**	**–3.5**	**–3.33%**
Liabilities and shareholders’ equity					
Amounts owed to credit institutions	17.2	*16.77%*	22.7	–5.5	–23.36%
Amounts owed to customers	54.3	*52.92%*	53.8	0.5	0.98%
Debts evidenced by certificates	15.7	*15.35%*	15.4	0.3	2.39%
Direct funding (items 2+3)	70.1	*68.33%*	69.2	0.8	1.29%
Provisions	4.3	*4.19%*	4.8	–0.5	–9.96%
Other liabilities items	3.2	*3.13%*	2.4	0.8	31.09%
Tier 2 capital	1.8	*1.79%*	1.9	–0.1	–6.93%
Capital and reserves (items 9 to 13)	5.9	*5.78%*	4.9	1.0	19.36%
Total liabilities and shareholders’ equity	**102.6**	***100.00%***	**106.0**	**–3.5**	**–3.33%**

1) Comparative data for 2015 without CEE units.

As at 31 December 2016, UniCredit Bank Austria AG’s total assets were €102.6 billion, down by about €3.5 billion or 3.3%.

The item “Loans and advances to customers”, totalling €60.6 billion (59.1%) is by far the largest asset item. The excellent funding position based on funds entrusted to the bank by non-banks is reflected in “direct funding”, which totalled €70.1 billion as at

Management Report (CONTINUED)

31 December 2016. This means that loans to non-banks are covered by deposits from non-banks and debt securities in issue to the extent of about 116 %.

Provisions amounted to €4.3 billion as at 31 December 2016. Provisions for pensions and similar obligations were €3.8 billion. Market interest rate developments in 2016 reflected the policy of low interest rates and made it necessary to adjust the discount rate from 2.05 % to 1.6 %, requiring an adjustment of +€194 million. On account of the transfer of a portion of the restructuring provision to long-term liabilities and through the use and release of provisions, the amount of provisions declined by €475 million.

As at 31 December 2016, capital and reserves totalled €5.9 billion. This total includes the shareholder contribution of €1 billion which Bank Austria received from the Group's parent company in August 2016.

● Operating income in 2016 was €1,992.8 million, down by €1,468.8 million or 42.43 % on the previous year.

The largest component of operating income was net interest income, which amounted to €950 million (47.6 %). The decline of €112.7 million or 10.6 % compared with 2015 was due to a persistently difficult environment and low interest rate levels. Interest margins remained under pressure in 2016 – especially in retail banking – on both sides of the balance sheet, lending and deposits. In combination with a stagnant business volume, this led to the decline in net interest income.

Net interest income from loans and advances to, and amounts owed to, credit institutions declined by €53.0 million or 17 %. This reflects lower volume on the assets side and persistently low interest rate levels, with short-term interest rates moving into negative territory in 2016. Given the large proportion of central bank deposits and money market transactions, the low level of interest rates and negative short-term interest rates had a particularly strong impact.

Net interest income from customer business was €897.6 million in the reporting year, down by €7.3 million (–0.8 %) compared with 2015.

Net fee and commission income amounted to €486.9 million in 2016, a decrease of €40.2 million or 7.6 % compared with the previous year. Close to one-half of net fee and commission income came from payment transactions, a business area which remained a major generator of fees and commissions, with income that was only slightly lower than in the previous year. Fee and commission income generated by loans and guarantees as well as other financing services was down on 2015.

Net profit/loss on trading activities (€73.1 million) was slightly higher than in the previous year (+€1.4 million or +2.0 %), with the Corporate & Investment Banking Division again making the largest contribution to the total figure.

Major items in the profit and loss account for 2016

			CHANGE	
	2016 € MILLION	2015 ADJ. FOR CEE 1)	+/– € MILLION	+/– %
Operating income	**1,993**	**3,462**	**–1,469**	**–42.43 %**
Net interest income	950	1,063	–113	–10.60 %
Income from securities and equity interests	435	927	–492	–53.09 %
Net fee and commission income	487	527	–40	–7.63 %
Net profit/loss on trading activities	73	72	1	2.02 %
Other operating income	48	873	–825	–94.56 %
Operating expenses	**–2,437**	**–2,445**	**8**	**–0.32 %**
Staff costs	–1,429	–1,536	107	–6.97 %
of which: provisions for wages and salaries	–357	–795	439	–55.16 %
of which: allocation to the pension provision	–304	0	–304	n.m.
Non-staff operating expenses	–1,009	–909	–99	10.94 %
Operating results	**–445**	**1,016**	**–1,461**	**n.m.**
Charge for loan loss provisions	–111	70	–181	n.m.
Operating results less charge for loan loss provisions	**–556**	**1,086**	**–1,642**	**n.m.**
Net income/expenses from disposal and valuation of securities/current assets	*18*	*35*	*–16*	*–47.28 %*
Net income/expenses from disposal and valuation of securities/financial fixed assets	74	48	27	56.20 %
Net income/expenses from the disposal and valuation of shares in group companies and equity interests	63	–311	374	n.m.
Results from ordinary business activities	**–400**	**858**	**–1,258**	**n.m.**
Taxes	362	–57	419	n.m.
Annual surplus/annual deficit	**–38**	**801**	**–839**	**n.m.**
Movements in reserves	38	–254	–292	n.m.
Profit/loss for the year	**0**	**547**	**547**	**n.m.**

1) Comparative figures for 2015 without CEE units.
n.m. = not meaningful

Management Report (CONTINUED)

Other operating income included a number of items which are not directly related to banking business. The figure for 2016 was €47.5 million, substantially lower than the figure of €872.7 million for 2015, which mainly reflected the net release of €816 million from pension provisions.

Income from securities and equity interests in 2016 amounted to €434.8 million, a decrease of €492.1 million or 53.1 %. The decline was mainly due to one-off effects recorded in 2015 (€396 million; special distributions made by companies in which equity interests are held).

Ongoing restructuring efforts enabled UniCredit Bank Austria AG to further reduce costs in 2016 despite business expansion. **Operating expenses** declined by €7.7 million or 0.3 % to €2,437.4 million (2015: €2,445.1 million); **staff costs** were reduced by €107.1 million or 7.0 %, making a significant contribution to overall cost reduction. This reflects the transfer of social insurance obligations to the state scheme and the reduction of staffing levels initiated under the current strategy. Staff is reduced in a socially responsible manner, partly through specific part-time working models and also through attractive offers which met with a high level of acceptance among employees. At year-end 2016, full-time equivalents were significantly lower than at year-end 2015, with Retail Banking and the Corporate Center accounting for a large portion of the total reduction.

Non-staff operating expenses totalled €1,009 million. Other administrative expenses were slightly lower (€686 million in 2016 after €689 million in 2015), due to consistent strict cost management, which was a focus of management attention. The total amount of **depreciation and amortisation** (up by €28 million or 83.9 %) included special depreciation in connection with buildings used by the bank itself. **Other operating** expenses increased by €74.7 million or 40.1 % to €260.9 million on account of a charge for **other provisions** and increased contributions to the resolution fund and the deposit guarantee scheme.

The **cost / income ratio** (operating expenses / operating income, excluding other operating income / expenses) does not provide meaningful information as it reflects substantial additions to and releases from provisions as part of restructuring activities in 2015 and 2016 (unadjusted: 125.7 % after 69 %).

Pursuant to the Austrian Changes in Accounting Act 2014 (Rechnungslegungs-Änderungsgesetz 2014), **credit risk** provisions of €151.9 million (without securities) were made for the first time in the 2016 financial year for credit losses which may be expected on the basis of statistical data. Moreover, an addition of €39.3 million was made to loan loss provisions for FX loans; this compared with releases of about €79.9 million from provisions.

Among the subsequent items to be taken into account to determine results for 2016, net income / expenses from the **disposal and valuation of securities valued as financial fixed assets and of shares in group companies and equity interests** was net income of €137.8 million (2015: a net expense of €263.1 million).

The combined effect of lower operating income and stable costs as well as further large provisions and positive valuation results from group companies led to **negative results from ordinary business activities** of – €399.9 million in 2016 after a positive figure of + €857.6 million for 2015.

The balance sheet-related concept of deferred taxes which had to be applied in the reporting year for the first time resulted in net **deferred tax assets** of **€495.6 million** at the balance sheet date. After deduction of other taxes of €133.7 million, mainly including the bank levy (€123 million), and after the release of reserves, the profit or loss for the year was zero (in 2015: a profit of €546.6 million). As there was no profit or loss brought forward from the previous year, UniCredit Bank Austria AG's **accumulated profit or loss was zero** (2015: an accumulated profit of €546.6 million).

1.2. Structural changes at Bank Austria

Scope of consolidation (in accordance with IFRS) and changes in the scope of consolidation of the Bank Austria Group in 2016

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**400**	**37**	**437**
Additions	**5**	**0**	**5**
Newly established companies	0	0	0
Acquired companies	1	0	1
Other changes	3	0	3
Changes in UniCredit Group	1	0	1
Disposals	**–122**	**–11**	**–133**
Companies sold or liquidated	–16	–3	–19
Mergers	–13	0	–13
Transfer of CEE companies	–93	–7	–100
Changes in UniCredit Group	0	–1	–1
Closing balance	**283**	**26**	**309**

Changes in the consolidation perimeter

The equity interests in CEE companies were demerged from UniCredit Bank Austria AG as at 30 September 2016.

Other changes in the consolidation perimeter mainly relate to sales of real estate companies and further measures to simplify the structure of the UniCredit Bank Austria Group's holdings of equity interests.

1.3. Permanent establishments

There are no permanent establishments.

1.4. Financial and non-financial performance indicators

Financial performance indicators

	2016	2015 ADJ. 1)	2015	2014	2013
Eligible capital (until 2013: Tier 1 capital ratio)	19.8%	15.3%	23.0%	19.7%	17.7%
Return on equity before taxes	–7.3%	15.9%	3.1%	–15.6%	–11.9%
Return on equity after taxes	–0.7%	14.8%	2.4%	–16.6%	–12.6%
Cost/income ratio	125.7%	69.0%	73.6%	120.7%	89.3%
Risk/earnings ratio	8.0%	–3.5%	3.8%	4.9%	26.0%
Risk/earnings ratio (without dividends)	11.7%	–6.5%	7.2%	7.6%	33.7%

1) Comparative figures for 2015 without CEE units.

Definitions of performance indicators

Eligible capital ratio (from 2016): eligible capital divided by capital requirements in accordance with Article 92 of Regulation (EU) No 575/2013
Tier 1 capital ratio (until 2013): regulatory Tier 1 capital divided by risk-weighted assets of the total book pursuant to the Austrian Banking Act (Bankwesengesetz – BWG)
Return on equity before taxes: annual surplus before taxes divided by average equity
Return on equity after taxes: annual surplus divided by average equity
Equity: subscribed capital, capital reserves, revenue reserves, reserve pursuant to Section 57 (5) of the Austrian Banking Act, untaxed reserves
Average equity: equity as at 1 January of the reporting year + equity as at 31 December of the reporting year divided by 2
Cost/income ratio: general administrative expenses (including depreciation) divided by operating income including the balance of other operating income/expenses
Risk/earnings ratio: net income/expenses from the disposal and valuation of loans and advances divided by net interest income including income from securities and equity interests

Non-financial performance indicators

Branch network

	2016	2015	2014	2013	2012
Domestic branches	141	174	217	253	271
Foreign permanent establishments (without banking business)	0	1	1	1	1
Outlets at companies	1	1	1	1	1
Total	**142**	**176**	**219**	**255**	**273**

Employees

Under the place-of-work principle applied to UniCredit Bank Austria AG and its subsidiaries, staffing levels and staff costs are recorded by those companies in which the employees work.

	31 DEC. 2016	AVERAGE FOR 2016 2)	31 DEC. 2015	31 DEC. 2014	31 DEC. 2013	31 DEC. 2012
Headcount 1)	5,476	5,837	6,430	6,597	6,841	6,996
Full-time equivalents 1)	4,839	5,183	5,593	5,769	6,207	6,364

1) Excluding employees on unpaid sabbatical or maternity/paternity leave but including workers other than salaried staff and delegated employees under the place-of work principle.
2) Average for 2016: without CEE units.

Corporate sustainability

In our view, sustainability is closely linked to responsible ways of interacting with the public at large and using economic and ecological resources. The balance between these aspects guides our day-to-day activities.

Social interaction

Social commitment is an essential component of our sustainability strategy. "Acting together for a respectful society" is an initiative which we have launched to make a broader public familiar with our social initiatives, and to stimulate discussion on such important topics as tolerance, respect and social interaction. In our social sponsoring activities we primarily support initiatives which help children and young people in need, and which also focus on integration/migration. In cooperation with UniCredit Foundation, we present the Bank Austria Social Prize in each of Austria's federal provinces. Annual prize money totals €85,000. For the first time in 2016, the most innovative idea from among all winning projects was awarded a special prize. Since the Bank Austria Social Prize was created seven years ago, some 80 projects have been supported with over €500,000.

Long-term partnerships which we have developed over many years with well-known social care organisations are a particularly important aspect of Bank Austria's activities in the social sector, with the active involvement of employees and customers. Focusing on continuity, this strategy has been pursued in our cooperation with SOS Children's Villages, where we act as house sponsor in Children's Villages throughout Austria. Caritas is another partner with which we have maintained close and professional cooperation in Vienna and throughout Austria for over 25 years. This covers proven projects such as young Caritas Käfig League, the Bank Austria Volunteers Day, and cooperation in disaster relief activities. The Caritas Family Fund of Bank Austria has so far helped more than 600 families who experienced hardship through no fault of their own. Bank Austria's "Gift Matching Programme" is an annual initiative, probably unique in Austria, which promotes the social commitment of the bank's employees. The idea behind the programme is simple: private donations made by employees are increased by funds held by UniCredit Foundation. Employees come up with a wide range of creative schemes which ensure stimulating internal communication on social issues. The Gift Matching Programme 2016 raised about €175,000 for 57 projects, an amount which was doubled by UniCredit Foundation.

Supporting art and cultural activities is another area which Bank Austria sees as being part of its social commitment. The bank has been among the major sponsors of art and culture in Austria for many years, with a focus on supporting young talents. Apart from long-standing cooperation arrangements with renowned partners such as the Bank Austria Kunstforum, Albertina and Wiener Musikverein, we use the Bank Austria Art Award for new forms of sponsorship. The Award – with a total prize pool of €218,000 – is given in several categories and reaches a broader and younger target group by providing innovative support to crowdfunding campaigns. In the field of sports we focus on classic sponsoring activities and on people with special needs. We are pleased and proud to be a partner of the Paralympics and of the Special Olympics World Winter Games 2017 in Schladming.

Our economic responsibility includes our "Financial Education" initiative, which is targeted at young people, students and teachers and provides them with information on various aspects of money via the website www.finanz-bildung.at. With a renowned partner, the Austrian Museum for Social and Economic Affairs, we offer free workshops to interested secondary schools throughout Austria. The topics discussed range from the functions of money and banks to banking products and distributive justice. The objective is to give young people an overview of the various types of financial transactions, to draw their attention to opportunities and risks, and to inform them of their rights and duties as consumers of financial products. Some 10,000 schoolchildren attend the workshops every year.

Customers

Customer centricity and change

Digitalisation and electronic mobilisation are changing society in dramatic ways. Some of the key words in this context are "digitalisation – 24 hours/7 days – mobile – social networking – personalised & configurable". These changes have a significant influence on the focus of our business model and service approach. Our measures to support customer centricity, which has top priority in Bank Austria's business model, take account of the changes. The customer experience is taking centre stage. Our ambition is clearly reflected in our **promise to customers** – "Wir möchten die Besten für Sie sein!" (We want to be the best for you) – and in the slogan "Life is full of ups and downs – we're there for both". This is guiding the further development of our **multi-channel bank**.

Bank Austria customers' satisfaction with services, reliability and quality of advice is measured with the **TRI*M** index. This is an important indicator of quality, which we have used in scorecards over many years. From the first to the fourth quarter of 2016, Bank Austria's aggregated TRI*M improved by 1 point, reaching an overall level of 68 and an all-time high in specific customer groups, including a TRI*M of 84 in Private Banking. In the fourth quarter of 2015, rumours circulated in daily newspapers that the Austrian retail banking operations would be sold pushed this key indicator down to a low starting level for 2016. We continued to use telephone interviews (about 10,000 calls per year) and online questionnaires (about 3,000 responses per year) in 2016 to measure customer satisfaction while also conducting mystery shopping at branches. Moreover, our customers made intensive use of the possibility to provide feedback on their satisfaction via digital and mobile channels. Tools such as myFeedback, which can be used to give feedback quickly and easily via a smartphone, or Feedback Kundenerlebnis (automated @mail feedback upon completion of banking transactions) are being further developed and offered at various points of contact in our multichannel bank.

CoCreation in the digital and real worlds.

With our Bank Austria Mitarbeiterforum and Kundenforum (www.kundenforum.at) developed in 2013, we are using an open social media platform for surveys, forum discussions, quick polls and votings to involve our customers in corporate processes. In 2016, about 20,000 responses via questionnaires and over 700 forum contributions on over 50 topics (including "The Branch of the Future", mobile banking apps, Cashback Online and cashless payments) from about 3,000 customers and employees were processed, evaluated and discussed in the digital sphere. In the real world we have included customer integration in product and process development (using CoCreation workshops and in-depth interviews). The BeschwerdeExzellenz project launched in 2013 enables us to improve all internal and external complaint management processes on an ongoing basis with a view to optimising the handling of complaints for our customers at all points of contact (branch, @mail, CallCenter etc.). We aim to offer top standards with regard to response time (within 48 hours) and solution competence. Moreover, we have bundled specific competencies in the ombudsperson's office for persons experiencing social hardship, where customers in financial difficulty receive assistance in reducing their debt, or are granted additional time for payment, etc. without excessive bureaucracy. In 2016 we again maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associa-

Management Report (CONTINUED)

tions and special interest groups in order to deal with specific issues such as potential or actual complaints concerning foreign currency loans and to find solutions together with our customers.

Employees

Working at the new Campus

Historic representational buildings no longer meet the requirements of the new working world as such buildings lack flexibility and are associated with high costs. Moreover, our head office units are spread across several locations. We are therefore investing in new headquarters for Bank Austria and about 20 other UniCredit Group companies in Austria. In January 2015 we started to build the "Austria Campus" at Vienna's former Northern Railway Station, one of the city's key development areas. In addition to office space covering a gross area of about 200,000 square metres, the buildings which are under construction there will also accommodate infrastructure facilities and shops. SIGNA, an Austrian company specialising in real estate, acts as developer in respect of the relevant construction work, which is scheduled for completion in 2019. Two of the new buildings (construction sites 5 and 8) will be used by Bank Austria under a long-term rent agreement. The bank's future headquarters account for about 45 per cent of the Austria Campus and are scheduled to be used by about 5,000 employees starting from 2018.

The new headquarters will unlock significant synergies – through shorter distances, better use of space, and lower operating and maintenance costs. Besides strengthening the team spirit among employees, the new design of our headquarters will result in attractive working methods for head office banking functions.

The main features of the new working world will be an office architecture which can be used flexibly, modern technology and processes with low paper consumption. A test office opened in autumn 2015 – called "Campino" and set up in one of the bank's existing office buildings, with equipment reflecting the latest planning stage of the Austria Campus – provides all employees with an insight into the new working methods. More than 120 employees use about 1,250 square metres of office space and test the new workplace concept, including desk sharing and the clean desk principle. Users of Campino are also offered greater work flexibility in terms of time and location. There are plans to offer these flexible arrangements, which are referred to as "Remote Work", to all head office units and their employees after the test period.

Diversity

Bank Austria sees diversity as one of its key values. Diversity management promotes productivity, creativity and innovation. UniCredit Group employs people who differ from one another in their gender, the colour of their skin, in their language, ethnic, cultural and religious values, in their marital status, age, state of health, social status and sexual orientation. The bank benefits from the manifold qualities, talents and personality facets of employees as all people in the company are recognised and respected in all their diversity.

With the "Job and Family" audit performed at Bank Austria at the end of 2009 and followed by a re-audit in 2015, we use assessments by external auditors to make further improvements. Important topics in this context are efforts to increase working time flexibility with a view to making family and job more compatible; creating equal career opportunities for part-time employees; promoting "Remote Work"; and enhancing managers' awareness of the need for a work-life balance. Numerous initiatives are being implemented at Bank Austria to ensure equal opportunities for men and women. Controlling is key to the success of these efforts. Qualitative objectives and quantitative targets are defined with regard to (almost) any measure and the results are measured, e.g. the proportion of women in managerial and successor positions and in executive development programmes.

Disability

Mutual respect and openness as well as recognition and appreciation of differences are an integral part of Bank Austria's corporate culture. Therefore, disability is an important topic for the company. Two disability managers are responsible for planning and implementing numerous measures. They are supported by a network of about 60 disability employees. In pilot projects the bank is testing various possibilities for helping disabled persons to settle their banking business. Measures that have already been implemented include a special bank card for visually impaired persons, sections of Bank Austria's website which enable customers to listen to spoken information and read texts in simple language, and a shuttle service introduced in 2010 for customers with limited mobility, which is steadily being expanded to cover the whole of Austria. Since autumn 2015 our SmartBanking services have been available in sign language to deaf people. They can now use Bank Austria's advisory services via video calls, benefiting from simultaneous translation into sign language by interpreters employed by ServiceCenter ÖGS.barrierefrei. There are special training programmes for employees to create an awareness of, and sensitivity to, the special needs of customers with disabilities.

Environmental management

An environmental management system (EMS) has been in place at Bank Austria since 2009. In May 2011, Bank Austria's EMS was certified in accordance with ISO 14001, a standard that is widely recognised internationally. The EMS covers the head office buildings and all branches. By complying with this important standard, a company can prove that it operates in harmony with the environment. Environmental management benefits the community while also involving advantages for the company in the form of cost savings resulting from more efficient use of resources. The company therefore makes an important contribu-

Management Report (CONTINUED)

tion to worldwide measures aimed at reducing CO_2. The work with "focus groups", defined as good practice by external auditors, has continued to be very successful in the four strategic areas of environmental issues. The groups, which are composed of members of various specialised units, have drawn up concrete measures to reduce direct environmental impacts (consumption of natural resources, generation of waste) and indirect impacts ("indirect" environmental damage caused by the behaviour of external persons). In regard to operational climate protection considerations, Bank Austria, as one of the six founding members, has since November 2011 been a partner of klima:aktiv pakt2020, which was created by the Austrian Ministry of Life. The participating companies undertake to meet the Austrian climate-related targets for 2020. Bank Austria has additionally committed itself, through a voluntary agreement on objectives, to reducing CO_2 emissions by 45 % and achieving a 51 % share of renewable energies. Bank Austria further reduced business travel through the use of video conferencing facilities and the trend towards digitalisation in the working world. A positive secondary effect of the gradual expansion of "remote work" is that it reduces environmental pollution, especially the pollution caused by commuters who use cars. Last but not least, Bank Austria is taking measures to enhance awareness among its employees: one example from the year under review is a training instrument for all employees in the form of an interactive film on energy efficiency. In the past few years, our measures to improve energy efficiency focused on consumption of electricity (which accounts for a high proportion of overall energy consumption); these include the areas of refrigeration and IT. All electricity supplied to Bank Austria comes from renewable sources of energy, which is guaranteed by a certificate issued by the bank's energy supplier confirming that 100 % of the electricity supplied is hydroelectric power. As a contribution to increasing the proportion of renewable energy, the bank has installed photovoltaic systems at branches in Innsbruck and Hirschstetten / Vienna and a solar power installation in Vienna's second district, on the roof of the Lassallestrasse 5 office building.

Human Resources (HR)

In 2016, the activities of Human Resources Austria focused on the **Bank Austria Reloaded** transformation project, which was launched to implement the multi-year plan 2016 – 2019. The project involves a number of initiatives aimed at revenue growth and cost reduction. Overall, these initiatives are to lead to a significant improvement in operating profit in 2018. The measures to improve the cost / income ratio include staff cost savings, defined with a view to reducing costs per employee and the number of employees.

The first step, taken as at 1 March 2016, was to transfer all active "Bank Austria ASVG" employees who did not retire in 2016 to the state scheme of full social insurance under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) through the termination, by mutual agreement, of the internal service regulation concerning pensions.

Furthermore, together with the Employees' Council, agreement was reached on a social plan to create transparent and socially responsible instruments for payroll cost reductions. Based on years of service, age, type of employment contract and annual income, employees were provided with specific terms and conditions of exit, which they could use to make a binding offer, by 30 September 2016, to leave the company in the period from 31 October 2016 to 31 December 2017. The bank undertook to give all employees binding information by the end of October 2016 as to whether, and as at which date, it would accept their offer to leave. The adjustment of the strategic plan required further staff-related measures.

In addition, the bank offered all employees various support measures including external advisory services and coaching for job reorientation. Talks are currently being held with all other banks in Austria with a view to setting up a labour foundation, which will be of relevance for Bank Austria, too. The bank also acted to comply with Austrian labour market rules, including the early warning system, on a timely basis.

These measures ensure that the planned targets for payroll cost reductions will be met by the end of 2018.

- **Internal recruiting:** "MoveOn" is Bank Austria's internal job market and a key component of the HR strategy. It offers a platform for all vacant positions within the bank. The objective of this innovative, cloud-based recruiting solution is to make employees aware of new opportunities through the automated analysis of their personality and subsequent job matching. Finding the right job no longer depends on employees' curriculum vitae and training alone but also on the specific features of their personality. "MoveOn" brings the internal job market to life, with employees being able to view new job opportunities with ease. These activities are aimed at supporting a more effective use of employee potential and raising employee satisfaction.

- **Assessment of staff performance:** UniCredit Performance Management is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. All employees can view their evaluation and the feedback documentation in their personal electronic archives. Performance Management thus makes an essential contribution to a feedback culture. The goals of each employee are discussed between the employee and the manager and then captured in the Performance Management tool. The employee's performance is evaluated after a maximum period of 12 months and feedback on development is provided. The information obtained from feedback and evaluation serves as a basis for personal development measures and further steps in Bank Austria.

Management Report (CONTINUED)

● **Staff development:** Digital learning media are becoming more and more important. While advancing digitalisation opens up new channels for our customers to do banking business with us, it also offers our employees new ways of cooperating and learning. The UniCredit Academy Austria therefore added digital self-study media and methods to the comprehensive portfolio of learning media introduced in 2015, with emphasis on needs-oriented real-time learning. The UniCredit Academy Austria gives special attention to supporting the business areas in transforming Bank Austria into the "Bank of the Future". For example, the UniCredit Academy Austria provides effective support for the introduction of the new service model in retail banking by making available an 8-week change and intensive learning programme which includes workshops and seminars as well as intensive self-determined and team-determined learning phases. Another focal area of the UniCredit Academy Austria's activities is to encourage learning from and with one another, and learning on the job. The UniCredit Academy Austria is thereby following the 70/20/10 principle of what is called "new learning" (70 per cent learning on the job, 20 per cent learning by sharing, and 10 per cent formal learning). Employees can learn on a self-determined basis and are not tied to specific time schedules, thereby enhancing the return on learning for everyone – in line with the motto: higher earnings through effective learning. www.unicreditacademy.at.

● **Succession planning:** Our Executive Development Plan (EDP) and Talent Management programme support our managers in developing the relevant qualities and skills for the "Bank Austria of the Future". We focus on the development and training of managers from within the bank, giving special attention to raising the percentage of female managers on a sustainable basis. We thereby ensure forward-looking and effective personnel planning for managers and talents who can get along well in a changing digitalised society and who can make sustainable contributions to shaping the "Bank Austria of the Future".

● **Compensation & Benefits:** Our human resources activities, especially those in the area of Compensation & Benefits, are based on and guided by the Global Job Model, the Group-wide job evaluation system used for describing and categorising all roles and activities within UniCredit, and by the UniCredit Competency Model, which defines essential skills and employee conduct in our company. Our Group-wide Total Compensation system provides for a balanced mix of fixed and variable monetary and non-monetary components. Remuneration of top management is determined within UniCredit by way of a Group Compensation System, which has been in place for several years and has also been implemented at Bank Austria. Parts of the variable components of compensation are withheld in line with regulatory requirements, and deferred payments are made subject to sustainability, partly in the form of UniCredit shares. The bonus pool method used across the Group ensures that variable components of remuneration are subject to the achievement of sustainable, long-term financial and non-financial performance criteria. The introduction of this method further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

● **Gender balance:** In 2012, UniCredit launched the Group-wide Gender Balance Programme with a view to creating fair workplaces, based on equal rights, for men and women and ensuring that these values are firmly anchored in the corporate culture. The degree to which this objective is reached, especially at managerial levels, is measured by means of a dashboard on a half-yearly basis. The proportion of women at senior management level in Bank Austria has increased slightly since 2012. Female members of the Supervisory Board currently account for 24% of the total number. This progress reflects the strong commitment of 23 diversity managers who are currently active under global management, supported in Bank Austria by ambassadors at the divisional level. To support career planning by women, advertisements of vacant managerial positions are presented to female candidates in particular, with female talents being assisted in taking further steps in their careers. Specific communication activities focus on women who have already been promoted to managerial positions and act as models for other talents. Cooperation across countries and divisions is being intensified through regular meetings and the involvement of subsidiaries in the Gender Balance Programme. "Diversity Manager Couples" are formed for the purpose of regularly sharing experience with UniCredit Bank (HVB) in Germany in order to learn from one another. Targeted training programmes such as the Inclusion@work Workshop underline the importance of equal opportunities.

Employees by gender (headcount)*)	7,826	
… female	55.5%	
… male	44.5%	
Employees by tier and gender	female	male
Top management and executive	0.1%	0.5%
Middle management	2.6%	11.4%
Staff	97.3%	88.1%
Total	4,347	3,479
Employees by age		
Up to 30 years	8.15%	
31–40 years	15.37%	
41–50 years	35.88%	
51 years and more	40.60%	
Turnover		
… external hirings	3.21%	
… external leaves	12.71%	

*) Based on the employment contract principle: incl. delegated persons and employees on unpaid sabbatical or maternity/paternity leave.

● **IT platform for efficient human resources management:** In 2016, as in previous years, we worked intensively to simplify our HR services. With the smooth migration of the payroll to the new

HRIT platform at the beginning of the 2016 financial year, employees and managers have been able, since the beginning of the second quarter, to initiate many HR processes themselves, e.g. changes of personal details or applications for job certificates. We have thereby taken clear steps setting the course for the future. And we will continue to give close attention to implementing efficient HR processes and simplifying services.

HR Central and Eastern Europe

The CEE Human Resources unit was transferred from Bank Austria to UniCredit S.p.A. in October 2016 as part of the demerger of the CEE Division.

Report on research and development

Bank Austria's business purpose is to provide banking services. The production process of a bank does not involve research and development in an industrial sense. But a bank's day-to-day business operations continuously benefit from **development** activities. Generally, Bank Austria aims to meet the needs of different customer groups with simple products. In addition, there is an ongoing need for new developments and adjustments to meet regulatory requirements.

In the area of **information and communication technology** (ICT), investment at UniCredit level focuses on further developing digitalisation while maintaining stringent cost management. The main objective is to enhance the customer experience and expand it to include digital channels. In 2016, some €75 million was invested in IT; a large proportion of this amount went into digitalisation and the further development of online channels (MobileBanking, online sales, self-service facilities), in addition to regulatory requirements.

ICT expenses (investment budgets) are capitalised at UBIS and charged to Bank Austria. UBIS provides the entire Group with IT services, enabling UniCredit to benefit from Group-wide developments and joint platforms as well as unlocking significant synergies in the IT sector.

1.5. Capital resources and capital requirement of UniCredit Bank Austria AG

Capital resources as at 31 December 2016 (€6,794 million) were calculated in accordance with Basel 3 rules [Regulation (EU) No 575/2013]. The bank's capital resources are composed of Common Equity Tier 1 capital (CET1) and Tier 2 capital (T2).

The bank has not issued any AT1 instruments as at 31 December 2016. The amounts of items which may be deducted from Additional Tier 1 capital (AT1) in accordance with transitional arrangements have been deducted from Common Equity Tier 1 capital as they exceeded Additional Tier 1 capital.

Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) is equal to 80.2 per cent of eligible capital.
Tier 2 capital is equal to 19.8 per cent of eligible capital.

The following table compares capital resources and capital requirements with the relevant figures in the 2015 financial statements as capital resources and capital requirements were not adjusted retrospectively and until 30 September 2016 the regulatory requirements had to be complied with on the basis of the bank's structure before the CEE demerger.

The regulatory requirements in respect of capital resources were complied with, in respect of actual ratios and also on the basis of the demerger scenario, at all times during 2016.

(€ million)

	31 DEC. 2016	31 DEC. 2015
Paid-up capital	1,681	1,681
Share premium (capital reserves)	1,876	6,366
Retained earnings	244	254
Other reserves	2,130	2,158
Gains and losses on derivative liabilities measured at fair value	–18	–18
Value adjustments based on prudent valuation	0	0
less intangible assets	–1	–4
less IRB shortfall	–5	–179
less amount which exceeds Additional Tier 1 capital	–25	–56
less securitisation positions with a risk weight of 1,250%	–10	–11
less capital instruments in financial sector entities in which a significant investment is held	–185	0
less amount exceeding the 17.65% threshold	–271	0
Other transitional adjustments to Common Equity Tier 1 capital	35	110
Common Equity Tier 1 capital (CET1)	**5,451**	**10,301**
Other transitional adjustments to Additional Tier 1 capital	–25	–56
Amount which exceeds Additional Tier 1 capital	25	56
Additional Tier 1 capital (AT1)	**0**	**0**
Paid-up capital instruments and subordinated loans	1,122	4,219
less own Tier 2 instruments	–16	–21
Transitional adjustments due to grandfathered instruments	159	185
Qualifying provisions under the IRB approach which exceed expected losses (IRB excess)	141	0
less Tier 2 instruments of financial sector entities in which the institution has a significant investment	–53	–53
Other transitional adjustments to Tier 2 capital	–10	–54
Tier 2 capital (T2)	**1,343**	**4,276**
Eligible capital under Regulation (EU) No 575/2013	**6,794**	**14,577**

Capital requirements (€ million)

	31 DEC. 2016	31 DEC. 2015
Capital requirement for credit risk, counterparty risk and dilution risk as well as free deliveries	2,486	4,776
Capital requirement for settlement and delivery risk	0	0
Capital requirement for position risk, foreign exchange risk and commodities risk under internal models	12	18
Capital requirement for operational risk (OpR)	242	273
Capital requirement for credit valuation adjustments (CVA)	2	6
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	**2,742**	**5,073**

Eligible capital composed of Tier 1 capital and Tier 2 capital (€6,794 million) exceeds the total capital requirement (€2,742 million) by 147.8 %.

Common Equity Tier 1 capital (CET1) amounts to €5,451 million. It alone exceeds the total capital requirement (€2,742 million) by 98.8 %.

1.6. Information on the share capital and the exercise of special rights

The subscribed capital of UniCredit Bank Austria AG as at 31 December 2016 amounted to €1,681,033,521.40 and consisted solely of registered ordinary shares.

As at 31 December 2016, UniCredit S. p. A. held a direct interest of 99.996 % in UniCredit Bank Austria AG.

The registered shares with restricted transferability held by "Privatstiftung zur Verwaltung von Anteilsrechten" ("AVZ Stiftung", a private foundation under Austrian law) and by "Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG Region Wien" ("Betriebsratsfonds") [the Employees' Council Fund of the Employees' Council of UniCredit Bank Austria AG for the Vienna area (the Employees' Council Fund)] have a long tradition and carry special rights for historical reasons: for specific important resolutions to be adopted at a general meeting of shareholders, the holders of registered shares with restricted transferability have to be present when the resolutions are adopted. The relevant resolutions are specified in Article 20 (13) and (14) of the bank's Articles of Association.

There is a syndicate agreement – the Restated Bank of the Regions Agreement (ReBORA) – between UniCredit, "AVZ Stiftung" and "Betriebsratsfonds".

In the Restated Bank of the Regions Agreement, "AVZ Stiftung" and "Betriebsratsfonds" have given an undertaking to UniCredit to the effect that if they want to sell UniCredit Bank Austria AG shares, they will first offer such shares held by them to UniCredit. If UniCredit does not accept the offer, the relevant contracting party could sell the UniCredit Bank Austria AG shares to a third party. In this case UniCredit has a right of preemption.

Under this agreement, which was made in 2006, "AVZ Stiftung" had a right, until 31 March 2016, to nominate two members of the Supervisory Board of UniCredit Bank Austria AG. Thereafter it can nominate one member of the Supervisory Board for the duration of the guarantee issued by "AVZ Stiftung" and the Municipality of Vienna.

In connection with the transfer of CEE business, UniCredit S. p. A. has given certain undertakings in favour of UniCredit Bank Austria AG with regard to the future business activities and capital structure of UniCredit Bank Austria AG; the majority of the obligations on the part of UniCredit S. p. A. will end at the end of June 2024.

There are no agreements on compensation between UniCredit Bank Austria AG and the members of its Management Board and its Supervisory Board or its staff members in the event of a public takeover bid.

1.7. Information on the squeeze-out pursuant to the Austrian Federal Act on the Squeeze-out of Minority Shareholders (Gesellschafterausschlussgesetz) of the holders of bearer shares in UniCredit Bank Austria AG

The company's Annual General Meeting on 3 May 2007 adopted a resolution concerning the planned squeeze-out. The legal actions for rescission and declaration of nullity brought against various resolutions adopted at the Annual General Meeting on 3 May 2007 were terminated in spring 2008. The squeeze-out was entered in the Register of Firms on 21 May 2008. After that date, former minority shareholders initiated proceedings for a review of the cash compensation offered by UniCredit. An expert was appointed in these proceedings to review the amount of the cash compensation paid; the expert report is available and essentially confirms the adequacy of the cash compensation paid in connection with the squeeze-out. A decision by the court of first instance in this case is not yet available.

Management Report (CONTINUED)

2. Report on risk management, risks and third-party guarantees

2.1. Risikomanagement

Organisation of risk management

UniCredit Bank Austria AG identifies, measures, monitors and manages all risks of Bank Austria. In performing these tasks, Bank Austria works closely with the risk control and risk management units of UniCredit in line with the existing Group structure. In this context, Bank Austria supports UniCredit's ongoing projects, in particular the further harmonisation of Group-wide risk-controlling procedures and processes. Regular risk monitoring and risk management are also performed in close cooperation with a view to ensuring overall risk management across the Group. Moreover, risk management is one of UniCredit's 5 Fundamentals and is of relevance for the annual agreement on objectives and for performance evaluation, thereby contributing to further development of a Group-wide risk culture. The Risk Academy of UniCredit makes a contribution to the risk culture by acting as a Group-wide training centre.

The Management Board and the Supervisory Board determine the risk policy and approve the principles of risk management, the establishment of limits for all relevant risks, and the risk control procedures. In performing these tasks, the Management Board is supported by specific committees, independent risk management units and units of other divisions. All centrally organised risk management activities of Bank Austria are combined within a management function at Management Board level directed by the Chief Risk Officer (CRO), and are thus separate from the other divisions up to Management Board level. Lending decisions which exceed the limits of the relevant business units' approval authority, and the handling of problem loans, are the responsibility of the two operative credit risk departments, i. e. Credit Operations Corporate/CIB and Credit Operations Retail. The risk management activities of these departments are complemented by the Strategic Risk Management & Control department and the Market & Liquidity Risk department. The Strategic Funding, Transactions & Pricing unit reports to the Chief Financial Officer (CFO) indirectly via the Finance department and is responsible for risk-adequate pricing of loans, the bank's own securitisations and funding (as part of the planning process and under contingency funding arrangements).

The bank's internal control system (ICS) is effective at several levels: (1) in the various business areas, (2) at the Risk & Compliance level and (3) at the Internal Audit level. Internal Audit performs regular audits with regard to the adequacy of risk processes and compliance with them. The Management Board and the Supervisory Board are provided with reports on the results of these audits and recommendations. A comprehensive system of rules ranging from Group Policies to operational instructions governs processes at various levels. The most important Policies are adopted directly by the Management Board, managed in a separate system, rolled out and monitored with regard to the degree of implementation.

Effects of Bank Austria's reorganisation on the structure of risk management

As part of the reorganisation of UniCredit Group as at 1 October 2016, the CEE banking subsidiaries and CEE business were demerged from Bank Austria and transferred to the parent company UniCredit. The process of focusing on the Austrian market (including the remaining Austrian subsidiaries) involved a significant redimensioning of Bank Austria's risk exposure. Apart from the transfer of CEE-specific organisational units to the parent company, the reorganisation of Bank Austria in this context did not lead to any major changes in risk management.

Further optimisation steps to enhance efficiency were taken under the bank-wide Bank Austria Reloaded project. In this context, special credit units were merged with the two operative credit risk departments while Strategic Risk Management & Control and Market & Liquidity Risk continue to be separate from the operative credit risk departments. The transfer of employees who performed CEE-related tasks to the parent company resulted in a reduction of the workload and staff numbers in the four remaining departments within the CRO Division. The main risk categories and risk-related methods, processes and instruments have remained unchanged, apart from the focus on Austria.

Cross-divisional control/management and reporting

Bank Austria divides the monitoring and controlling processes associated with risk management into the following categories: credit risk (default risk and migration risk), liquidity and funding risk, market risk (interest rate risk, credit spread risk, currency risk and equity risk), structural FX risk, derivatives-linked risk (counterparty risk, CVA risk), operational risk, reputational risk, business risk, pension risk, financial investment risk and real estate risk.

A key element of risk control by the Management Board is the annual definition of Bank Austria's Risk Appetite, which is approved by the Supervisory Board and takes place in coordination with UniCredit. The Risk Appetite describes the key principles of the bank's risk orientation, in qualitative terms of a verbal statement and in the form of a quantitative framework of key metrics. The Risk Appetite defines risk categories and the level of risk that Bank Austria is prepared to accept in pursuit of its strategic objectives and business plan and in view of its role within UniCredit Group. In this context the interests of external and internal parties (customers, shareholders and regulators in particular) are taken into account. For example, markets and investment banking operations are concentrated outside Bank Austria at Munich-based UniCredit Bank; this is reflected in Bank Austria's focus on commercial banking business and in correspondingly low trading book limits. The key Risk Appetite dimensions are business strategy, capital and liquidity adequacy. The defined bundle of key indicators comprises indicators of Pillar 1 (regulates a bank's minimum capital requirements under the Basel capital adequacy framework – Basel 2 – with due regard to the risk potential) and Pillar 2 (Basel 2 rules governing the supervisory review process), and recovery plan indicators. The Risk Appetite is integrated in the budgeting process in the context of managing the objectives in defining and selecting the desired risk-return profile. A system of targets, thresholds and limits has been defined for the key indicators to ensure regular monitoring, timely escalation and a link to the recovery plan. In addition to the risk appetite, the Management Board and the Supervisory Board adopt a resolution, once a year, defining Bank Austria's risk strategy, which further operationalises the risk appetite and complements it with additional limits and targets.

Regular risk monitoring at top management level is performed through the overall risk report. The overall risk report is regularly presented also to the Supervisory Board. It comprises a description of the risk appetite, the risk-taking capacity (RTC), of credit risk, liquidity risk, market risk and operational risk, and the results of stress tests.

Specialised risk committees have been established at senior management level for the management of key risks. The resolutions and results of these bodies are reported directly to the full Management Board of the bank: the Risk Committee (RICO), which holds meetings on a monthly basis, is responsible for cross-divisional risk management issues arising between sales units and overall bank management; moreover, it provides overviews of the results of the credit portfolio model and of the IRB models while also preparing reports on economic capital (Pillar 2). Liquidity risk control is performed by the Liquidity Committee (LICO), which meets every two weeks to deal with current liquidity-related topics. These include operational aspects of liquidity management including market monitoring and compliance with the Liquidity Policy. Control of market risk is ensured by the Market Risk Committee (MACO), which meets every two weeks. MACO deals with short-term business management issues relating to the presentation and discussion of the risk/earnings position of Markets & Corporate Treasury Sales and with limit adjustments, product approvals and positioning decisions in the area of market risk. Other topics discussed and decided include the replication portfolio. Credit risk is assessed by the Credit Committee. The Operational & Reputational Risk Committee (OpRRiCo) meets on a quarterly basis to deal with operational and reputational risk issues. Risk arising from derivative transactions is managed by the Derivative Committee (DECO). DECO deals with classic credit risk and counterparty risk issues and aspects of reputational risk in customer business.

Risk-taking capacity (ICAAP/ILAAP)

Beyond compliance with regulatory capital rules and liquidity requirements of Pillar 1, Bank Austria controls capital and liquidity adequacy also via the relevant Pillar 2 approaches: Internal Capital Adequacy Assessment Process (ICAAP); Internal Liquidity Adequacy Assessment Process (ILAAP). As part of the ILAAP, and in coordination with UniCredit Group, the bank reviews the adequacy of the liquidity risk management process, which is primarily aimed at ensuring sufficient liquidity. In the context of ICAAP, Bank Austria applies the UniCredit Group approach to internal capital at the consolidated level (including subsidiaries). This approach includes the following phases:

- Perimeter definition and risk identification
- Risk measurement
- Definition of risk appetite and capital allocation
- Regular monitoring and reporting

The process ensures that Bank Austria's perimeter including all relevant Group units and risk types are fully covered and that risk and available financial resources are consistently taken into account. The risk types are measured using procedures which have been developed within the Group and take concentration risk into account. The Risk-Taking Capacity (RTC) compares Available Financial Resources (AFR) with aggregate Internal Capital (IC): RTC = AFR/IC. It is calculated and reported on a quarterly basis under a going concern approach. This approach requires compliance with all regulatory requirements and the application of the relevant valuation rules and accounting standards. The observation period is one year for all risk categories. In addition, the bank also determines internal capital adequacy under a gone concern assumption on a half-yearly basis; in this connection, unexpected losses are calculated with a confidence level of 99.9% for all risk categories, corresponding to a long-term Group target rating of A- (single A minus). An annual risk inventory analysis ensures that all materially relevant risk categories are taken into account.

Bank Austria calculates internal capital (also referred to as "economic capital" for individual risk categories) for the following risk categories:

- Credit risk (default risk and migration risk), including counterparty credit risk
- Market risk including CVA for trading and banking books (interest rate risk, credit spread risk, currency risk and equity risk)
- Structural FX risk
- Pension risk
- Business risk
- Real estate risk
- Operational risk (including legal risks)
- Financial investment risk (for those equity investments which are not covered on the basis of their relevant individual risk categories, minority interests in particular)

The dominant risk category for Bank Austria is classic credit risk while the other risk categories are much less significant.

Both ICAAP and ILAAP of Bank Austria are subject to annual review by Internal Audit.

Concentration risk

The VaR models used for internal capital take concentration risk into account, e.g. concentration risk associated with customers/customer groups and countries/sector concentrations in the credit portfolio model or risk factor concentrations in the market and counterparty risk model. At the holding company level, the allocation of limits with regard to individual and sector positions (bulk-risk and industry limits) is based on economic capital. In its lending operations, Bank Austria follows this Group strategy and the related limits for industries and large exposures. Monitoring and reporting the largest borrowers (individual customers and groups of companies) and the distribution among industries takes place through the overall risk report on a quarterly basis. At Bank Austria level, economic capital is also an important factor in the approval of large transactions. As part of the quarterly ICAAP report, the Credit Risk Economic Capital Detail Report shows credit positions with a large proportion of internal capital and presents capital allocation by various segments (divisions, asset classes, banking subsidiaries, major sub-portfolios, etc.). Granular sensitivity limits and reports complement VaR limits at the portfolio level in the area of market risk. Stress test limits are also used in connection with market risk. Counterparty limits and counterparty-risk simulations including stress considerations are applied to derivatives and repos. Sovereign limits and country limits specify the maximum amounts permitted for cross-border exposures (see section "E.8 – Country risk and sovereign risk"). In addition, an overview of sovereign bond positions is regularly provided for market risk purposes.

Until the transfer of CEE subsidiaries, Bank Austria also compared overall credit exposures for each CEE subsidiary with defined warning thresholds. As a result of the transfer of CEE business, country-specific geopolitical concentration risk and structural FX risk (which arises from the currency structure of capital and RWAs) at Bank Austria have declined significantly. Since then, macro risk has focused on Austria to a larger extent. The proportion of foreign currency loans is described in detail in the section "Currency risk". Apart from retail banking business, commercial real estate and public sector customers account for the largest volume of loans, as in the previous year.

Limit system

Regular monitoring of key indicators, with appropriate limits and early warning thresholds, and a detailed network of operational limits ensure that the bank operates within the adopted risk parameters and that management can take timely measures in the event of unfavourable developments. The top level is the risk appetite, with about 20 key indicators being monitored at Bank Austria Group level. The most significant indicators include liquidity and funding indicators (short-term, structural and stress-based), capital and leverage indicators, risk/return indicators, and indicators focusing on specific risk categories. Violations of risk-appetite thresholds/limits are dealt with according to the defined escalation hierarchy (a number of levels up to Supervisory Board approval authority). The complete RA dashboard is reported on a quarterly basis at RICO meetings and as part of the overall risk report to the Management Board and the Supervisory Board.

Reports of the risk committees, which hold meetings at different intervals, are characterised by significantly higher granularity. MACO, for example, which holds meetings every two weeks, discusses the development of market risk positions including compliance with the relevant sensitivity limits, and LICO discusses compliance with liquidity-related limits and liquidity position developments. Depending on the degree of detail in the relevant dimensions (e.g. maturity bands, currencies), the escalation hierarchy comprises a number of levels in these areas, too. Both MACO and LICO use daily reports, which means that the treatment of any limit excesses is escalated in a timely manner and such limit excesses will have been dealt with by the time the complete RA dashboard is presented. Other key indicators are not determined on a daily basis, with the escalation process following the respective frequency of reporting. A central planning variable on the credit risk side is the expected loss (EL) at the sub-portfolio level for existing and new business. Developments in this context are monitored in detail during the year against the defined targets and thresholds; changes in parameters contributing to such developments are analysed and discussed with the relevant business areas and at RICO meetings with regard to a potential need for action. Individual lending decisions follow the defined loan approval process, which involves the operative credit risk departments and Bank Austria's Credit Committee, according to their respective levels of approval authority.

Stress testing
Stress tests are a key component of risk analysis and planning at Bank Austria. The bank performs overall bank stress tests and individual stress tests. The former cover major risk categories at a specific point in time, with detailed results being aggregated against the background of a coherent scenario and presented on an overall basis. The overall bank stress tests performed regularly include capital stress tests (Pillars 1 and 2) and stress analyses under the recovery plan. The Pillar 2 stress test covers all ICAAP risk categories. Stress analyses under the recovery plan combine capital and liquidity aspects, showing developments over time and in the context of possible management reaction. The most important regular individual stress tests cover credit risk, market risk, counterparty risk and liquidity risk. Individual stress tests are presented at meetings of the respective committees (RICO, MACO, LICO), capital-related overall bank stress tests at RICO meetings and also as part of the overall risk report to the Management Board. Stress tests are performed at defined intervals (capital stress tests at least on a half-yearly basis, individual stress tests on a quarterly basis in most cases). Stress tests may also be performed in response to specific issues, e.g. in response to suggestions made by Internal Audit or supervisory authorities. Scenarios are defined centrally and locally. The Holding Stress Test Council defines a minimum set of scenarios for Pillar 2 ICAAP stress tests on a half-yearly basis, which need to be calculated and reported locally. Local scenarios are additionally defined where required. Predefined thresholds for specific stress tests require management to consider action plans or contingency plans.

Stress testing is subject to an annual review by Internal Audit.

2.2. Risks

Credit risk
Credit risk is defined as the risk of incurring losses as a result of non-fulfilment by the borrower of terms and conditions agreed under the loan agreement.

Credit risk methods and instruments
Very important factors in the credit approval process are a detailed assessment of risk associated with each loan exposure, and the customer's credit rating in particular. Every lending decision is based on a thorough analysis of the loan exposure, including an evaluation of all relevant factors. Following the initial loan application, the bank's loan exposures are reviewed at least once a year. If the borrower's creditworthiness deteriorates substantially, shorter review intervals are applied.

The bank uses various rating and scoring models for internal credit assessment, calculating the parameters (probability of default – PD; loss given default – LGD; exposure at default – EAD) for the customer/business segments to be assessed on the basis of models specifically developed for these purposes. The calculations are made in line with the various asset classes pursuant to Article 147 of the CRR, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions. There are country-specific or region-specific models (e.g. for corporate customers, private and business customers) and Group-wide models (e.g. for sovereigns, banks, multinational corporates). The assessment of a loan exposure is based on data from the respective company's financial statements and on qualitative business factors. For real estate customers, the customer-related rating is complemented by a transaction rating. Bank Austria uses an automated retail scoring system for assessing, monitoring and managing the large number of loan exposures to private customers, small businesses, independent professionals and small non-profit organisations. Retail scoring comprises an application scoring procedure based on effective and recognised mathematical and statistical methods, and a behaviour scoring procedure taking into account such factors as amounts received in the account and customers' payment practices. The retail scoring system provides information that is updated on a monthly basis. This gives the bank a tool for lending decisions and early recognition of risk. Automated data processing helps Bank Austria to reduce costs required for credit control while accelerating lending decisions.

The various rating and scoring models provide the basis for efficient risk management of Bank Austria and are embedded in all decision-making processes relating to risk management. They are also a key factor for capital required to be held against risk-weighted assets. Great attention is given to consistency in the presentation for supervisory purposes and the requirements of internal control. Risk-adequate pricing and proactive risk management improve the portfolio's diversification and risk/return ratio on an ongoing basis.

All internal rating and scoring systems are monitored on an ongoing basis. The systems are also subject to regular validation on an annual basis, including a review to verify if the rating/scoring system provides a correct representation of the risks to be measured. All model assumptions are based on multi-year statistical averages for historical defaults and losses, with appropriate attention being given to the potential impact of turbulence in international financial markets. In this context, credit risk stress tests, which are required by banking supervisory authorities and are carried out on a regular basis, are an essential instrument for assessing future risks in an unfavourable economic environment.

RICO is defined as an expert body within the meaning of Article 189 of the CRR, which deals with all material aspects related to credit risk models (their development, adjustment, control and validation of model soundness). The Strategic Risk Management & Control department, with the relevant methodology, validation and control units, acts as credit risk control unit within the meaning of Article 190 of the CRR.

Current status of the application of the internal ratings-based approach (IRB approach) to credit risk in UniCredit Bank Austria AG

UniCredit Bank Austria AG applies the internal ratings-based approach, using its own estimates of loss given default and of conversion factors for the major part of its loan portfolio (advanced IRB approach). Ongoing planning activities now relate mainly to the refinement and development of local and Group-wide models and, to a lesser extent, also the introduction of further Group-wide models.

Implementation of the advanced IRB approach has been established as a Group-wide programme. Therefore UniCredit is responsible for Group-wide decisions and guidelines as well as for the development of Group-wide models. For example, Group-wide homogeneous portfolios have been defined for which uniform rating models are used across the Group, such as those for countries, banks and multinational companies.

Group standards have for the most part already been prepared and adopted by UniCredit in cooperation with the major IRB legal entities, and are used as an instrument for uniform Group-wide implementation, with a view to complying with local legal requirements – some of which differ from country to country – and safeguarding Group interests. These Group standards will continue to be gradually extended and complemented.

The Group standards continue to be integrated step by step in the processes and organisational set-up of all business areas and Group units, with account being taken of local features and legal requirements in ensuring Basel 3 compliance.

All Austrian subsidiaries of UniCredit Bank Austria AG use the standardised approach. From a current perspective, for reasons of materiality, it is not planned to switch to one of the IRB approaches.

Information on forborne exposures

Forbearance measures are concessions made by a bank to a debtor facing or about to face difficulties in meeting its financial commitments. These may take the form of a modification of the terms and conditions of a contract that would not have been agreed if the debtor had not been in financial difficulties, or the form of total or partial refinancing. Debtors that are classified as "forborne" are subject to special monitoring requirements and are to be clearly marked as such.

Forbearance measures include, for example, a rescheduling agreement, renegotiated pricing at interest rates below the market level, the conversion of a partial amount of the loan into shares, or a reduction of the principal amount.

If a forbearance measure does not result in the loan becoming non-performing, a probation period of at least 2 years must be observed. If a forbearance measure results in the loan becoming non-performing, a minimum 1-year holding period in the non-performing portfolio must be observed – a probation period of 2 years will again be applicable from the date of reclassification as "performing". Upon expiry of the probation period the exposure will cease to be classified as "forborne".

In respect of loans with forbearance measures, required concessions and restrictive management measures are initiated under an effective monitoring and reporting process to reduce the amount of any potential loss.

When assessing and making provisions for loans with forbearance measures, the bank must ascertain whether there is objective evidence that an impairment loss on loans or held-to-maturity investments (measured at amortised cost) has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the profit and loss account under "Impairment losses" and the carrying amount of the asset is reduced.

If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of the borrower's financial difficulties, this is considered to be objective evidence of impairment.

Apart from the impairment test, an examination must be performed to see if the modification of the contract results in a partial or full disposal of the financial instrument. In the case of financial assets, there is a disposal if a material change in contractual conditions leads to a situation in which the modified financial instrument, in substance, no longer corresponds to the instrument before the modification. In such a case the previously recognised financial instrument is to be derecognised and a new financial instrument is to be recognised, even if – in legal terms – the same contract continues to exist in an adjusted form. Derecognition in such cases also relates to any provision made in connection with the financial instrument.

Credit risk mitigation techniques

UniCredit Bank Austria uses various credit risk mitigation techniques to reduce potential credit losses in case of obligor default.

With specific reference to credit risk mitigation, general guidelines issued by UniCredit and Bank Austria are in force. These guidelines govern and standardise credit risk mitigation processes, in line with Group principles and best practice as well as in accordance with the relevant regulatory requirements – especially strategies and procedures for collateral management. In particular such strategies and procedures detail collateral eligibility, valuation and monitoring rules, and ensure the soundness, legal enforceability and timely liquidation of valuable collateral according to the local legal system.

Local collateral management was analysed and compliance with credit risk mitigation guidelines was reviewed (specifically as part of the application of the internal rating system) in order to ensure that the instruments used for regulatory capital are adequate and properly documented.

According to the credit policies, collateral or guarantees can be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. For this reason, in addition to the overall analysis of the creditworthiness and of the repayment capacity of the borrower, they are subject to specific evaluation and analysis of the support role for the repayment of the exposure.

Collateral accepted in support of credit lines granted by Group companies primarily includes real estate, both residential and commercial, guarantees and financial collateral (including cash deposits, debt securities, equities, and units of undertakings for collective investment in transferable securities (UCITS)). Further types of collateral comprise pledged goods, receivables and insurance contracts as well as other types of funded protection. The Group also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

When accepting a credit risk mitigation technique, the Group's and the sub-group's attention focuses on processes and controls of the legal certainty requirements of the protection, as well as the assessment of the suitability of the collateral or guarantee. In case of personal guarantees, the protection provider (or the protection seller in case of credit default swaps) has to be assessed in order to measure his/her solvency and risk profile.

In case of collateral, the process of valuation is based on precautionary principles, with reference to the use of "market values" and to the application of adequate haircuts to take account of potentially lower proceeds and realisation costs in case of realisation.

Monitoring processes of credit risk mitigation techniques ensure that general and specific requirements established by credit policies, internal and regulatory rules are met at all times.

Provisioning process

Loan loss provisions are determined by reference to the amount and quality of loans granted. Bank Austria applies the following four methods of calculation, taking the special segment of foreign-currency loans into account:
- Specific write-downs (non-performing assets)
- Portfolio-based specific write-downs (non-performing assets)
- Credit losses which may be expected on the basis of statistical data (performing assets)
- Portfolio-based specific provision for foreign-currency loans and loans with repayment vehicles (performing assets)

Specific write-downs (non-performing assets):

Loans/bonds:

Customers with a total exposure of over €2 million – on a GCC (group of connected customers) basis – are transferred to Monitoring & Special Credit Corporate/CIB within UniCredit Bank Austria AG whenever there is initial concrete evidence of potential default. When taking over a specific case, Special Credit management has to review the requirement for recognising an impairment loss on such exposures on a case-by-case analytical basis, and subsequently carry out quarterly reviews. The amount of the impairment loss is the difference between the carrying amount of the loan and the present value of estimated future cash flows.

ABSs:

As part of a structured watchlist and impairment process for ABSs, positions are identified which are reviewed for any provisioning requirement on a quarterly basis. This is usually done by applying specific models, especially cash flow models. These models map the individual transaction structure and calculate a present value of estimated future cash flows. The amount of any provision that may be required is the difference between the carrying amount of the ABS position and the present value of estimated future cash flows.

Management Report (CONTINUED)

Portfolio-based specific provisioning method (non-performing assets)
UniCredit Bank Austria AG applies a parameter-based and portfolio-based provisioning method ("Pauschale Einzelwertberichtigung" – PEWB) for defaulted assets grouped by similar credit risk characteristics and with no significant exposure (lower than €2 million) at the GCC (group of connected customers) level. The provisioning requirement at individual customer level is determined and recognised automatically, depending on the customer segment, the amount of the exposure and collateral, the credit rating and the duration of the default. The parameters used to calculate the loss rate are monitored annually. Parameter adjustments at the end of 2016 led to a slight decline of €6.2 million.

Credit losses which may be expected on the basis of statistical data (performing assets)
Such provisions for performing loans are made on the assumption that de facto losses incurred are taken into account too late, and to an extent that is too low, because of the lag between the time when the losses are actually incurred and the time when the loss event is identified. The loss is estimated on the basis of expected loss – which is determined using the parameters of PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default) – weighted by a time factor (for the period during which the loss is not identified), the so-called LCP (Loss Confirmation Period) factor, at the level of various product and customer clusters. The various parameters used in the calculation are validated annually and the results are subjected to a backtesting procedure.

Portfolio-based specific provision for foreign-currency loans and loans with repayment vehicles (performing assets)
This provision is determined at individual loan level for the performing portfolio and takes into account the potential risk associated with foreign-currency loans and loans with repayment vehicles – most of which have a bullet maturity – which may arise from the forecast deficit between the repayable amount, determined by the exchange rate, and the repayment vehicle, which is also subject to currency risk. All relevant calculation parameters (including, for example, the annual performance of repayment vehicles, exchange rate forecasts, underlying interest rate of the EUR and FX financing arrangements) are reviewed annually, reported to the Management Board and adjusted where required.

Realisation of mortgage collateral
Mortgages are the main type of collateral accepted by UniCredit Bank Austria AG for real estate finance.

If the mortgage needs to be realised, Bank Austria will first try to sell the property in the market by mutual agreement with the customer and to use the proceeds for loan repayment. Where this is not possible, the property will be sold in accordance with the rules of the Austrian Enforcement Code or the Austrian Bankruptcy Code. As there are orderly market conditions in Austria, mortgaged real estate is normally not acquired by Bank Austria itself (debt asset swap).

Stress tests
Credit risk stress tests are an essential component of Pillar 1 and Pillar 2 stress tests (which analyse the impact on regulatory capital and economic capital) and are therefore presented at meetings of the same risk committee (RICO).
The main dimensions of stress analysis include the following:
- increase in non-performing exposures
- related losses
- impact on expected loss on performing exposures
- impact on Pillar 1 RWAs and shortfall
- impact on economic capital

The calculations are based on dependency models developed by the bank itself, which are used to analyse the impact of macroeconomic changes (e.g. gross domestic product, interest rate levels, unemployment, inflation, exchange rates) on the loan portfolio.

Detailed results are presented for relevant sub-portfolios.
The stress scenarios used are at least the relevant ICAAP scenarios (typically, a base scenario and 3 different stress scenarios for a reference date) complemented, on an ad hoc basis, by additional scenarios.

Credit Treasury
The Credit Treasury unit was merged with the new Strategic Funding, Transactions & Pricing unit, which among others has the following two main tasks:

First, preparing and monitoring the risk-adequate pricing of loans. To ensure uniform pricing within UniCredit Group, the risk-adjusted spread is determined on the basis of multi-year probabilities of default (depending on the term of the loan), added as a price component and monitored on an ongoing basis. Such pricing rationale follows the approach defined in the Group Risk Adjusted Pricing Discipline, which was approved as a Policy in UniCredit Bank Austria AG in July 2014.

Second, Credit Treasury is also responsible for Bank Austria as a whole for transactions to reduce credit risk and increase liquidity. The instruments available for these purposes include securitisations, CLNs and CDSs.

The Credit Treasury Committee, which holds quarterly meetings, is responsible for strategic coordination and decisions on measures and transactions.

Management Report (CONTINUED)

Securitisation transactions

Qualitative information

The Group's main objectives in its securitisation transactions (whether traditional or synthetic) are the optimisation of the loan portfolio by freeing up regulatory and economic capital and obtaining fresh liquidity together with greater diversification of its sources of funding.

In 2015 a new synthetic securitisation ("AMADEUS 2015") was implemented in UniCredit Bank Austria AG for RWA relief and risk transfer purposes. It covers an existing portfolio of loans and guarantees granted to corporate clients. In December 2016 the transaction was amended in order to allow the bank to add loans to the pool of securitised loans.

Investments in other parties' securitisations, i.e. structured credit products, were ring-fenced in a separate portfolio managed with a view to maximising future cash flows.

Given the asset quality of the underlyings, the best business strategy was considered to be retention in the bank's books.

In line with the above management principles, risk monitoring and maximising profit on securitisation transactions is achieved by:

- analysing the monthly or quarterly investor reports produced by the Trustee, paying special attention to the performance of the collateral;
- monitoring similar transactions' collateral performance and issues of similar paper;
- watching the market fundamentals of the underlying credit and
- staying in constant contact with the investors and, where collateral is managed, with the managers and analysts of the Collateral Manager.

Furthermore each portfolio is assigned a market VaR limit by Risk Management. This is monitored bearing in mind the correlations. The Group has spread curves for each rating and product (asset-backed securities, mortgage-backed securities, etc.) and uses them to calculate risk, in the same way as other instruments in its portfolio. The method used is in line with other sources of market risk, and enables us to estimate the possible effects of diversification and to aggregate the VaR with other sections of the portfolio.

Development of credit risk

The charge for loan loss provisions in UniCredit Bank Austria AG was €111.4 million in 2016. The first-time recognition of a credit risk provision determined on the basis of statistical data had an impact of €151.9 million. If this effect is not included in the calculation, UniCredit Bank Austria AG benefited from net income of €40.5 million resulting from releases of loan loss provisions; this reflects the continued sound development of the credit risk profile in Austria and represents a further significant improvement compared with the previous year (2015: a charge of €76.6 million). The Corporate & Investment Banking (CIB) segment made a large contribution to the favourable development of credit risk, with net income of €40.5 million (2015: net income of €24.4 million). On a combined basis, the charge for loan loss provisions in Retail Banking and Corporate Banking remained at a very low level of €7.5 million (2015: net income of €12.5 million), although the provision for foreign-currency loans was substantially increased (+€64.8 million).

The mapping to the internal rating masterscale considers the PD (probability of default) ranges mentioned below.

INTERNAL RATING CLASSES	PD MINIMUM	PD MAXIMUM
1	0.00%	0.00%
2	0.00%	0.02%
3	0.02%	0.12%
4	0.12%	0.58%
5	0.58%	1.37%
6	1.37%	3.22%
7	3.22%	7.57%
8	7.57%	17.80%
9	17.80%	99.99%
10	non-performing	

Liquidity risk

Qualitative information

Basel 3 sets a liquidity standard under stressed conditions in the short-term maturity range (Liquidity Coverage Ratio – LCR). Under this standard, net outflows of liquidity are required to be covered by high-quality liquid assets to the extent of 100% by 2018. The phase-in arrangements introduced in 2015 require the LCR to reach 70% in 2016 and 80% in 2017. In the medium-term and long-term range, compliance with the Net Stable Funding Ratio (NSFR 100%) will be mandatory from 2019, requiring full funding of the assets side. In a separate Basel 3 project, UniCredit Bank Austria AG established the technical infrastructure to meet all reporting requirements for all relevant entities in Bank Austria. On the basis of new deposit products and the optimised structure of assets and liabilities of Bank Austria, and of the bank's holdings of high-quality liquid assets (cash and government bonds), the ratios required by law are exceeded. As at 31 December 2016, the Liquidity Coverage Ratio at Bank Austria was about 127%; in the final quarter of 2016, daily LCR levels averaged over 140%.

Management Report (CONTINUED)

The new liquidity requirements have been integrated in the planning and risk monitoring process to ensure compliance with the liquidity ratios at all times. Both ratios have been defined as key indicators in the Risk Appetite.

General information, processes and management model

In line with Group standards, Bank Austria deals with liquidity risk as a central risk in banking business by introducing and monitoring short-term and long-term liquidity requirements. In this context the liquidity situation for the next few days and months and also for longer periods is analysed against a standard scenario and stress scenarios. Methods and procedures of liquidity analysis, analyses of the degree of liquidity of customer positions, management responsibilities and reporting lines in this area have been laid down in the Liquidity Policy, which includes a contingency plan in the event of a liquidity crisis.

Liquidity management in Bank Austria is an integral part of UniCredit Group liquidity management. In line with the Group-wide distribution of tasks, UniCredit Bank Austria AG as liquidity reference bank (LRB) ensures the consolidation of liquidity flows and the funding for Austrian subsidiaries. The flow of funds is thereby optimised and external funding is reduced to the necessary extent.

Sluggish credit demand, high deposit volume throughout 2016 and an increase in bond holdings for liquidity purposes result in a very comfortable liquidity position of UniCredit Bank Austria AG. The demerger of CEE subsidiaries as part of the reorganisation as at 1 October 2016 further improved the liquidity ratios.

Liquidity management methods and control

In medium-term and long-term liquidity management, assets must be covered by liabilities to a minimum extent of 90 % / 85 % / 80 % over a period of 1 / 3 / 5 years. This limit must be observed at Group level and at individual bank level. At individual currency level, absolute limits for cross-currency funding arrangements have been defined for each bank of the Group; these limits are largely geared to the above-mentioned liquidity ratios. At Group level, the liquidity ratio as at year-end 2016 was 1.22 (2015: 1.05) for > 1 year, 1.20 (2015: 0.98) for > 3 years and 1.30 (2015: 0.98) for > 5 years. The further improvement in the liquidity ratios is due to the demerger of CEE business.

For the purpose of short-term liquidity management, volume limits have been implemented in Bank Austria at group level and at individual bank level for maturities up to three months, which limit all Treasury transactions and the securities portfolio of the respective bank. Liquidity fluctuations resulting from customers' investment decisions have also been taken into account via a liquidity buffer. Volume limits are also established for open maturities in various currencies to keep down the risk of a need for follow-up funding in the event that foreign currency markets dry up.

These limits were essentially observed at all levels. If a limit is exceeded, this will trigger the defined escalation process and a report will be presented to the relevant risk committee.

Liquidity stress test

Bank Austria and for individual banks on a regular basis, using a standardised Group-wide instrument and standardised Group-wide scenarios. These scenarios describe the effects of market-driven or name-driven crisis signals on liquidity inflows and outflows, with assumptions also being made about the behaviour of non-banks.

The liquidity outflows expected to occur in stress situations are compared with available liquidity reserves (essentially, securities – government bonds – and credit instruments eligible as collateral at the central bank) to examine the banks' risk-taking capacity in the maturity range of up to one year.

The following table shows the composition of Bank Austria's liquidity reserve as at 31 December 2016:

COMPOSITION OF LIQUIDITY RESERVE	€ MILLION
Cash and balances with central banks	2,604
Level 1 assets	18,048
Level 2 assets	123
Other unencumbered assets eligible as collateral for central bank borrowings	5,330
Liquidity reserve	**26,105**

A simulated name and market crisis, with assumptions regarding deposit renewals and loan renewals by customers, increased drawdowns on credit lines, margin obligations in connection with derivatives business and rating downgrades currently give a "time-to-wall horizon" of over one year in terms of liquidity; the required minimum period is one month.

Funding

Following the demerger of its subsidiaries in Central and Eastern Europe, Bank Austria focuses on various liquidity requirements stemming from Basel 3 (e. g. Liquidity Coverage Ratio), which are already taken into account in planning and liquidity management; this is reflected in initiatives taken in the Austrian market to

Management Report (CONTINUED)

reshape commercial funding, rebalancing its weight towards more stable longer-term funding sources. Funding provided to commercial business units in the Group takes into account relevant costs like liquidity cost, country risk premiums and insurance cost.

The following table shows the funding structure as at 31 December 2016:

UniCredit Bank Austria AG

	31 DEC.16
Deposits from customers	**60%**
Sight deposits	46%
Savings deposits	29%
Term deposits	25%
Deposits from banks	**19%**
Unsecured business	77%
Secured business	5%
Central bank operations	6%
Loro/nostro positions	10%
Supranational funding	3%
Capital market funding	**22%**
Unsecured issuances	45%
Covered bonds	46%
Subordinated bonds	9%
Total portfolio	**100%**

In the 2016 financial year, Bank Austria adapted the funding structure. Capital markets played a less significant role for funding in 2016 than in 2015, a development which was also due to organisational changes.

Market risk

Market risk management at Bank Austria encompasses all activities in connection with our Markets and Corporate Treasury Sales operations and management of the balance sheet structure in Vienna and at subsidiaries. Risk positions are aggregated at least daily, analysed by the independent risk management unit and compared with the risk limits set by the Management Board and the committees (including MACO) designated by the Management Board. At Bank Austria, market risk management includes ongoing reporting on the risk position, limit utilisation, and the daily presentation of results of all positions associated with market risk. Most of the positions held in Bank Austria are attributable to the banking book. Bank Austria uses uniform Group-wide risk management procedures for all market risk positions. These procedures provide aggregate data and make available the major risk parameters for the various risk takers once a day. Besides Value at Risk[1] (VaR), other factors of equal importance are stress-oriented sensitivity and position limits. Additional elements of the limit system are the loss-warning level (applied to accumulated results for a specific period), the stressed VaR (SVaR) limit (determined for the trading book with a separate observation period), incremental risk charge[2] (IRC) limits, the stress test warning limit (limiting losses when a pre-defined stress event is applied) and granular market risk limits[3] (GML).

As mentioned above, Bank Austria uses a standard measurement procedure which is also applied in UniCredit Group. The model, approved in 2011, is used for internal risk management and for determining regulatory capital requirements for market risk. Bank Austria is embedded in the market risk governance framework of UniCredit Group and leverages on the group-wide risk management platform UGRM. The group-wide Front-to-Back Office platform "Murex" and UGRM form an integrated risk system.

The internal model (IMOD) is based on historical simulation with a 500-day market data time window for scenario generation. It is applied by Market & Liquidity Risk within Bank Austria and is being further developed in cooperation with UniCredit. Further development includes reviewing the model as part of back-testing procedures, integrating new products, implementing requirements specified by the Management Board and the Market Risk Committee, and executing the Model Maintenance Report on a quarterly basis. For internal risk management purposes, the calculation was adjusted to the negative interest rate environment and consequently an application was submitted for approval of a major change in the model, required for determining regulatory capital.

Two aspects of market risk measurement at Bank Austria were modified in 2016. One of these modifications was classified by the regulator (ECB) as being material.

Until December 2015, interest rate scenarios for the calculation of Value at Risk in the Group-wide UniCredit market risk model were limited at 0 (flooring). Given the negative interest rate environment in several currencies (the euro in particular), the calculations did not fully correctly reflect market risk associated with changes in these currencies. The regulator classified the inclusion of negative interest rates in the VaR scenarios as material, and therefore it was possible to calculate the relevant capital requirements only after the regulator's approval (June 2016). The second modification was an adjustment to the market standard in

1) Value at Risk (VaR) is calculated daily with a 99% quantile based on 500 P/L strips and scaled on a 10-day horizon for the regulatory RWA calculation. / 2) The incremental risk charge (IRC) maps migration and default risks for a defined time period and confidence interval (1 year, 99.9%). The scope of application includes CDSs and bond positions in the trading book. / 3) E.g. BPV or CPV limits, which describe the sensitivity to changes in interest rates or credit spreads.

the valuation of collateralised transactions, with a distinction being made between collateralised and uncollateralised transactions in the interest rate scenarios used. This change was not classified as material by the regulator and was used immediately in August 2016.

Other future changes in the Group-wide model relate to the incremental risk charge and the valuation of non-EUR interest rate options, whose impact on Bank Austria is regarded as being low.

Risk governance
A new product process (NPP) has been established for the introduction of new products in the area of market risk in which risk managers play a decisive role in approving products. The risk model covers all major risk categories: interest rate risk and equity risk (both general and specific), credit spread risk, currency risk and commodity position risk. The IMOD is subject to an annual review by Group Internal Validation (GIV) and Internal Audit. The structure of the risk performance report presented at MACO's meetings, which are held every two weeks, covers (stress) sensitivities in addition to VaR, and utilisation levels in the areas of IRC and SVaR (both for the regulatory trading books) as well as the presentation of results using the total return approach. Regular and specific stress tests complement the information provided to MACO and the Management Board.

Stress testing
Bank Austria conducts a rigorous programme of stress testing for market risk and IRC. The results are reviewed and discussed in the MACO at least quarterly or on an ad-hoc basis given unfavourable market developments. Macro scenarios show the potential adverse impacts of global developments with specific effects on the respective risk categories, while stress sensitivities of individual risk factors or groups of risk factors show the potential adverse impacts on partial market segments. Stress scenarios are based on assumptions of extreme movements in individual market risk parameters. The bank analyses the effect of such fluctuations and a liquidity disruption in specific products and risk factors on the bank's results. These assumptions of extreme movements are dependent on currency, region, liquidity and the credit rating, and are set by Market Risk after consultation with experts in other areas of the bank (e.g. research, trading, and Market Risk UniCredit). Bank Austria takes part in the UniCredit Group-wide Open Market Risk Forum (OMRF), which is the platform for CRO units to discuss stress test results and agree on further common group-wide scenario definitions. The ICAAP scenarios are updated at least annually and are used for stress test analyses, stress test limit monitoring and the regulatory stress report throughout UniCredit Group.

Prudent Valuation
The regulatory approach to prudent valuation in the trading book is implemented primarily by Market Risk and further developed on an ongoing basis through cooperation within UniCredit Group. A Group-wide Independent Price Verification (IPV) process ensures the independence and reliability of valuation and risk measurement. The front-end system "Murex" is supplied with the "golden copy" market data of UniCredit Group for daily valuation purposes. The Group-wide "golden copy" is drawn up by competence centres which are structured by asset class and independent of trading operations. Moreover, UniCredit Bank Austria AG takes part in meetings of the asset-class committees, which address and resolve valuation and market-data issues. The regulatory principle of prudence is met by determining all relevant Additional Valuation Adjustments (AVA).

Backtesting
Bank Austria performs a daily backtesting of both the hypothetical and actual (i.e. economic P/L excluding fees, commissions, and net interest income) changes in the portfolio's value in accordance with Article 366 of the CRR. As at 31 December 2016, the number of backtesting overshootings (negative change in value larger than model result) for UniCredit Bank Austria AG in both P/L dimensions was lower than 5, thus the addend for the VaR multiplier for the number of overshootings is zero.

Capital requirements for market risk
The parameters used for calculating capital requirements are a 10-day holding period, a confidence level of 99% and a multiplier of 3.2 set in respect of the Value-at-Risk figures which is used in determining the capital requirement for market risk.

As of 31 December 2016, the following capital requirements resulted for Bank Austria in connection with Value at Risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):

	31 DEC. 2016	31 DEC. 2015
VaR	€4.0 million	€9.5 million
SVaR	€7.7 million	€7.5 million
IRC	€0.1 million	€0.5 million

Management of balance sheet structure
The transfer pricing system applied throughout the Group and the application of the principle of causation enable the bank to deter-

mine contribution margins from customer transactions in the bank's business divisions. The risk committees of the bank ensure that the bank's overall liquidity and interest rate gap structure is optimised. Factors taken into account in this context include the costs of compensation for assuming interest rate risk, liquidity costs and country risk costs associated with foreign currency financing at CEE subsidiaries, which will decline further on account of the demerger of CEE business.

Products for which the material interest-rate and capital maturity is not defined, such as variable-rate sight and savings deposits, are modelled in respect of maturity and interest rate sensitivity by means of analyses of historical time series, and taken into account in the banks' overall risk position.

To assess the bank's balance-sheet and profit structure, the Value-at-Risk approach is used, complemented by a scenario analysis concerning the simulation of future net interest income under different interest rate scenarios ("earnings perspective").

The low and partly negative interest rates in the Group's main currencies had a negative impact on interest margins as deposit rates were at or close to zero in many cases. Taking into account the current pricing of loans, our simulation calculations show a significant deterioration of net interest income if interest rates move into negative territory as a result of further reductions.

Legal provisions require the measurement at Group level of "interest rate risk in the banking book" in relation to the bank's capital by comparing a change in the market value of the banking book after a 2% interest rate shock with the Group's net capital resources. In the event that such an interest rate shock absorbs more than 20% of a bank's net capital resources, the bank supervisory authority could require the bank to take measures to reduce risk. The revised requirements of the supervisory authorities (EBA, Basel) in regard to interest rate risk in the banking book are generally taken into account through the Group's ERMAS project. Regulatory requirements generally provide for underlying customer business to be broadened with regard to available options (especially against the background of a negative interest rate environment) and base risks while significantly expanding scenario and stress analyses to cover present-value and interest-income dimensions.

A 2% interest rate shock absorbs about 2.93% (2015: 2.4%) of the Group's net capital resources as at the end of 2016. This means that the figure for Bank Austria is far below the outlier level of 20%.

Financial derivatives
Derivatives are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different counterparties. Bank Austria's business volume in derivatives focuses on interest rate contracts.

Counterparty risk
Trading in derivatives at Bank Austria is primarily related to the hedging of positions entered into vis-à-vis customers.

Contracts are valued at current prices using recognised and tested models. Market values show the contract values as at the balance sheet date, positive current market values and estimated future market values indicate the potential default risk arising from the relevant activity.

For the purposes of portfolio management and risk limitation in connection with derivatives, securities lending transactions and repurchase agreements, UniCredit Bank Austria AG uses an internal counterparty risk model (IMM). The model is based on a Monte Carlo path simulation for risk management in derivatives and securities financing business with banks and customers to estimate the potential future exposure at portfolio level for each counterparty.

The counterparty risk model is used across UniCredit Group. For the purposes of regulatory capital requirements and internal risk control, the model applies an expected shortfall of 87.5% (equals a 95% quantile) and 3,000 scenarios with 52 gridpoints. Furthermore, the model is based on a margin period of risk harmonised on a Group-wide basis, and on the use of default conditional metrics.

The calculations are based on market volatility, correlations between specific risk factors, future cash flows and stress considerations. Netting agreements and collateral agreements are also taken into account for simulation purposes.

The simulation calculations are performed for all major types of transactions, e.g. forward foreign exchange transactions, commodity futures transactions, interest rate instruments, securities lending transactions and repurchase agreements, equity-related, commodity-related or inflation-related instruments and credit derivatives. Other (exotic) products are taken into account with an add-on factor (depending on volatility and maturity).

In 2016, the counterparty risk model used across UniCredit Group was extended to cover negative interest rates (with regard to the pricing functions used and scenario generation). The extended model is already applied for internal risk control. As soon as ECB approval is available, the model will additionally be activated to support negative interest rates also for the calculation of capital requirements.

Management Report (CONTINUED)

Line utilisation for derivatives business is available online in the central treasury system MLC ("Murex Limit Controller"). The MLC treasury system is the central limit system used by UniCredit Bank Austria AG. In addition to current line utilisation – at customer level – resulting from derivatives and securities financing transactions, the system shows utilisation levels for money-market, issuer and settlement risk.

UniCredit Bank Austria AG additionally limits the credit risk arising from its derivatives business through strict use of master agreements, through collateral agreements and break clauses. In combination with the very good average credit rating of our business partners, management takes proper account of default risk.

In addition to determining the potential future exposure for internal risk control purposes, the path simulation also enables the bank to calculate the average exposure and the modified average exposure (exposure at default) pursuant to Basel 3, as well as the effective maturity of the exposure and the "stressed EPE" for each counterparty. This makes it possible to include counterparty risk in a Basel 3-compliant internal model to calculate capital requirements. The regulatory exposure at default is calculated at netting-set level. A netting set is a group of transactions between the bank and a customer which is subject to a legally enforceable bilateral netting agreement.

UniCredit Bank Austria AG has implemented the requirements in the area of counterparty credit risk resulting from the publications of the Basel Committee (Basel 3) and the Capital Requirements Regulation (CRR). The regulatory requirements include the calculation of normal counterparty exposure and of stressed counterparty exposure (comparable with the stressed VaR in market risk), the capital backing for market risk in respect of credit valuation adjustments (CVA market risk) and stricter standards for collateral management and margining. The requirements to be met with regard to stress testing and backtesting in respect of counterparty credit risk have also been implemented at UniCredit Bank Austria AG. Backtesting is performed at regular intervals – at the level of individual counterparties and at overall bank level – to review the model quality on a regular basis.

Moreover, in accordance with the European Market Infrastructure Regulation (EMIR), the central clearing obligation for OTC derivatives was implemented at UniCredit Bank Austria AG. UniCredit Bank Austria AG is a clearing member of the London Clearing House (LCH Clearnet) and also performs the clearing function for CEE banks of UniCredit Group. Furthermore, UniCredit Bank Austria AG clears repurchase agreements at the EUREX central counterparty.

The Group-wide IT systems are used for calculating counterparty risk arising from derivatives business, securities lending transactions and repurchase agreements, and for determining risk arising from other risk types. This ensures that exposures resulting from derivatives business as well as money-market risk, issuer risk and settlement risk are calculated centrally using the Group-wide IT systems (FRE – Full Revaluation Engine, AGE – Aggregation Engine).

Moreover, country risk is calculated and reported separately for external and internal country risk.

Separate reporting on counterparty credit risk is in place with a view to informing UniCredit Bank Austria AG's Market Risk Committee (MACO) and Derivative Committee (DECO) of current exposure trends, stress testing, collateral management and wrong way risk while also providing additional information relevant to risk management.

Based on the calculation method of counterparty credit risk used in the group-wide risk systems, derivative transactions, repurchase agreements and securities lending transactions resulted in the following exposures for UniCredit Bank Austria AG at the end of the year:

The total exposure at year-end 2016 can be broken down by sector as follows:

Exposure by sector (€ million)

SECTOR	2016	2015
Financial services sector	723	1,325
Trade and industry	677	771
Central clearing counterparties (CCP)	349	895
Real estate	306	263
Energy	94	174
Public sector	44	27
Total	**2,193**	**3,456**

Exposure by rating class (€ million)

RATING CLASS	2016	2015
1	535	1,041
2	975	1,163
3	215	264
4	215	633
5	172	157
6	53	154
7	14	32
8	4	4
9	3	5
10	8	3

Management Report (CONTINUED)

Country risk and sovereign risk

Risk associated with cross-border transactions with all customer groups is reflected in country risk ("transfer and convertibility risk"; country risk includes, for example, loans to foreign corporate customers or banks). Risk associated with the state itself (e.g. the purchase of government bonds) is reflected in sovereign risk, irrespective of whether such risk is cross-border or local risk. Both risks are assessed via a UniCredit Group-wide credit process. Country limits and sovereign limits are assessed by the responsible risk management team, approved by the relevant body having approval authority, and assigned to UniCredit subsidiaries according to business needs. In general, cross-border business is not limited for countries which are presumed less risky, e.g. the US, Japan, core EU countries; for all other countries, cross-border business is limited via the assigned country limit.

Sovereign risk is in each case limited via counterparty limits. The overall bond exposure is monitored via nominal credit risk limits and market risk limits. Impairment losses are recognised, if necessary, according to international financial reporting standards.

Operational risk

UniCredit Bank Austria AG has used the Advanced Measurement Approach (AMA) since the beginning of 2008. A revised AMA model for operational risk capital calculation, approved in July 2014 by Banca d'Italia and all local regulators of UniCredit subsidiaries using the AMA, has been used since the third quarter of 2014.

Implementation of disclosure requirements pursuant to the Capital Requirements Regulation (CRR)

Within UniCredit Group, comprehensive disclosure (under the Pillar 3 disclosure requirements pursuant to the CRR) is carried out by the parent company UniCredit on its website, based on the consolidated financial position in its function as EU parent bank of Bank Austria. Bank Austria is a significant subsidiary pursuant to Article 13 of the CRR and, for the 2016 financial year, discloses information regarding its capital resources ("own funds", Article 437 of the CRR), capital requirements (Article 438 of the CRR), capital buffers (Article 440 of the CRR), credit risk adjustments (Article 442 of the CRR), remuneration policy (Article 450 of the CRR), leverage ratio (Article 451 of the CRR) and use of credit risk mitigation techniques (Article 453 of the CRR).

The disclosure by Bank Austria is available at its website www.bankaustria.at/Investor Relations/Disclosure according to Basel 2 and 3 (CRR).

Operational risk (OpRisk) is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risks). For example, compensation paid to customers for incorrect/inadequate product-related advice, IT system failures, damage to property, processing errors or fraud are subject to accurate and consolidated risk measurement and management (collection of loss data, external data, scenarios, indicators), on which the calculation of capital to be held for operational risk is based.

Loss data are collected, and processes are optimised, in close coordination and cooperation across departments and units including Internal Audit, Compliance, Legal Affairs, ICT & Security Management and the insurance sector. Over the years, UniCredit Bank Austria AG has taken numerous measures in the various divisions to manage and reduce operational risk. Thus data security measures, measures to ensure the confidentiality and integrity of stored data, access authorisation systems, the two-signatures principle, and a large number of monitoring and control processes as well as staff training programmes have been implemented among other measures.

In line with other types of risk, UniCredit Bank Austria AG – like UniCredit Group – has built up a decentralised operational risk management framework based on representatives within divisions and at banking subsidiaries – Divisional OpRisk Managers (DORM) and OpRisk Managers – in addition to central operational risk management. While the main task of central risk management is to define the methods used and to perform risk measurement and analysis, decentralised risk managers are responsible for taking measures to reduce, prevent, or take out insurance against, risks.

Activities in 2016 focused on:

- integrating OpRisk strategy issues of 2015 and monitoring by reference to key performance indicators in the Permanent Work Group (a cross-divisional OpRisk work group which holds regular meetings);
- integrating the new approach to monitoring OpRisk exposures on the basis of Expected Loss for Operational Risk (ELOR), which replaced the OpRisk Warning Levels used in the past;
- drawing up a risk-sensitive approach to allocating the OpRisk capital requirement within the Bank Austria sub-group;
- preparing the transfer of, and transferring, organisational responsibility for the CEE banking subsidiaries to UniCredit Group;
- drawing up an approach to implementing the UniCredit Group OpRisk ICT Assessment Framework for UniCredit Bank Austria AG and providing support for the implementation at relevant Bank Austria sub-group legal entities;
- revising the KRI Monitoring Framework for more effective risk measurement.

Overall, the organisation of operational risk management at UniCredit Bank Austria AG is well established at a high level of quality. A network of independent functions and teams are involved in managing and controlling risks, providing the Management Board with sufficient information on the risk situation and enabling the Management Board to manage risk. The analysis of the general ledger for OpRisk relevance confirmed the comprehensive and complete OpRisk data collection.

The task of dealing with operational risk issues is performed by a separate Operational & Reputational Risk Committee (OpRRiCo), whose meetings are held on a quarterly basis and are attended by the Chief Risk Officer, the Head of Strategic Risk Management & Control, the Head of UniCredit Operational Risk Management, Compliance, Internal Audit and the Divisional Operational Risk Managers. The Committee is a major step towards integrating operational risk in the bank's processes; its main tasks are to report on current operational risk issues and developments, to approve operational risk-relevant documents, to report losses and serve as a body to which unresolved issues are referred.

In 2017 activities with regard to operational risk will focus on:
- integrating OpRisk risk strategy issues of 2016 in the Permanent Work Group and monitoring these issues by reference to key performance indicators;
- integrating the approach to monitoring OpRisk exposures on the basis of Expected Loss for Operational Risk (ELOR);
- monitoring and analysing relevant ICT risk by applying the UniCredit Group OpRisk ICT Risk Assessment Framework for UniCredit Bank Austria AG;
- analysing the collection and classification of OpRisk events related to credit risk.

Reputational risk
UniCredit Group has identified reputational risk as the current or future risk of a decline in profits as a result of a negative perception of the Bank's image by customers, counterparties, shareholders, investors, employees or regulators.

A separate unit (OpRisk, RepRisk & Credit Risk Validation) within the CRO management function has been entrusted with strategic management and monitoring of reputational risk since 2012.

Reputational risk activities in 2016 focused mainly on the continuation of providing support to subsidiaries in further implementing and expanding structures, policies and training, on monitoring and reporting cases of reputational risk and trends with regard to relevant topics, and on enhancing awareness of reputational risk management through training activities within UniCredit Bank Austria AG and subsidiaries.

In 2017 activities with regard to reputational risk will focus on:
- intensifying training activities within UniCredit Bank Austria AG and for Austrian subsidiaries to enhance risk awareness and ensure the application of implemented reputational risk policies;
- continuing to monitor and report cases of reputational risk and trends with regard to relevant topics.

Business risk
Business risk is defined as unexpected adverse changes in business volume and/or margins which cannot be attributed to other types of risk. Adverse impacts of such changes on profitability result mainly from a significant deterioration in market conditions, changes in the competitive position or customer behaviour, and from changes in the legal environment.

Business risk measurement thus measures the influence of external factors on a decline in profits and the effect on the market value.

As part of general income and cost management, operational management of business risk is the responsibility of the individual business units.

Financial investment risk and real estate risk
In dealing with risks arising from the bank's shareholdings and equity interests, Bank Austria takes into account potential market price fluctuations in its equity holdings in listed and unlisted companies.

Not included are equity interests in consolidated subsidiaries of Bank Austria because risks associated with such companies are determined and recorded under the various other risk types. The portfolio includes various strategic investments; real estate holding companies are taken into account in real estate risk.

Financial investment risk and real estate risk are covered by a value-at-risk approach under the ICAAP.

Legal risks
Provisions are generally made for legal proceedings where impending losses are likely or certain but the amount and timing of the losses are uncertain. In such cases, provisions are made in an amount that is deemed appropriate in light of the particular circumstances and in accordance with the applicable accounting principles, with due regard to the principle of prudence and the principle of appropriate and reliable estimate.

Legal risks for which provisions have been made
In line with the above policy, provisions have been made in the amount of the estimated risk for the following pending legal proceedings and the following other proceedings.

Management Report (CONTINUED)

Madoff

Background

UniCredit Bank Austria AG ("Bank Austria") and certain of its affiliates and indirect subsidiaries have been sued or investigated in the wake of a Ponzi scheme perpetrated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was exposed in December 2008.

Austrian civil proceedings

Investors in the Primeo and Herald Madoff feeder funds have brought numerous civil proceedings, of which 65 with a claimed amount totaling €21.7 million plus interest remain. The claims in these proceedings are either that Bank Austria breached certain duties regarding its function as prospectus controller, or that Bank Austria improperly advised certain investors (directly or indirectly) to invest in those funds, or a combination of these claims. The Austrian Supreme Court has issued 16 final decisions with respect to prospectus liability claims asserted in the legal proceedings. With respect to claims related to the Primeo feeder funds, 9 final Austrian Supreme Court decisions have been in favour of Bank Austria. In one case the Supreme Court did not accept Bank Austria's extraordinary appeal, thus rendering binding the decision of the Court of Appeal in favour of the claimant. With respect to the Herald feeder funds, the Austrian Supreme Court has ruled five times with respect to prospectus liability, twice in favour of Bank Austria and three times in favour of the claimant. In a prospectus liability case with Primeo and Herald investments the Austrian Supreme Court ruled in favour of Bank Austria.

While we cannot predict with certainty the impact of these decisions on the remaining Herald cases, future rulings may be adverse to Bank Austria.

In respect of the Austrian civil proceedings pending as against Bank Austria related to Madoff's fraud, Bank Austria has made provisions for an amount considered appropriate to the current risk.

Austrian criminal proceedings

Bank Austria has been named as a defendant in criminal proceedings in Austria which concern the Madoff case. These complaints allege, amongst other things, that Bank Austria breached provisions of the Austrian Investment Fund Act as prospectus controller of the Primeo fund and certain tax issues. The criminal proceedings are still at the pre-trial stage.

The pre-trial proceedings on the tax issues were dismissed in September 2016, since the tax authorities confirmed in a final report that all taxes had been correctly paid.

Proceedings in the United States

Claims by the SIPA Trustee

In December of 2010, the bankruptcy administrator (the "SIPA Trustee") for the liquidation of BLMIS filed, as one of a number of cases, a case in a United States Federal Court against several dozen defendants, including HSBC, UniCredit S.p.A., Bank Austria and certain of its affiliates (the "HSBC" case).

In the HSBC case, the SIPA Trustee sought to recover several billion dollars for common law claims and avoidance claims (also known as "claw back" claims). The common law claims were dismissed in 2011 and no further appeals from that decision are pending. In 2015, the SIPA Trustee voluntarily dismissed with prejudice the avoidance claims made in the HSBC case against UniCredit S.p.A and the Alternative Investments Division of Pioneer ("PAI") and without prejudice against Bank Austria, all following certain settlements, not involving UniCredit S.p.A., PAI and Bank Austria, which the SIPA Trustee regarded as having satisfied such claims. The avoidance claims against BA Worldwide Fund Management Ltd ("BAWFM"), an indirect subsidiary of Bank Austria remain pending. They are currently subject to a request that they be dismissed because the relevant provisions of United States law do not apply extra-territorially. Certain current or formerly affiliated persons named as defendants in the HSBC case may have rights to indemnification from UniCredit S.p.A. and its affiliated entities.

Claim by SPV OSUS Ltd.

Bank Austria and certain of its affiliates – UniCredit S.p.A., BAWFM, PAI – have been named as defendants, together with approximately 40 other defendants, in a lawsuit filed in the Supreme Court of the State of New York, County of New York, on December 12, 2014, by SPV OSUS Ltd. The complaint asserts common law based claims in connection with the Madoff Ponzi scheme, principally that defendants aided and abetted and/or knowingly participated in Madoff's scheme. The case is brought on behalf of investors in BLMIS and claims damages in an unspecified amount. The action filed by SPV OSUS Ltd. is in the initial stages.

Management Report (CONTINUED)

Certain potential consequences
In addition to the foregoing proceedings and investigations stemming from the Madoff case against UniCredit Bank Austria AG, its affiliates and some of their respective employees and former employees, additional Madoff-related proceedings may be filed in the future in the United States, Austria or elsewhere. Such potential future proceedings could be filed against UniCredit Bank Austria AG, its affiliates, their respective employees and former employees. The pending or possible future actions may have negative consequences for UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its affiliates intend to defend themselves vigorously against the Madoff-related claims and charges. Save as described above, for the time being it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Alpine Holding GmbH
Alpine Holding GmbH (a limited liability company) issued a bond in every year from 2010 to 2012. In the years 2010 and 2011, UniCredit Bank Austria AG acted as Joint Lead Manager, each year together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings began. Numerous bondholders then started to send letters to the banks involved in the issuance of the bonds, specifying their demands. At least as far as UniCredit Bank Austria AG is concerned, bondholders substantiated their claims mainly by referring to prospectus liability of the Joint Lead Managers and only in a minority of cases also to bad investment advice by the banks which sold the bonds to their customers. At this time, civil proceedings including three class actions filed by the Federal Chamber of Labour (with the claimed amount totalling about €20.5 million) have been initiated by investors in which UniCredit Bank Austria AG, among other banks, has been named as defendant. The key aspect is prospectus liability. These civil proceedings are mainly pending in the first instance. No final decisions have been issued so far against UniCredit Bank Austria AG. In addition to the foregoing proceedings against UniCredit Bank Austria AG stemming from the Alpine insolvency, additional Alpine-related actions have been threatened and may be filed in the future. The pending or future actions may have negative consequences for UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to defend itself vigorously against these claims. At this stage, it is not possible to estimate reliably the timing and results of the various actions, nor determine the level of responsibility, if any responsibility exists.

Austrian criminal proceedings
Several involved persons have been named as defendants in criminal proceedings in Austria which concern the Alpine bankruptcy case. UniCredit Bank Austria AG has joined these proceedings as private party. Unknown responsible persons of the issuing banks involved are formally also investigated by the public prosecutor's office. The criminal proceedings are at the pre-trial stage.

Financial sanctions matters
Recently, violations of US sanctions and certain US dollar payment practices have resulted in certain financial institutions entering into settlements and paying substantial fines and penalties to various US authorities, including the US Treasury Department's Office of Foreign Assets Control ("OFAC"), the US Department of Justice ("DOJ"), the District Attorney for New York County ("DANY"), the US Federal Reserve ("Fed") and the New York Department of Financial Services ("DFS"), depending on the individual circumstances of each case.

UniCredit Bank Austria AG has initiated a voluntary investigation of its historic compliance with applicable U.S. financial sanctions and has identified certain historic non-transparent practices. It is possible that investigations into past compliance practices may be extended to one or more of our subsidiaries and/or affiliates. The scope, duration and outcome of any such review or investigation will depend on facts and circumstances specific to each individual case. UniCredit Bank Austria AG is updating its regulators as appropriate and remediation activities are ongoing. Although we cannot at this time determine the form, extent or the timing of any resolution with any relevant authorities, the investigation costs, remediation required and/or payment or other legal liability incurred could lead to liquidity outflows and could potentially negatively affect the net assets and net results of UniCredit Bank Austria AG and one or more of its subsidiaries in any particular period.

Legal risks for which provisions have not yet been made
In line with the above policy, no provision has been made for the following pending legal proceedings. Due to the uncertain nature of litigation, however, we cannot exclude that the following may result in losses to the bank:

Management Report (CONTINUED)

Valauret S.A.
In 2001, the plaintiffs, Valauret S.A. and Hughes de Lasteyrie du Saillant, bought shares in the French company Rhodia S.A. The plaintiffs argue that they suffered losses as a result of the drop in Rhodia share prices between 2002 and 2003, allegedly caused by previous fraudulent actions by members of the company's board of directors, which made the financial statements untruthful and misleading.

In 2004, the plaintiffs filed a petition claiming damages against the board of directors, the external auditors, and Aventis S.A. (the alleged majority shareholder of Rhodia S.A.). Subsequently, they extended their claim to other parties, amounting to a total of 14 defendants, including UniCredit Bank Austria AG, against which a petition was filed at the end of 2007, as successor entity of Creditanstalt AG. The plaintiffs argue that the latter was involved in the aforementioned alleged fraudulent activities, as it was the credit institution of one of the companies involved in said activities. Valauret S.A. is seeking damages of €129.8 million in addition to legal costs and Hughes de Lasteyrie du Saillant is seeking damages of €4.39 million.

In UniCredit Bank Austria AG's opinion, the claim that Creditanstalt AG was involved in fraudulent activities is without grounds. In 2006, prior to UniCredit Bank Austria AG being included as a defendant, the civil proceedings were suspended following the opening of criminal proceedings. In December 2008, the Commercial Court of Paris suspended the civil proceedings against UniCredit Bank Austria AG as well.

Negative interest rates
After the Swiss National Bank (SNB) surprisingly discontinued the Swiss franc's link to the euro in the middle of January 2015, the variable indicator (e.g. CHF Libor 1M) in some existing loan agreements became negative. As long as the negative indicator does not exceed the margin, the method used by Bank Austria for charging interest for existing loan agreements with no other specific stipulation will not change. This means that the rate of interest payable by the customer may be lower than the margin in such cases (example: indicator minus 0.5% and margin 1.2% = debit interest rate 0.7%). If the calculated debit interest rate becomes negative, however, Bank Austria will not apply that rate but a debit interest rate of 0.00001% – in line with Bank Austria's legal view that the borrower is in each case required to pay interest at a minimum rate. The borrower will therefore pay interest at the above-mentioned minimum rate even if the negative indicator exceeds the margin (example: indicator minus 1.3% and margin 1.2% = debit interest rate applied is 0.00001%, not minus 0.1%). The Austrian Association for Consumer Information (Verein für Konsumenteninformation – VKI) has filed a class action against this practice. On 30 September 2015 a negative decision was rendered by the Commercial Court in Vienna against Bank Austria. According to this decision Bank Austria would have to pay out negative interest (in FX loans) to consumers. Bank Austria has appealed against this decision. On 23 December 2015, a positive decision was rendered by the Regional Appeal Court of Vienna in favour of Bank Austria, dismissing the suit of VKI for lack of standing without addressing the merits of the case. This decision is not legally binding and a ruling of the Austrian Supreme Court (Oberster Gerichtshof) on the merits of the case is still to be expected.

UniCredit Bank Austria AG has started to provide for an interest rate floor in new loan agreements without also stipulating a cap. In September 2016 the VKI filed a second class action against this practice with regard to all kinds of variable indicators (CHF Libor and EURIBOR). UniCredit Bank Austria AG has objected to this claim and filed a statement of defence. The judgement of the court of first instance was served in January 2017. The court ruled in favour of the plaintiff, taking the view that, in case an interest rate floor is provided for, also an "adequate" cap has to be set, without, however, giving any further explanation as to how such cap should be determined. UniCredit Bank Austria AG has filed an appeal against this decision.

Initiation of administrative penalty proceedings referring to Anti Money Laundering
During an on-site visit in 2014, the FMA identified four weaknesses regarding UniCredit Bank Austria AG's strategies and procedures for combating money laundering and financing of terrorism. Regarding two of those weaknesses, the FMA initiated proceedings accusing UniCredit Bank Austria AG of not having in place adequate strategies and procedures until the respective remedial actions were closed. If the FMA concludes that UniCredit Bank Austria AG has violated applicable regulations, UniCredit Bank Austria AG would have to pay a fine in accordance with Section 99d of the Austrian Banking Act (Bankwesengesetz – BWG). It cannot currently be predicted whether UniCredit Bank Austria AG will be sanctioned by the FMA in this case and, if a sanction is indeed imposed, how high the fine will be. Also, UniCredit Bank Austria AG could take legal action if such a fine is imposed.

2.3. Third-party guarantees

Under Section 92 (9) of the Austrian Banking Act, "Privatstiftung zur Verwaltung von Anteilsrechten" ("AV-Z Stiftung", a private foundation under Austrian law) serves as deficiency guarantor for all liabilities of UniCredit Bank Austria AG in the event of the company's insolvency.

After the change in the legal form of Anteilsverwaltung-Zentralsparkasse into a private foundation ("AV-Z Stiftung") in 2001, the Municipality of Vienna serves as deficiency guarantor for all outstanding liabilities, and obligations to pay future benefits, of UniCredit Bank Austria AG (then Bank Austria Aktiengesellschaft) which were entered into prior to and including 31 December 2001.

3. Outlook for 2017

Economic scenario

General conditions for the global economy at the beginning of 2017 were better than in any of the past several years. Brief periods of uncertainty over surprising political decisions, including the British vote to leave the European Union and Donald Trump's election as 45th President of the United States have given way to stable optimism. Stock markets have so far seen a bullish trend, though marked by strong volatility. The world stock index (MSCI World) rose by 3.5% between the US election and Donald Trump's inauguration on 20 January 2017. The Dow Jones Index and the Euro Stoxx 50 even climbed by 8%. More and more positive economic data followed the upward trend in market data and improved business sentiment in the past weeks. Economic growth in the industrial countries has been gathering momentum, led by the US economy and accompanied by stronger recovery in Europe. Growth in emerging markets has also picked up, with only a few exceptions.

● The world economy got off to a strong start in 2017. UniCredit's Global Leading Indicator, which combines economic data for many countries and various industries, has reached a 3-year high. Can the global economy benefit from the more favourable starting position to achieve more dynamic growth in 2017 than in the previous year? We believe it can and our forecast for 2017 reflects our view that the improved economic data will prevail over existing risks. We believe that four factors in particular may create problems: first, the possibility of a protectionist US economic policy under the new President Donald Trump; second, negotiations on the United Kingdom's exit from the European Union; third, political uncertainty over elections in a number of European countries, including France and Germany, which is caused by the rise of populist movements; and fourth, the question of whether the economic upswing in emerging markets will be sustainable. In this overall environment we expect global economic growth of 3.5% in 2017, up from 3% in the previous year, although there are initial signs of a turnaround in view of a moderate expansion of global trade and rather modest growth in the industrial countries.

● Stronger economic growth in 2017 will be driven by emerging markets to a significant extent. China's economy has shown a good performance and will remain robust, with growth of over 6%, thanks to continued measures to stimulate business activity; this should benefit commodity exporters and other Asian countries. When OPEC agreed on production cuts, oil prices started to turn around and they should gradually increase to 60 US dollars per barrel by year-end 2017. Rising commodity prices and the upswing in global trade will strengthen growth in emerging markets, all the more so as some big countries like Argentina, Brazil and Russia are emerging from recession and can contribute to a stronger economic performance. The outlook for emerging markets for 2017 could be affected by the pace of US interest rate increases and potential impacts from policies pursued by the new US government. Since Donald Trump won the presidential election, yields on US government bonds have risen steeply, ahead of expected interest rate increases by the Fed. This has triggered massive outflows of funds from emerging markets, significantly weakening exchange rates and pushing up financing costs. While the adjustment of US yields appears to be largely complete, the upward movement may be expected to continue. This means that portfolio shifts are likely to continue, which could primarily impact countries with economic imbalances and extensive financing requirements, such as Turkey, Brazil and South Africa. The new US government's stance on free trade and on US companies' practice of outsourcing abroad poses a potential risk to several emerging markets. Despite the election campaign rhetoric, we still proceed from the assumption that the US government will refrain from any major protectionist moves. If any such steps were taken, Mexico would perhaps be facing the greatest risk, besides Asia and of course China.

● In several industrial countries, especially in the US, economic growth may be expected to accelerate in 2017. The US economy will grow at a rate of 2.4% in 2017, up from 1.6% in the previous year as investment restraint in the energy sector, caused by low oil prices, will decrease. US economic growth in 2017 will additionally be driven by fiscal measures. The scope of taxation and investment plans of the new US President Donald Trump is not yet known; however, these plans are expected to have positive effects on a US economy which already operates at a high level of capacity utilisation. Higher pressure on wages could pose a risk to corporate profits and US companies' competitiveness while also driving inflation. We believe that the inflation rate will almost double, to an average 2.5% in 2017. This will help the US Fed in taking steps for its monetary policy to gradually return to normal. After a single increase in key interest rates in both 2015

Management Report (CONTINUED)

and 2016, we expect that 2017 will see two decisions to raise interest rates in the US.

● While growth in the **euro area** in 2017 will be significantly weaker than in the US, recovery is continuing at the moderate pace which has become a familiar feature of recent years. We expect the growth rate to reach 1.5 %, a level which is more or less unchanged compared with 2016 and dampened by the effects of higher oil prices and diminishing support from the still weaker euro. The European economy will continue to benefit from slightly positive impetus provided by fiscal measures and from the European Central Bank's highly accommodative monetary policy.

Domestic demand will again be driving growth in 2017, though losing some of its momentum. Growth of private consumption will slow as inflation increases, mainly due to oil price developments, while the savings ratio will remain more or less unchanged. The upward trend of investment activity will continue, benefiting from companies' improved profitability, significant net savings in the corporate sector and a relaxed financial setting. While stronger support should come from foreign demand in 2017, it will probably remain weak as the favourable effect from growing world trade could largely be offset by expected currency appreciation. In fundamental terms, we see a number of strong arguments in favour of an impending downward correction of the US dollar against the euro.

In response to an increase in inflation to 1.5 % in the euro area, the ECB will take further steps at the end of 2017 to gradually reduce its asset purchase programme. We believe that the monthly amount of purchases may be reduced to € 40 billion by or around the middle of 2018. The ECB would thus be on track to end the programme of quantitative easing by year-end 2018 or the beginning of 2019. If QE is gradually reversed and the ECB's Governing Council remains committed to keeping interest rates "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases", the key interest rates may hardly be expected to be raised before 2019.

● Favourable general conditions helped the **Austrian economy** get off to a good start in 2017. The level of foreign demand is promising, and consumer confidence has increased. Business prospects for the construction industry have stabilised at a promising level and the Bank Austria Purchasing Managers' Index started 2017 at a five-year high.

Domestic demand will continue to drive economic growth in Austria in 2017, though the supportive effect of the 2016 tax reform will weaken as the year progresses. A further rise in unemployment and higher inflation will affect domestic demand. The unemployment rate, based on the Eurostat definition, is likely to rise to 6.1 % due to labour supply trends. Inflation will rise to an average 1.8 % in 2017, mainly reflecting movements in commodity prices and continued strong increases in prices for various services and in rents. The investment momentum carried over from the previous year will not be sustained as pent-up demand will diminish in an environment marked by various factors creating political uncertainty. However, global trade prospects have improved and this should benefit the Austrian economy. While economic growth in 2016 was predominantly supported by domestic demand, foreign trade will again make a significant contribution to GDP growth in Austria in the current year. For 2017, we expect the Austrian economy to grow by 1.6 %, a slightly higher rate than in the previous year. Somewhat stronger global demand will benefit Austrian exporters to a larger extent than in the previous year, thereby offsetting a slowdown in the growth of consumption and investment.

In the course of 2017, slightly better economic prospects should translate into stronger growth of corporate loans, which has so far been weak. However, companies still enjoy a very good liquidity position and also have access to alternative financing methods in capital markets. SMEs will probably show stronger demand for finance and demand for consumer finance is also likely to increase in line with higher expectations on the part of consumers. Housing finance is expected to remain buoyant as interest rates remain low, demand for housing is strong and real estate prices will continue to rise at least slightly.

Private households' investment behaviour continues to be determined by low interest rates. In 2017, investments are again expected to focus on short-term deposits, which will account for a large proportion of new investment as deposits for longer periods and bonds do not offer attractive yields. We expect to see additional demand for investment funds while classic life assurance will hardly achieve any net growth.

Outlook for Bank Austria

Medium-term and long-term objectives

The 2016 financial year was dominated by the reorientation of Bank Austria to transform it into the most attractive bank for customers of the 21st century, in line with the Group strategy "Transform 2019" presented by UniCredit.

Management Report (CONTINUED)

For Bank Austria, this means:
- adjusting the business model with a view to keeping costs low on a sustainable basis and providing focused customer services, with digitalisation and related IT investment being increasingly important factors in this context;
- reducing the cost base through a significantly leaner Corporate Center;
- making more intensive use of potential resulting from the broad customer base and the Group's market leadership position in many business areas and a number of regional markets by unlocking Group synergies and taking advantage of cross-selling opportunities.

After the transfer of business operations in Central and Eastern Europe to UniCredit in the fourth quarter of 2016, Bank Austria now focuses on the Austrian market and is working intensively to implement strategic measures in this connection. With the reorientation, Bank Austria is now concentrating on Austrian customer business while continuing to benefit from all capabilities of a major European bank and the advantages of an international outlook. The "Bank Austria Reloaded" project defined the main pillars of the bank's reorientation, on the basis of intensive and detailed analyses of all segments and business areas, and in line with the changing market environment.

The various analyses and results under this project were taken into account in drawing up a transformation programme which encompasses major business-policy decisions and forms part of UniCredit Group's multi-year plan for the period to 2019. These measures aim at making Bank Austria a bank that meets the latest standards and is even more attractive for our customers while improving the cost/income ratio.

We are adjusting our services and our organisational structure and internal processes with a sharp focus on changes in our customers' needs. In addition to customer service-related initiatives, a number of revenue and cost initiatives have been launched for this purpose.

On the revenue side, Bank Austria will further expand its leading market position in three business areas: Corporate Banking, Corporate & Investment Banking, and Affluent customers and Private Banking. In addition to selective efforts to win new corporate customers, also in the segment of medium-sized companies, Bank Austria will concentrate on leveraging more effectively on existing customer business potential available to the bank as Austrian market leader. In Private Banking and in the Affluent customer segment, where we hold market leadership positions, we see additional growth opportunities. Schoellerbank will further pursue its upmarket strategy. Within Bank Austria we have identified strong potential for new business with existing customers of other divisions. We will generate income by optimising the structure of portfolios, i. e. by assisting customers in channelling bank deposits and safe-custody securities holdings into asset management products with high added value – a shift which is in the mutual interest of customers and the bank. Retail banking activities focus on giving branches and the digital marketplace – comprising the OnlineShop and the online branch – equal weight as channels for product sales and advisory services.

On the cost side, we have created a significantly flatter hierarchy in Bank Austria's organisational structure – especially in back-office operations – and we have integrated units to make processes more efficient. This will be achieved by concentrating on essential services and reducing complexity. A distinct feature of the new organisation is the significant reduction of the first management level below the Management Board and of Corporate Center units, i. e. Bank Austria's back-office operations, as compared with customer-facing units. The reorientation enables the bank to provide many services in a much more effective and efficient manner than in the past. Moreover, digitalisation makes it possible to perform the required tasks with fewer employees in the future.

4. Report on key features of the internal control and risk management systems in relation to the financial reporting process

The Management Board is responsible for establishing and designing internal control and risk management systems which meet the company's requirements in relation to the financial reporting process.

The objective of the internal control system is to assist management in assuring internal controls in relation to financial reporting which are effective and are improved on an ongoing basis. The system is geared to complying with rules and regulations and creating conditions which are conducive to performing specific controls in key accounting processes.

Following the integration of the Bank Austria Group in UniCredit Group, the Italian Savings Law, Section 262 (detailed descriptions of processes, risk and control for minimising risk in preparing financial statements) in particular, must be complied with in addition to the existing internal control system.

Pursuant to the "262 Savings Law", the CEO and the CFO are liable, under civil and criminal law, for any violation of the legal provisions. They are also responsible for subsidiaries defined by UniCredit S. p. A. within the group of consolidated companies.

Management Report (CONTINUED)

Internal Audit performs independent and regular reviews of compliance with legal provisions and internal rules also in the area of accounting. The Head of Internal Audit reports directly to the Management Board and provides the Chairman of the Supervisory Board with quarterly reports.

Control environment
The basic aspect of the control environment is the corporate culture in which management and all employees operate.

UniCredit S.p.A., the parent company of UniCredit Bank Austria AG, works to maintain effective communication and convey the corporate values defined in the Integrity Charter. The Integrity Charter embodies the UniCredit Group's identity and is based on the following shared values: fairness, transparency, respect, reciprocity, freedom to act, and trust.

The implementation of the internal control system in relation to the financial reporting process is also set out in the internal rules and regulations.

All accounting entries are made within the guidelines established in the Accounting Policy, and release follows defined instruction and control criteria. Appropriate processes have been implemented and are reviewed by Internal Audit.

Risk assessment
In the course of the "262 Savings Law" project, the persons having process responsibility identified risks in relation to the financial reporting process and described them in detail using the method defined by UniCredit S.p.A. These risks are monitored on an ongoing basis and checked for up-to-dateness at least on a half-yearly basis. The focus is on those risks which are typically considered to be material.

To meet the "262 Savings Law" requirements, controls pursuant to the methodology used by UniCredit S.p.A. are required to be performed at least on a half-yearly basis (for full-year and half-year reporting). Such control evidence must be kept on file for 10 years by the person having process responsibility. Any controls that do not meet the relevant criteria are identified under this method and reported to management together with a proposal for a solution.

Controls
All controls are applied in the current business process to ensure that potential errors or deviations in financial reporting are prevented or detected and corrected. Controls range from a management review of results for the various periods to specific reconciliation of accounts and the analysis of continuous accounting processes.

The levels of hierarchy are designed so that an activity and the control of that activity is not performed by the same person (four-eyes principle). In the course of the preparation of financial reports, the general ledger accounts are reconciled with business and front-end systems. IT security controls are a cornerstone of the internal control system. Defined IT controls are documented under "262 Savings Law" and audited by external auditors pursuant to "International Standards for Assurance Engagements" (ISAE) No. 3402.

Information and communication
Management regularly updates rules and regulations for financial reporting and communicates them to all employees concerned.

Moreover, regular discussions on financial reporting and on the rules and regulations applicable in this context take place in various bodies and are repeatedly communicated to UniCredit Bank Austria AG. Employees in Financial Accounting receive regular training in new methods of international financial reporting in order to identify risks of unintended misreporting at an early stage.

To perform monitoring and control functions with a view to proper financial accounting and reporting, extensive financial information is made available at key levels of the bank. Relevant information is not only provided to the Supervisory Board and the Management Board, middle management levels also receive detailed reports.

Monitoring
As part of the implementation of the internal control system pursuant to the "262 Savings Law", instruments were introduced to monitor the effectiveness of controls. In connection with the compulsory half-yearly certification process for the preparation of the management report, the persons having process responsibility are required to carry out tests to check the up-to-dateness of

Management Report (CONTINUED)

descriptions and the effectiveness of controls. It must be ascertained whether the controls work according to their design and whether the persons who perform controls have the competence/authority and qualifications required to perform the controls effectively.

All persons having process responsibility confirm by means of certification that their processes are adequately documented, risks have been identified and controls have been evaluated with a view to deriving measures to minimise risk.

The Management Board of UniCredit Bank Austria AG receives the certifications of UniCredit Bank Austria AG and of the subsidiaries defined by UniCredit S.p.A. within the group of consolidated companies, in the form of a consolidated management report on a half-yearly basis, and provides UniCredit S.p.A. and the public with confirmation of the reliability and effectiveness of the internal control system pursuant to the "262 Savings Law" in the context of the financial statements for the first six months and the annual financial statements.

Vienna, 24 February 2017

The Management Board:

Robert Zadrazil (Chairman)	Romeo Collina (Deputy Chairman)
Dieter Hengl	Gregor Hofstätter-Pobst
Jürgen Kullnigg	Doris Tomanek

Management Report (CONTINUED)

Wien, 24. Februar 2017

Der Vorstand:

Robert Zadrazil
CEO Commercial & Private Banking,
Support Services
(Vorsitzender)

Romeo Collina
COO Chief Operating Officer

(Vorsitzender-Stellvertreter)

Mag. Dieter Hengl
Corporate & Investment
Banking Division

Mag. Gregor Hofstätter-Pobst
CFO Finance

Dr. Jürgen Kullnigg
CRO Risk Management

Mag. Doris Tomanek
Human Resources

Financial Statements of UniCredit Bank Austria AG

Balance Sheet at 31 December 2016

Assets

(€ thousand)

	31 DEC. 2016	1 JAN. 2016 *)	CHANGE IN € 1,000	CHANGE IN %
1. Cash in hand, balances with central banks and postal giro offices	3,133,557	1,577,730	1,555,827	98.6
2. Treasury bills and other bills eligible for refinancing at central banks	12,219,045	11,135,023	1,084,022	9.7
a) treasury bills and similar securities	12,219,045	11,135,023	1,084,022	9.7
b) other bills eligible for refinancing at central banks				
3. Loans and advances to credit institutions	17,742,351	20,925,509	−3,183,158	−15.2
a) repayable on demand	1,071,388	6,528,233	−5,456,845	−83.6
b) other loans and advances	16,670,963	14,397,276	2,273,687	15.8
4. Loans and advances to customers	60,580,128	61,895,529	−1,315,401	−2.1
5. Bonds and other fixed-income securities	3,572,671	5,467,545	−1,894,874	−34.7
a) issued by public borrowers	437,125	446,947	−9,822	−2.2
b) issued by other borrowers	3,135,546	5,020,598	−1,885,052	−37.5
of which: own bonds	134,269	37,574	96,695	>100.0
6. Shares and other variable-yield securities	115,246	117,242	−1,996	−1.7
7. Equity interests	226,817	247,478	−20,661	−8.3
of which: in credit institutions	158,936	159,005	−69	−0.0
8. Shares in group companies	2,180,270	2,090,121	90,149	4.3
of which: in credit institutions	256,635	246,635	10,000	4.1
9. Intangible fixed assets	1,235	3,706	−2,471	−66.7
10. Tangible fixed assets	181,276	209,419	−28,143	−13.4
of which: land and buildings used by the credit institution for its own business operations	45,229	51,807	−6,578	−12.7
11. Shares in a controlling company or a company holding a majority interest	–	–	–	–
of which: par value	–	–	–	–
12. Other assets	1,806,487	2,051,428	−244,941	−11.9
13. Subscribed capital called but not paid	–	–	–	–
14. Prepaid expenses	307,071	374,680	−67,609	−18.0
15. Deferred tax assets	497,598		497,598	
TOTAL ASSETS	102,563,752	106,095,410	−3,531,658	−3.3

*) 2015 without CEE

Financial Statements (CONTINUED)

Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2016	1 JAN. 2016 *)	CHANGE IN € 1,000	CHANGE IN %
1. Amounts owed to credit institutions	**17,202,670**	**22,741,965**	**−5,539,295**	**−24.4**
a) repayable on demand	3,322,621	3,811,164	−488,543	−12.8
b) with agreed maturity dates or periods of notice	13,880,049	18,930,801	−5,050,752	−26.7
2. Amounts owed to customers	**54,335,909**	**53,808,028**	**527,881**	**1.0**
a) savings deposits	15,703,564	16,475,809	−772,245	−4.7
aa) repayable on demand	8,876,913	7,084,024	1,792,889	25.3
bb) with agreed maturity dates or periods of notice	6,826,651	9,391,785	−2,565,134	−27.3
b) other liabilities	38,632,345	37,332,219	1,300,126	3.5
aa) repayable on demand	27,551,829	24,976,693	2,575,136	10.3
bb) with agreed maturity dates or periods of notice	11,080,516	12,355,526	−1,275,010	−10.3
3. Debts evidenced by certificates	**15,744,903**	**15,377,629**	**367,274**	**2.4**
a) bonds issued	12,223,763	12,006,175	217,588	1.8
b) other debts evidenced by certificates	3,521,140	3,371,454	149,686	4.4
4. Other liabilities	**3,165,165**	**2,404,066**	**761,099**	**31.7**
5. Deferred income	**49,754**	**48,341**	**1,413**	**2.9**
6. Provisions	**4,298,526**	**4,773,905**	**−475,379**	**−10.0**
a) provisions for severance payments	258,758	359,103	−100,345	−27.9
b) pension provisions	3,359,636	2,912,772	446,864	15.3
c) provisions for taxes	26,049	1,049	25,000	>100.0
d) other	654,083	1,500,981	−846,898	−56.4
6a. Special fund for general banking risks	**–**	**–**	**–**	**–**
7. Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013	**1,835,480**	**1,972,221**	**−136,741**	**−6.9**
8. Additional Tier 1 capital pursuant to Chapter 3 of Title I of Part Two of Regulation (EU) No 575/2013	**–**	**–**	**–**	**–**
of which: Contingent convertible bonds pursuant to Section 26 of the Austrian Banking Act	**–**	**–**	**–**	**–**
8b. Instruments without voting right pursuant to Section 26a of the Austrian Banking Act	**–**	**–**	**–**	**–**
9. Subscribed capital	**1,681,034**	**1,681,034**	**–**	**–**
10. Capital reserves	**1,876,354**	**876,354**	**1,000,000**	**>100.0**
a) subject to legal restrictions	876,354	876,354	–	–
b) other	1,000,000	–	1,000,000	100.0
11. Revenue reserves	**244,209**	**282,119**	**−37,910**	**−13.4**
a) for own shares and shares in a controlling company	–	–	–	–
b) statutory reserve	–	–	–	–
c) reserves provided for by the bye-laws	–	–	–	–
d) other reserves	244,209	282,119	−37,910	−13.4
12. Reserve pursuant to Section 57 (5) of the Austrian Banking Act (BWG)	**2,129,748**	**2,129,748**	**–**	**–**
13. Accumulated profit/loss	**–**	**–**	**–**	**–**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**102,563,752**	**106,095,410**	**−3,531,658**	**−3.3**

*) 2015 without CEE

Financial Statements (CONTINUED)

Items shown below the Balance Sheet

Assets

(€ thousand)

	31 DEC. 2016	1 JAN. 2016 *)	CHANGE IN € 1,000	CHANGE IN %
1. Foreign assets	**36,161,704**	**38,581,407**	**−2,419,703**	**−6.3**

*) 2015 without CEE

Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2016	1 JAN. 2016 *)	CHANGE IN € 1,000	CHANGE IN %
1. Contingent liabilities	**9,697,534**	**9,224,170**	**473,364**	**5.1**
of which:				
a) acceptances and endorsements	–	–	–	–
b) guarantees and assets pledged as collateral security	9,697,534	9,224,170	473,364	5.1
2. Commitments	**12,629,524**	**11,760,252**	**869,272**	**7.4**
of which: commitments arising from repurchase agreements	–	–	–	–
3. Liabilities arising from transactions on a trust basis	**–**	**–**	**–**	**–**
4. Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013	**6,793,790**	**14,576,798**	**−7,783,008**	**−53.4**
of which: Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013	1,342,632	4,276,160	−2,933,528	−68.6
5. Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	**34,269,324**	**63,407,455**	**−29,138,131**	**−46.0**
of which: capital requirements pursuant to points (a) to (c) of Article 92 (1) of Regulation (EU) No 575/2013				
a) a Common Equity Tier 1 capital ratio	15.91 %	16.25 %		
b) a Tier 1 capital ratio	15.91 %	16.25 %		
c) a total capital ratio	19.82 %	22.99 %		
6. Foreign liabilities	**17,548,748**	**16,029,793**	**1,518,955**	**9.5**

*) 2015 without CEE with the exception of items 4 and 5

Financial Statements (CONTINUED)

Profit and Loss Account for the year ended 31 December 2016

(€ thousand)

		2016	2015 *)	CHANGE IN € 1,000	CHANGE IN %
1.	**Interest and similar income**	**1,748,292**	**2,006,532**	**–258,240**	**–12.9**
	of which: from fixed-income securities	243,781	309,969	–66,188	–21.4
2.	**Interest and similar expenses**	**–797,944**	**–943,458**	**145,514**	**15.4**
I.	**NET INTEREST INCOME**	**950,348**	**1,063,074**	**–112,726**	**–10.6**
3.	**Income from securities and equity interests**	**434,840**	**926,905**	**–492,065**	**–53.1**
	a) income from shares, other ownership interests and variable-yield securities	260	301	–41	–13.6
	b) income from equity interests	29,515	69,484	–39,969	–57.5
	c) income from shares in group companies	405,065	857,120	–452,055	–52.7
	Net fee and commission income (sub-total of items 4 and 5)	**486,927**	**527,143**	**–40,216**	**–7.6**
4.	**Fee and commission income**	**623,686**	**667,483**	**–43,797**	**–6.6**
5.	**Fee and commission expenses**	**–136,759**	**–140,340**	**3,581**	**2.6**
6.	**Net profit/loss on trading activities**	**73,158**	**71,712**	**1,446**	**2.0**
7.	**Other operating income**	**47,507**	**872,756**	**–825,249**	**–94.6**
II.	**OPERATING INCOME**	**1,992,780**	**3,461,590**	**–1,468,810**	**–42.4**
8.	**General administrative expenses**	**–2,114,953**	**–2,225,429**	**110,476**	**5.0**
	a) staff costs	–1,428,913	–1,536,044	107,131	7.0
	wages and salaries	–735,472	–1,193,983	458,511	38.4
	expenses for statutory social-security contributions and compulsory contributions related to wages and salaries	–108,236	–89,651	–18,585	–20.7
	other employee benefits	–11,964	–12,560	596	4.7
	expenses for retirement benefits	–217,116	–203,634	–13,482	–6.6
	allocation to the pension provision	–304,305	–	–304,305	–
	expenses for severance payments and payments to severance-payment funds	–51,820	–36,216	–15,604	–43.1
	b) other administrative expenses	–686,040	–689,385	3,345	0.5
9.	**Depreciation and amortisation of asset items 9 and 10**	**–61,520**	**–33,450**	**–28,070**	**–83.9**
10.	**Other operating expenses**	**–260,970**	**–186,274**	**–74,696**	**–40.1**
III.	**OPERATING EXPENSES**	**–2,437,443**	**–2,445,153**	**7,710**	**0.3**
IV.	**OPERATING RESULTS**	**–444,663**	**1,016,437**	**–1,461,100**	**n.m.**

*) 2015 without CEE
n.m. = not meaningful

Financial Statements (CONTINUED)

(€ thousand)

		2016	2015 *)	CHANGE IN € 1,000	CHANGE IN %
11./12.	Net income/expenses from the disposal and valuation of loans and advances, securities as well as contingent liabilities and commitments	−93,128	104,228	−197,356	n.m.
13./14.	Net income/expenses from the disposal and valuation of securities valued as financial fixed assets, and of shares in group companies and equity interests	137,842	−263,094	400,936	n.m.
V.	RESULTS FROM ORDINARY BUSINESS ACTIVITIES	−399,949	857,571	−1,257,520	n.m.
15.	Extraordinary income	–	–	–	–
	of which: releases from the special fund for general banking risks	–	–	–	–
16.	Extraordinary expenses	–	–	–	–
	of which: allocations to the special fund for general banking risks	–	–	–	–
17.	Extraordinary results (sub-total of items 15 and 16)	–	–	–	–
18.	Taxes on income	495,740	66,794	428,946	>100.0
19.	Other taxes not included under item 18	−133,681	−123,633	−10,048	−8.1
VI.	ANNUAL SURPLUS/ANNUAL DEFICIT	−37,890	800,732	−838,622	n.m.
20.	Movements in reserves	37,890	−254,080	291,970	n.m.
VII.	PROFIT/LOSS FOR THE YEAR	–	546,652	−546,652	−100.0
21.	Profit/loss brought forward from previous year	–	–	–	–
VIII.	ACCUMULATED PROFIT/LOSS	–	546,652	−546,652	−100.0

*) 2015 without CEE
n. m. = not meaningful

Notes to the Financial Statements

of UniCredit Bank Austria AG

1. General information

The financial statements of UniCredit Bank Austria AG for the 2016 financial year were prepared pursuant to the provisions of the Austrian Business Code (Unternehmensgesetzbuch – UGB) in its currently applicable version and in compliance with the rules of the Austrian Banking Act (Bankwesengesetz – BWG) and the Austrian Joint Stock Companies Act (Aktiengesetz – AktG) that are applicable to credit institutions. The formats of the balance sheet and of the profit and loss account comply with the forms in Annex 2 to Section 43 of the Austrian Banking Act.

As securities issued by UniCredit Bank Austria AG are admitted to trading on a regulated exchange in the European Union, UniCredit Bank Austria AG prepares its consolidated financial statements as a credit institution in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements are published on the Internet (www. bankaustria. at).

UniCredit Bank Austria AG is a subsidiary included in the consolidated financial statements of UniCredit S. p. A.

The consolidated financial statements prepared by the Group’s parent company are published at the following address: UniCredit S. p. A., registered office: Via Alessandro Specchi 16, 00186 Rome, Italy. They are published on the Internet at www. unicreditgroup. eu.

Disclosure (“Pillar 3”) according to Regulation (EU) No 575/2013 (“CRR”)
UniCredit Bank Austria AG is a part of UniCredit Group. The EU parent credit institution of UniCredit Group is UniCredit S. p. A.
Within UniCredit Group, a comprehensive disclosure is carried out by UniCredit S. p. A. on its website, based on the consolidated financial position (www. unicreditgroup. eu).

The Austrian Financial Market Authority ("FMA") classified UniCredit Bank Austria AG as a significant subsidiary within the meaning of Article 13 of the CRR and UniCredit Bank Austria AG fulfils its disclosure requirements on a sub-consolidated basis.

Disclosure is made at least semi-annually with data as of 30 June and 31 December on the website of UniCredit Bank Austria AG (www. bankaustria. at).

Size classification pursuant to Section 221 of the Austrian Business Code
According to the size classification pursuant to Section 221 of the Austrian Business Code, UniCredit Bank Austria AG is classified as a large company.

Demerger of CEE business
On 2 March 2016, the Management Board of UniCredit Bank Austria AG decided to demerge the CEE business of UniCredit Bank Austria Group and transfer it to UCG Beteiligungsverwaltung GmbH, a subsidiary of UniCredit S. p. A., via a demerger and takeover agreement. Subsequently UCG Beteiligungsverwaltung GmbH was merged with UniCredit S. p. A. (the parent company of UniCredit Bank Austria AG).

The objective of this reorganisation process was to demerge from UniCredit Bank Austria AG the CEE business of UniCredit Bank Austria AG including its equity interests in Central and East European subsidiaries in the form of independent operations (“CEE Business” operations), with UniCredit Bank Austria AG continuing as a going concern pursuant to Section 1 (2) 2 of the Austrian Demerger Act, for absorption by UCG Beteiligungsverwaltung GmbH as transferee company. The objective of the demerger was to transfer the “CEE Business” operations of the transferor company to the transferee company.

The “CEE Business” operations comprised in particular the “CEE Banking Division” of the transferor company and additional departments and units of other divisions which were ancillary to the operations described above. “CEE Business” comprised in particular all equity interests in Central and East European subsidiaries held by the transferor company.

The demerger date set pursuant to Section 2 (1) 7 of the Austrian Demerger Act and Section 33 (6) of the Austrian Reorganisation Tax Act was 31 December 2015, 24.00 hours, which became legally effective with the entry in the Austrian Register of Firms on 1 October 2016. With due regard to the reorganisation plan within the meaning of Section 39 of the Austrian Reorganisation Tax Act, all actions of the transferor company were therefore deemed, from 1 January 2016, 00:00 hours (the “reference date for accounting and tax purposes”), to have been taken for account of the transferee company to the extent they were attributable to the assets transferred.

The demerger was based on the closing balance sheet of the transferor company as at 31 December 2015. The demerger took place without the granting of shares in the transferee company. There were no exchange of shares or additional payments.

The demerger was effected in accordance with the provisions of, and making use of the reorganisation tax benefits defined in, Article VI of the Austrian Reorganisation Tax Act.

2. Accounting and valuation methods

2.1. General rule

The financial statements were prepared on the basis of generally accepted accounting principles and in compliance with the general requirement of giving a true and fair view of the company's assets and liabilities, its financial position and results. Assets and liabilities were valued in accordance with the principle of individual valuation on a going concern basis. The principle of prudence was observed with due regard to the special characteristics of banking business operations.

2.2. Accounting and valuation methods

2.2.1. Foreign currency translation

Assets and liabilities denominated in foreign currencies were stated in the balance sheet at the European Central Bank's reference rates as at 31 December 2016. Expenses and income in foreign currencies were translated at the ECB's end-of-month reference rates. Forward transactions that had not been settled at the balance sheet date were translated at the forward rate.

2.2.2. Fair value

In UniCredit Bank Austria AG, financial instruments measured at fair value and stated at their fair values in the balance sheet are primarily measured at market value.

If it is not possible readily to determine the market value of financial instruments as a whole, the market value will be derived from the market values of the components of the financial instrument or from the market value of a financial instrument that is substantially the same. If a reliable market cannot be readily determined, generally recognised valuation models and techniques will be used to determine the value if such models and techniques ensure a reasonable approximation of the market value.

2.2.3. Loans and advances

Provisions were made for identifiable lending risks. In respect of loans and advances that are not material individually, provisions were made on a portfolio basis. In addition, from the 2016 financial year, statistical data based on experience were used to make provisions for credit losses which can be expected to be incurred on the basis of statistical experience.

2.2.4. Securities

Securities intended to be held as long-term investments were valued at cost. Use was made of the optional rule contained in Section 56 (2) and (3) of the Austrian Banking Act (spreading premiums/discounts in the profit and loss account over the period to maturity). The relevant amounts of premiums and discounts are indicated in item 4 of the notes to the balance sheet (4.7. Differences between cost and repayable amount of bonds and other fixed-income securities).

Securities held in the trading book were stated at fair value. Other securities held as current assets were valued at cost or market, whichever was lower. Own issues that were repurchased were stated in the balance sheet at average cost. Details are given in item 4 of the notes to the balance sheet (4.8. Differences between cost and market value of securities admitted to trading on an exchange which are not held as financial fixed assets).

2.2.5. Equity interests and shares in group companies

Equity interests and shares in group companies were stated at cost. In the case of a permanent decline in value, write-downs were made in respect of listed and unlisted companies. If the reasons for previous write-downs are no longer applicable, a write-up is made in the amount of the increase in value, taking historical cost into account.

Impairment test

The impairment test of **shares in group companies and material equity investments** was based on the Standard UniCredit Group Discounted Cash Flow Valuation Model (3-phase model):

- Phase 1 – planning period (2017–2019):
  The 2017 budget figures for net profit and risk-weighted assets were used for 2017, and currently available multi-year planning figures were used for subsequent years.

- Phase 2 (2020–2024):
  In this phase the growth rates of net profit and risk-weighted assets converge towards 2%.

- Phase 3 – perpetual annuity:
  Calculation of the present value of a perpetual annuity on the assumption of a long-term growth rate which takes the sustained long-term economic growth expected by UniCredit Bank Austria AG for the euro area into account (2%).

Notes (CONTINUED)

The expected cash flows for banks are determined on the basis of CET1 capital ratios sought to be achieved in the long term while complying with regulatory requirements. Unless the specific circumstances or the business model result in a higher value, UniCredit Bank Austria AG uses a target CET1 capital ratio of 11.5%. The cash flows are discounted using the rate of cost of capital which is determined on the basis of the long-term risk-free interest rate, the market risk premium according to Damodaran (which is within the range of recommendations issued by the Austrian Chamber of Public Accountants and Tax Consultants) and an appropriate beta. The discount rate is a nominal rate after taxes. For investments in Austrian banks, the rate of cost of capital in 2016 is 8%, with some deviations for specialised institutions and other industries reflecting the different risk content.

Less significant investments in other companies are valued using models which are adapted to the object of business.

As the parameters and data used to test carrying amounts for impairment are significantly influenced by the overall economic environment and by market conditions, which may be subject to rapid unpredictable changes, the results of future impairment tests may differ from those which were used for the 2016 financial statements.

2.2.6. Intangible assets
Intangible assets were valued at cost. The rate of amortisation applied to computer software was between 16.67% p.a. and 25% p.a., in line with its ordinary useful life, unchanged compared with the previous year.

2.2.7. Tangible fixed assets
Land, buildings and office furniture and equipment were stated at cost. The rate of depreciation applied to buildings was between 2% p.a. and 5% p.a. and for furniture and equipment between 10% p.a. and 25% p.a., in line with their ordinary useful lives.

2.2.8. Low-value assets
Low-value assets were fully depreciated in the year of acquisition.

2.2.9. Derivatives
UniCredit Bank Austria AG uses derivatives for interest rate management in the banking book to hedge securities held as assets, loans and advances as well as securitised and unsecuritised liabilities against interest rate risk and currency risk. The bank uses primarily interest rate swaps, caps and floors as hedges.

The bank forms micro and macro valuation units, with non-linear derivatives always being documented as micro valuation units.

The provision required for pending losses as at 31 December 2016 was composed as follows:

TYPE OF VALUATION UNIT	PROVISION REQUIRED FOR PENDING LOSSES 31 DEC. 2016 (IN €)	PROVISION MADE FOR PENDING LOSSES FROM 2015 (IN €)	RELEASE OF PROVISION FOR PENDING LOSSES IN 2016 (IN €)
Macro valuation units	−1,954,293.69	−53,128,747.53	51,174,453.84
Micro valuation units	−97,369.58	−581,926.76	484,557.18
Stand-alone derivatives	−3,149,895.14	−6,289,325.71	3,139,430.57
Total	**−5,201,558.41**	**−60,000,000.00**	**54,798,441.59**

The market values indicated in the table below include the interest-related market value components taken into account in the hedging relationship for both macro and micro valuation units. The changes in market values of derivatives used for interest rate management are essentially due to the decline in interest rates in the period covered by the financial statements. The hedging period starts at the inception of the hedging relationship and ends with the final maturity of the hedged item.

Derivatives used for interest rate management in macro valuation units
In line with the relevant FMA circular of December 2012, functional units were formed, on the basis of the relevant currencies, for derivatives used for interest rate risk management in the banking book. The derivatives are allocated according to the fixed-leg currency. Positive and negative market values are offset within these functional units. UniCredit Bank Austria AG also includes cross-currency swaps in derivatives used for interest rate risk management. As a matter of principle, UniCredit Bank Austria AG may enter into open interest rate risk positions in the banking book only within narrow limits. Most of the derivatives for interest rate risk management are therefore used as part of a macro hedge. An excess of negative market values per functional unit is therefore compared with the items hedged by these derivatives and is offset against unrecognised reserves from interest rate risk assessment. Hedge effectiveness is tested retrospectively.

Notes (CONTINUED)

	CLEAN MARKET VALUES OF DERIVATIVES, NET AMOUNTS	CLEAN MARKET VALUES OF DERIVATIVES, NET AMOUNTS	UNRECOGNISED RESERVES FROM HEDGED ITEMS OFFSET UNDER A MACRO HEDGE	PROVISION REQUIRED FOR PENDING LOSSES	PROVISION MADE FOR PENDING LOSSES	PROVISION MADE FOR PENDING LOSSES	LONGEST TERM OF DERIVATIVES
	31 DEC. 2016	1 JAN. 2016	2016	2016	FROM 2015	2016	2016
EUR	186.6	322.6	not relevant	0.0	0.0	0.0	31 Dec. 2049
CHF	11.0	–45.8	not relevant	0.0	–45.8	45.8	15 June 2031
CZK	–0.4	–3.5	0.0	–0.4	–3.5	3.1	31 March 2026
GBP	0.0	–0.5	not relevant	0.0	–0.5	0.5	–
JPY	–1.5	–2.6	0.0	–1.5	–2.6	1.1	31 May 2020
RON	0.2	–0.7	not relevant	0.0	–0.7	0.7	30 June 2019
RUB	0.0	0.4	not relevant	0.0	0.0	0.0	8 Sept. 2018
TRY	0.4	0.0	not relevant	0.0	0.0	0.0	31 Dec. 2018
USD	–62.3	–73.0	222.0	0.0	0.0	0.0	15 Dec. 2032
	116.0	**196.9**		**–1.9**	**–53.1**	**51.2**	

The negative net amounts of market values compare with unrecognised reserves from the hedged items. As there was no excess of negative market values for the functional units of EUR, CHF, GBP, RON, RUB and TRY, unrecognised reserves from the hedged items were not presented.

Unrecognised reserves from the hedged items were far higher than the negative net amounts of the related market values of derivatives; this means that there was no need to make a provision for pending losses on this valuation unit. Unrecognised reserves in CZK and JPY did not reach the required amount; for this reason a provision for pending losses had to be made in the amount of the difference. In these currencies the existing provision from 2015 was higher than the excess of negative market values, which led to a release of provisions in 2016.

Effectiveness is regularly tested as part of interest rate risk management on the basis of interest rate sensitivities (present value-based, basis point value). Moreover, regular stress tests are performed for the banking book as part of interest rate management; in addition to parallel shifts in the yield curve, yield curve turns (clockwise and counter-clockwise) and money market shocks are also simulated.

Regardless of whether a provision is to be made for pending losses, accrued interest on derivatives for interest rate management in the banking book continues to be recognised and the result is included in net interest income.

Derivatives used for interest rate management in micro valuation units

As critical business terms in the micro valuation units largely match, UniCredit Bank Austria AG uses critical-term matches in prospective tests of effectiveness while retrospective measurements of effectiveness are reviewed using the dollar offset method on a monthly basis.

For hedges at individual transaction level (micro valuation units), the fair values of the derivatives used as at the balance sheet date, which are of relevance for the review of the provision for pending losses, were €548,248,553.91 (2015: €606,694 thousand). Of this total, €572,485,003.76 (2015: €610,947 thousand) was accounted for by hedging instruments for the above-mentioned hedged items on the liabilities side. Net values of hedging instruments for the above-mentioned hedged items on the assets side were –€24,236,449.85 (2015: – €4,254 thousand).

TYPE OF MICRO VALUATION UNIT	SIDE OF THE BALANCE SHEET	TYPE OF UNDERLYING	VALUE IN €	LONGEST TERM OF DERIVATIVES
Cash flow	Assets	Securities	–3,517,602.90	31 July 2033
Cash flow	Liabilities	Securities	–700.76	3 July 2020
Fair value	Assets	Securities	–20,718,846.95	9 June 2036
Fair value	Liabilities	Money market	49,952,856.39	1 July 2055
Fair value	Liabilities	Securities	522,532,848.13	3 Jan. 2042
Total			**548,248,553.91**	

2.2.10. Liabilities

Liabilities were stated in the balance sheet at the settlement amount. Premiums and discounts in connection with own issues are spread over the period to maturity. Capital savings accounts were stated at the relevant pro-rata value.

2.2.11. Provisions

Provisions were recognised at the settlement amount using the best estimate. Long-term provisions are discounted using a customary market rate.

Long-term employee benefits

The provision for long-term employee benefits is calculated on the basis of actuarial principles using the projected unit credit method in accordance with IAS 19.

According to AFRAC Statement 27 “Personnel-related provisions (Austrian Business Code) (June 2016)”, 38b, the application of the projected unit credit method in accordance with IAS 19 is in line with the requirements of the Austrian Business Code.

UniCredit Bank Austria AG continues to recognise a pension provision for the entitlements of employees who retired before the pension reform as at 31 December 1999 became effective, and for all those employees who, under a commitment to provide defined benefits, left the company to take retirement not later than 31 December 2016.

In the past, UniCredit Bank Austria AG assumed the obligations of the mandatory social insurance scheme for a number of its employees, especially with regard to pension obligations. In December 2015, UniCredit Bank Austria AG and the Employees’ Council made an agreement to the effect that for almost all of the employees who have rights to future benefits (essentially the active employees covered by the bank’s own pension scheme) the bank’s own pension system is terminated and the rights to future pension benefits will consequently be transferred to the state scheme under the Austrian General Social Insurance Act. The employees concerned will receive compensation, in the form of one-off lump-sum payments, for any disadvantages resulting from this transfer. In addition, UniCredit Bank Austria has to make a payment, defined by law, to the state scheme under the Austrian General Social Insurance Act for the transfer of the rights to future pension benefits. The amount of this payment was determined in the best possible manner based on the legal situation applicable as at 31 December 2015 and a liability was recognised for it.

The agreement with the Employees’ Council was signed with legal effect in December 2015 and terminated the bank’s own pension system for the employees concerned upon expiry of 29 February 2016. The employees concerned were automatically, by operation of law, taken over by the state scheme under the Austrian General Social Insurance Act. While the entitlements were not transferred, and the payments were not made, until the first quarter of 2016, the effect of this plan curtailment and the related reduction of the present value of the pension obligation had to be recognised in the financial statements already in 2015.

The Austrian legislator subsequently passed an amendment to the Austrian General Social Insurance Act, which was published in the Austrian Federal Law Gazette I No. 18/2016 on 13 April 2016 and became effective retroactively so that the above-mentioned transfers are covered by the amendment. The Austrian Federal Minister of Labour, Social Affairs and Consumer Protection has stated by way of regulation that the European Commission does not see the transferred amount as state aid under the new Section 311a of the Austrian General Social Insurance Act. In effect, this ASVG amendment puts the transfer to the ASVG scheme of rights to future pension benefits on a separate legal basis while also increasing the amount to be transferred to the Austrian state pension system. After receipt, on 20 January 2017, of the relevant official notices issued to UniCredit Bank Austria AG the liability was adjusted accordingly as at 31 December 2016.

The present value of pension obligations and severance-payment obligations as well as anniversary bonuses is determined with due regard to internal service regulations, on the basis of the following actuarial assumptions:

- Discount rate/Austria: 1.60% p.a. (2015: 2.05% p.a.)
  This percentage was determined by UniCredit Group on the basis of the DBO cash flows calculated by Mercer. The percentage is the rounded percentage according to the Mercer Yield Curve (MYC) as at 31 December 2016; weighted duration for the pension, severance payment and anniversary bonus plans: 12.8 years (2015: 12 years).
- **Pension provision**
  Pension trend: 1.40% (2015: 1.40%) “BA-ASVG” pensions only
  2.05% (2015: 2.05%) other pensions
  Disability: salary trend 2.30% (2015: 2.30%), 2.05% increase under collective bargaining agreement, 0.25% career
  Pre-retirement part-time work: salary trend 2.05% (2015: 2.05%)
- **Provision for severance payments**
  Salary trend 2.30% (2015: 2.30%), 2.05% increase under collective bargaining agreement, 0.25% career
- **Provision for anniversary bonuses**
  Salary trend 2.30% (2015: 2.30%), 2.05% increase under collective bargaining agreement, 0.25% career

Notes (CONTINUED)

- For the purpose of calculating the provision for anniversary bonuses, additional wage-related costs of 7.5% were taken into account for payments in 2017, and 7.3% (2015: 7.9%) for payments from 2018. For employees who joined the bank from 1 January 2003, an additional amount of 1.53% (2015: 1.53%) was taken into account for the first time, following changes in the Austrian Tax Reform Act 2015/2016, as well as social security contributions of 20.98% for the portion of anniversary bonus payments which, together with special remuneration payments, does not exceed double the amount of the maximum basis for calculating social security contributions.

- No discount for staff turnover.

- Retirement age: the new retirement age of 65 has been taken into account for all employees – men and women – in accordance with the applicable rules (2003 pension reform including transitional rules). If the corridor pension rule results in a lower retirement age, the lower age was used as retirement age.

- AVÖ2008-P statistical tables of Aktuarverein Österreich (life-expectancy tables for salaried staff) Pagler & Pagler were used as a basis for calculation.

No provisions are made for defined-contribution plans. Payments agreed to be made to a pension fund for defined-contribution plans are recognised as an expense.

(€ thousand)

	2016		2015	
	PENSION	SEVERANCE PAYMENT	PENSION	SEVERANCE PAYMENT
Discount rate	1.60%	1.60%	2.05%	2.05%
Salary increase incl. career trends	2.30%	2.30%	2.30%	2.30%
Pension increase (Bank Austria ASVG)	1.40%	0.00%	1.40%	0.00%
Pension increase (others)	2.05%	0.00%	2.05%	0.00%
Present value of the obligation as at 31 December 2016	3,516,785	274,416	3,227,068	390,552
Expected present value as at 31 December 2017	3,375,321	270,641	3,104,763	383,264
Sensitivity *) – discount rate +/–	0.25%	0.25%	0.25%	0.25%
Discount rate –	3,632,975	281,101	3,328,683	399,145
Discount rate +	3,406,614	267,969	3,130,569	382,256
Sensitivity *) – salary increase +/–	0.25%	0.25%	0.25%	0.25%
Salary increase rate –	3,516,411	268,000	3,226,033	382,269
Salary increase rate +	3,517,165	281,036	3,228,118	399,090
Sensitivity *) – pension increase +/–	0.25%	–	0.25%	–
Pension increase rate –	3,406,751	–	3,130,993	–
Pension increase rate +	3,632,293	–	3,327,761	–
Duration	13.07	9.72	12.55	8.82
Active employees	10	5,859	234	8,189
Average age	56.40	45.61	56.90	46.57
Retired employees	6,807	–	6,698	–
Average age	71.67	–	71.57	–

*) Sensitivity data reflect the total amount of the obligation upon a change in the parameter.

3. Changes in accounting and valuation methods, reclassifications

Changes in the balance sheet and in the profit and loss account resulting from the Austrian Changes in Accounting Act 2014

Legislative changes in accounting rules led to changes in Annex 2 to Article I of Section 43 of the Austrian Banking Act. The objective of the changes is to adjust the formats used by companies which prepare their financial statements pursuant to the Austrian Banking Act to the new accounting rules. The following changes in accounting and valuation methods were made in the reporting year compared with the previous year:
Based on the balance sheet-related concept of deferred taxes which had to be applied in the reporting year for the first time, the net amount of deferred taxes on the assets side was €497,598,105.33. The amount is shown in asset item 15 (deferred tax assets), which was added in Annex 2 to Article I of Section 43 of the Austrian Banking Act. It was calculated with due regard to AFRAC Statement 30 "Deferred taxes in annual financial statements" (December 2016). Details are given in 4.22.

The liabilities item 14 (untaxed reserves) was deleted and the reserve of €28,039,207.30 previously shown under this item, after deduction of deferred tax of €20,750.00, was transferred to the liabilities item 11 (revenue reserves) pursuant to Section 906 (31) of the Austrian Business Code. The previous year's full amount of €28,039 thousand is reflected in this new item.

In line with the change in Section 201 (2) 7 of the Austrian Business Code, a statistically determined amount was recognised for the first time in the 2016 financial year for credit losses which are expected to be incurred on the basis of statistical experience. Within the total amount, additional amounts of write-downs and provisions taken into account for valuation purposes were €126,205,840.00 in respect of loans and advances, €6,422,327.32 in connection with securities and €25,662,733.00 for guarantees received.

Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013

Following a clarification provided by the regulatory authorities in 2016, the presentation of capital requirements pursuant to Article 92 of the CRR was adjusted in the financial statements. The item "Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013" now shows the total risk exposure amount pursuant to Article 92 (3) of the CRR and, as "of which" items, the actually achieved ratios of Common Equity Tier 1 capital, Tier 1 capital and total capital. The previous year's figures were adjusted accordingly.

The comparative figures for the items "Eligible capital pursuant to Part 2 of Regulation (EU) No 575/2013" and "Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013" are the audited figures before the demerger of CEE business as capital resources and capital requirements were not adjusted retrospectively and the regulatory requirements had to be met on the basis of UniCredit Bank Austria AG's structure before the demerger until 30 September 2016.

Acceptance of securities issues of Bank Austria Wohnbaubank AG on a trust basis

On 17 June 2015 the Management Board of UniCredit Bank Austria AG decided to accept 79 securities issues of Bank Austria Wohnbaubank AG on a trust basis. These securities issues with a total volume of €1,872,528,809.72 were accepted on 12 May 2016. They are included in liabilities item 3 (debts evidenced by certificates). At the same time an earmarked deposit in the same amount from Bank Austria Wohnbaubank AG, included in liabilities item 1 (amounts owed to credit institutions), was returned.

4. Notes to the balance sheet

4.1. Breakdown by maturity – not repayable on demand

Breakdown by maturity

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Loans and advances to credit institutions		
up to three months	9,370,666,615.16	6,503,001
over three months and up to one year	2,495,182,651.63	2,716,419
over one year and up to five years	3,386,877,348.13	3,676,133
over five years	1,418,235,945.26	1,501,723
Loans and advances to customers		
up to three months	6,424,602,187.26	6,679,731
over three months and up to one year	2,790,767,181.63	2,986,520
over one year and up to five years	14,000,953,363.11	14,613,995
over five years	36,574,462,901.05	36,671,017
Amounts owed to credit institutions		
up to three months	3,620,003,726.08	3,380,728
over three months and up to one year	734,101,303.11	1,802,113
over one year and up to five years	3,710,346,637.06	7,191,984
over five years	5,815,596,847.45	6,555,976
Amounts owed to customers		
a) Savings deposits *)		
up to three months	254,802,856.35	2,054,223
over three months and up to one year	1,185,634,602.83	4,015,770
over one year and up to five years	3,386,164,387.54	1,283,154
over five years	2,000,048,514.03	2,038,638
b) Other amounts owed to customers		
up to three months	5,622,703,970.81	5,159,450
over three months and up to one year	1,713,685,688.07	3,222,267
over one year and up to five years	2,758,919,016.71	2,948,295
over five years	985,207,618.09	1,025,513
Other debts evidenced by certificates		
up to three months	84,368,497.79	49,364
over three months and up to one year	74,893,748.30	1,249,136
over one year and up to five years	1,320,802,218.84	636,363
over five years	2,041,075,332.78	1,436,591

*) For savings deposits, the expected deposit period was used as the remaining period. Recognised statistical methods were used for the calculation.

4.2. Assets and liabilities denominated in foreign currencies

As at 31 December 2016, foreign currency assets amounted to €13,411,147,588.25, representing 13.08 % of total assets (1 January 2016: €13,652,393 thousand or 12.87 % of total assets). Foreign currency liabilities amounted to €13,486,790,415.94 or 13.15 % of the balance sheet total (1 January 2016: €12,698,731 thousand or 11.97 % of the balance sheet total).

Notes (CONTINUED)

4.3. Loans and advances to, and amounts owed to, group companies and companies in which an equity interest is held

	GROUP COMPANIES		COMPANIES IN WHICH AN EQUITY INTEREST IS HELD		KEY MANAGEMENT PERSONNEL	
	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Loans and advances						
Loans and advances to credit institutions	10,291,652,277.00	9,327,017	520,806,002.00	1,084,469	0.00	0
Loans and advances to customers	7,375,814,145.00	7,430,494	507,188,831.00	1,611,952	2,741,569.85	3,104
Bonds and other fixed-income securities	771,320,699.90	2,772,229	0.00	0	0.00	0
Shares and other variable-yield securities	67,166,798.94	68,692	3,135,513.03	3,136	0.00	0
Amounts owed						
Amounts owed to credit institutions	6,387,729,558.00	7,874,305	7,298,041,687.00	10,025,555	0.00	0
Amounts owed to customers	1,681,041,723.00	1,786,220	182,004,667.00	289,810	8,617,433.55	8,620
Debts evidenced by certificates	358,446,107.00	738,602	0.00	0	0.00	0
Tier 2 capital	126,707,932.64	126,890	0.00	0	0.00	0

4.4. Group companies and companies in which an equity interest is held

Those companies in which UniCredit Bank Austria AG holds at least 20% of the share capital – directly or through group companies – are listed in the table at the end of the notes to the financial statements pursuant to Section 238 (1) 4 of the Austrian Business Code.

Most of the business relations with group companies were customary banking relationships. Equity capital substitutes were used for some financings.

At the balance sheet date, UniCredit Bank Austria AG maintained single entity agreements for tax purposes with the following companies:
- BA Immobilien Entwicklungs- und Verwertungs GmbH
- BA-CA Markets & Investment Beteiligung GmbH
- Bank Austria Real Invest Immobilien-Management GmbH
- Bank Austria Wohnbaubank AG
- CABET Holding GmbH
- card complete Service Bank AG
- Human Resources Service and Development GmbH
- Nordbahnhof Projekte Holding GmbH
- RE St. Marx Holding GmbH

4.5. Related party transactions

Cooperation agreement

UniCredit Bank AG has been assigned the role of centre of competence for markets and investment banking in UniCredit Group. Among other things, UniCredit Bank AG acts in this role as counterparty for derivative transactions conducted by UniCredit Group companies. For the most part, this involves hedge derivatives that are externalised on the market via UniCredit Bank AG. UniCredit Bank Austria AG and UniCredit Bank AG signed a corresponding cooperation agreement for 10 years in 2010.

Notes (CONTINUED)

4.6. Securities

Of UniCredit Bank Austria AG's total holdings of securities as at 31 December 2016, financial fixed assets accounted for €15,202,465,597.40 (1 January 2016: €14,432,833 thousand) and current assets including the trading portfolio accounted for €3,116,364,131.44 (1 January 2016: €2,648,119 thousand).

4.6.1. The following breakdown shows securities admitted to trading on an exchange:

	LISTED		NOT LISTED	
	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Bonds and other fixed-income securities	2,702,168,516.29	3,938,146	870,502,906.72	1,529,400
Shares and other variable-yield securities	37,330,608.49	37,333	0.00	919
Equity interests	99,029,202.03	99,099	0.00	0
Shares in group companies	0.00	0	0.00	0
TOTAL	**2,838,528,326.81**	**4,074,578**	**870,502,906.72**	**1,530,319**

4.6.2. The following table shows securities admitted to trading on an exchange, broken down into fixed (long-term) and current assets:

	FIXED ASSETS		CURRENT ASSETS	
	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Bonds and other fixed-income securities	2,890,452,856.01	4,721,540	682,218,567.00	746,006
Shares and other variable-yield securities	0.00	0	37,330,608.49	38,252
TOTAL	**2,890,452,856.01**	**4,721,540**	**719,549,175.49**	**784,258**

The classification pursuant to Section 64 (1) 11 of the Austrian Banking Act is based on resolutions adopted by the Management Board.

4.6.3. Financial instruments carried as financial fixed assets for which the carrying amounts are higher than their fair values (Section 237a (1) 2 of the Austrian Business Code):

	BOOK VALUE 31 DEC. 2016 (IN €)	UNRECOGNISED LOSSES 31 DEC. 2016 (IN €)	BOOK VALUE 1 JAN. 2016 (IN € THOUSAND)	UNRECOGNISED LOSSES 1 JAN. 2016 (IN € THOUSAND)
Treasury bills and similar securities	474,562,092.38	−4,738,195.59	673,478	−11,538
Bonds and other fixed-income securities	818,473,154.62	−21,689,723.61	1,030,075	−27,193
Shares and other variable-yield securities	0.00	0.00	0	0
Equity interests	30,395,407.88	−1,921,465.88	30,395	−1,379
Shares in group companies	0.00	0.00	0	0

A regular impairment test was performed for these financial instruments. Within the items "Bonds and other fixed-income securities" and "Shares and other variable-yield securities", write-downs of €26,513,368.49 and a statistically determined provision of €6,422,327.32 for credit risk were made in the reporting year. Analyses performed in respect of the other holdings did not provide any indication of impairment and therefore no further write-downs were required for 2016.

4.7. Differences between cost and repayable amount of bonds and other fixed-income securities

In the case of bonds and other fixed-income securities which are held as financial fixed assets and for which cost exceeds the amount repayable, the difference is amortised over the period to maturity pursuant to Section 56 (2) of the Austrian Banking Act. At year-end, the difference to be amortised over the remaining maturity amounted to €556,269,926.64 (1 January 2016: €634,514 thousand).

In the case of bonds and other fixed-income securities which are held as financial fixed assets and for which cost is lower than the amount repayable, a write-up is made for the difference over the period to maturity pursuant to Section 56 (3) of the Austrian Banking Act. Until the balance sheet date, write-ups made in respect of such differences amounted to €42,232,771.07 (1 January 2016: €97,025 thousand). As at 31 December 2016, the difference between cost and repayable amount was €175,054,970.43 (1 January 2016: €202,286 thousand).

4.8. Differences between cost and market value of securities admitted to trading on an exchange which are not held as financial fixed assets

As at 31 December 2016, the market value of securities held in the trading portfolio pursuant to Section 56 (5) of the Austrian Banking Act was €1,193.18 (1 January 2016: €2 thousand) higher than cost.

At the balance sheet date, the market value of listed securities held to comply with liquidity requirements pursuant to Section 56 (4) of the Austrian Banking Act was €52,685,425.08 (1 January 2016: €54,602 thousand) higher than the carrying amount.

4.9. Bonds becoming due in the subsequent year

Assets held in the form of bonds and other fixed-income securities in the amount of €801,185,430.52 (1 January 2016: €2,144,561 thousand) will become due in 2017. Of the bonds issued, securities in the amount of €1,524,745,921.44 (1 January 2016: €2,029,848 thousand) will become due in 2017.

4.10. Trading book

In the 2016 financial year, UniCredit Bank Austria AG maintained a trading book pursuant to Section 64 (1) 15 of the Austrian Banking Act.

Within the trading book, securities carried in the balance sheet accounted for €3,507,948.23 (1 January 2016: €2,030 thousand), money market instruments were €0 (1 January 2016: €11,479 thousand) and the notional amount of derivatives totalled €46,449,151,210.71 (1 January 2016: €36,838,245 thousand).

4.11. Own shares

There were no sales or purchases of UniCredit Bank Austria AG ordinary shares in 2016 (2015: no sales or purchases). As at 31 December 2016, UniCredit Bank Austria AG did not hold any of its own shares (1 January 2016: 0).

4.12. Shares in a controlling company

In the reporting year, sales or purchases of UniCredit S.p.A. ordinary shares as part of customer business involved 2,842,167 shares (2015: 3,791 thousand shares).

At the balance sheet date, UniCredit Bank Austria AG did not hold any UniCredit S.p.A. shares (1 December 2016: 0).

4.13. Repurchased own subordinated bonds and Tier 2 capital

As at 31 December 2016, UniCredit Bank Austria AG's own portfolio included subordinated bonds issued by the bank itself with a total carrying amount of €34,202,594.01 (1 January 2016: €33,788 thousand) and no Tier 2 capital (1 January 2016: €0 thousand). UniCredit Bank Austria AG holds issues of hybrid instruments of two subsidiaries with a total nominal value of €254,711,000.00 (1 January 2016: €254,711 thousand).

4.14. Trust transactions

The book values of the following assets items and liabilities items include trust transactions pursuant to Section 48 (1) of the Austrian Banking Act

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Loans and advances to customers	318,064,971.40	372,085
Total assets items	**318,064,971.40**	**372,085**
Amounts owed to credit institutions	104,185,300.00	131,636
Amounts owed to customers	213,879,671.40	240,449
Total liabilities items	**318,064,971.40**	**372,085**

In addition, for the first time in the reporting year, bonds issued on a trust basis for Bank Austria Wohnbaubank AG in the total amount of €1,637,776,497.65 compare with assets totalling €1,637,796,046.73 which were provided as collateral and are included in the item "Loans and advances to customers".

Notes (CONTINUED)

4.15. Assets sold under repurchase agreements and securities lending transactions

As at the balance sheet date, the book value of assets transferred under repurchase agreements was €776,647,792.48 (1 January 2016: €480,052 thousand). The assets continue to be recognised as assets in the balance sheet, the consideration received is included in liabilities. As at 31 December 2016, UniCredit Bank Austria AG did not borrow any securities (1 January 2016: €0 thousand) and the bank lent securities in the total amount of €364,903,800.00 (1 January 2016: €536,350 thousand).

4.16. Subordinated assets

	31 DEC. 2016 (IN €)		1 JAN. 2016 (IN € THOUSAND)	
Loans and advances to credit institutions		**254,007,952.46**		**328,691**
of which: equity interests	15,419,629.66		15,000	
of which: group companies	238,588,322.80		313,691	
Loans and advances to customers		**240,098,730.59**		**277,328**
of which: equity interests	0.00		0	
of which: group companies	239,096,954.61		275,939	
Bonds and other fixed-income securities		**170,580,257.16**		**170,227**
of which: equity interests	0.00		0	
of which: group companies	162,299,290.06		161,945	

4.17. Intangible fixed assets and tangible fixed assets

The item “Intangible fixed assets” does not include any software (1 January 2016: €0) that was acquired from a group company. At the balance sheet date, the land value of property was €13,885,656.51 (1 January 2016: €14,695 thousand).

Notes (CONTINUED)

4.18. Movements in fixed assets

The following table shows movements in fixed assets.

Movements in fixed assets of UniCredit Bank Austria AG

(€)

	1 JAN. 2016	ADDITIONS	DISPOSALS	TRANSFERS	31 DEC. 2016
Cost					
Treasury bills and similar securities	9,813,911,116.24	2,097,050,067.94	1,340,485,389.25	0.00	10,570,475,794.93
Loans and advances to credit institutions	0.00	1,980,426,561.66	0.00	0.00	1,980,426,561.66
Loans and advances to customers	120,490,001.27	173,113.75	13,514,098.35	0.00	107,149,016.67
Bonds and other fixed-income securities	4,661,339,426.03	809,829,203.41	2,574,600,454.41	0.00	2,896,568,175.03
Shares and other variable-yield securities	0.00	0.00	0.00	0.00	0.00
Equity interests	347,137,350.00	84,423.62	19,509,430.61	0.00	327,712,343.01
Shares in group companies	9,285,353,544.07	15,461,958.95	5,188,407.41	0.00	9,295,627,095.61
Intangible fixed assets	484,840,271.50	0.00	459,706.42	0.00	484,380,565.08
Tangible fixed assets					
a) Land and buildings	110,785,140.30	569,322.67	6,889,637.88	0.00	104,464,825.09
b) Other tangible fixed assets	502,268,312.12	32,884,228.51	25,097,024.22	0.00	510,055,516.41
TOTALS	**25,326,125,161.53**	**4,936,478,880.51**	**3,985,744,148.55**	**0.00**	**26,276,859,893.49**

	ACCUMULATED WRITE-DOWNS/DEPRECIATION 1 JAN. 2016	WRITE-DOWNS/ DEPRECIATION 2016	WRITE-UPS 2016	ACCUMULATED WRITE-DOWNS/DEPRECIATION DISPOSALS 31 DEC. 2016
Carrying value and write-downs/depreciation				
Treasury bills and similar securities	223,107,927.35	133,111,962.14	10,181,257.62	0.00
Loans and advances to credit institutions	0.00		0.00	0.00
Loans and advances to customers	0.00		0.00	0.00
Bonds and other fixed-income securities	–62,655,573.14	82,499,261.12	13,728,368.96	0.00
Shares and other variable-yield securities	0.00		0.00	
Equity interests	99,659,733.33	17,113,292.93	0.00	15,877,551.40
Shares in group companies	7,195,232,035.17	26,506,676.17	106,255,281.03	126,132.23
Intangible fixed assets	481,134,430.50	2,470,562.00	0.00	459,706.42
Tangible fixed assets				
a) Land and buildings	49,768,791.29	5,330,925.63	0.00	4,751,985.73
b) Other tangible fixed assets	353,865,282.05	53,668,435.22	118,732.34	24,518,400.36
TOTALS	**8,340,112,626.55**	**320,701,115.21**	**130,283,639.95**	**45,733,776.14**

	ACCUMULATED WRITE-DOWNS/DEPRECIATION TRANSFERS 31 DEC. 2016	ACCUMULATED WRITE-DOWNS/DEPRECIATION 31 DEC. 2016	CARRYING VALUE 31 DEC. 2016	CARRYING VALUE 1 JAN. 2016
Carrying value and write-downs/depreciation				
Treasury bills and similar securities	0.00	346,038,631.87	10,224,437,163.06	9,590,803,188.89
Loans and advances to credit institutions	0.00	0.00	1,980,426,561.66	0.00
Loans and advances to customers	0.00	0.00	107,149,016.67	120,490,001.27
Bonds and other fixed-income securities	0.00	6,115,319.02	2,890,452,856.01	4,723,994,999.17
Shares and other variable-yield securities	0.00	0.00	0.00	0.00
Equity interests	0.00	100,895,474.86	226,816,868.15	247,477,616.67
Shares in group companies	0.00	7,115,357,298.08	2,180,269,797.53	2,090,121,508.90
Intangible fixed assets	0.00	483,145,286.08	1,235,279.00	3,705,841.00
Tangible fixed assets				
a) Land and buildings	0.00	50,347,731.19	54,117,093.90	61,016,349.01
b) Other tangible fixed assets	0.00	382,896,584.57	127,158,931.84	148,403,030.07
TOTALS	**0.00**	**8,484,796,325.67**	**17,792,063,567.82**	**16,986,012,534.98**

4.19. Leasing activities

While UniCredit Bank Austria AG was not directly active as lessor in the leasing business in 2016, its activities included the extension of loans to leasing companies.

4.20. Total expenses for the use of tangible fixed assets not carried as assets

Obligations arising from the use of tangible fixed assets not carried as assets in the balance sheet (under leasing and rent agreements) which will become due in the subsequent period and in the subsequent five years are indicated in the table below:

Obligations under leasing and rent agreements

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
for the subsequent business year	59,163,591.22	62,251
for the subsequent five business years	305,029,301.97	319,071

4.21. Other assets

4.21.1. Other assets

This item includes valuation components, both reflected and not reflected in income, of €1,382,056,959.34 (1 January 2016: €1,304,394 thousand) from derivative products.

Dividends receivable from group companies with which there are profit pooling arrangements totalled €233,454,229.81 (1 January 2016: €517,797 thousand).

Claims against the Austrian tax office for companies (Finanzamt für Körperschaften) totalled €52,483,432.53 (1 January 2016: €44,084 thousand).

Other assets also include accrued interest and fee and commission income in the amount of €22,022,657.35 (1 January 2016: €19,482 thousand).

4.21.2. Prepaid expenses

This item includes an advance rent payment of €23,140,410.16 (1 January 2016: €25,042 thousand) for the property in Lassallestrasse 5, 1020 Vienna, and advance rent payments of €2,035,551.07 (1 January 2016: €3,532 thousand) for various properties.

This balance sheet item also includes discounts of €279,376,933.81 (1 January 2016: €340,509 thousand) in respect of the bank's own issues.

4.22. Deferred tax assets

The amount which was required to be carried as an asset in the reporting year pursuant to Section 198 (9) of the Austrian Business Code, using a tax rate of 25%, totalled €497,598,105.33; this amount included deferred taxes of €2,073,959.90 resulting from temporary differences at companies with which UniCredit Bank Austria AG maintained single entity agreements for tax purposes.

Deferred tax assets are mainly based on temporary differences in the areas of pension provisions and provisions for severance payments, in the valuation of loans and advances (provision for credit losses which may be expected on the basis of statistical experience) and in write-downs to the going concern value ("Siebentel-Abschreibungen"). Moreover, there are deferred tax assets from differences in amounts, resulting from differences in recognition under company law and tax law, of other provisions (e.g. provisions for expenses), long-term provisions and long-term liabilities.

The option of carrying tax loss carry-forwards as assets was not used.

The amount of deferred tax which was allowed to be carried as an asset pursuant to Section 198 (10) of the previous version of the Austrian Business Code was €410,211 thousand in the previous year and was not recognised in the 2015 financial statements.

Notes (CONTINUED)

4.23. Other liabilities

This item includes valuation components, both reflected and not reflected in income, in the amount of €1,507,451,387.18 (1 January 2016: €1,509,629 thousand) from derivative products.

Also included in this item are liabilities of €851,603,379.38 (1 January 2016: €725,000 thousand) in connection with the transfer of rights to future pension benefits of active employees to the state pension scheme under the Austrian General Social Insurance Act (Allgemeines Sozialversicherungsgesetz – ASVG) (including compensation which employees receive for any disadvantages resulting from the transfer).

This item includes a liability of €545,264,549.21 for those employees who have already concluded an exit agreement under the "Bank Austria Reloaded" project.

Liabilities resulting from the settlement of Austrian capital yields tax (Kapitalertragsteuer – KESt) totalled €22,378,387.69 (1 January 2016: €24,311 thousand).

Other liabilities also include accrued expenses in the amount of €7,733,589.22 (1 January 2016: €11,222 thousand).

The item also comprises liabilities of €3.377.47 (1 January 2016: €47 thousand) from the assumption of losses.

4.24. Deferred income

This balance sheet item includes premiums of €21,776,842.92 (1 January 2016: €20,365 thousand) in respect of the bank's own issues.

4.25. Provisions

4.25.1. Pension provisions and provisions for severance payments

The discount rate applied in 2016 was 1.60% (2015: 2.05%). The actuarial valuation of provisions results in a deficit of €157,147,000.00 (1 January 2016: €314,296 thousand) compared with the amount of pension provisions stated in the balance sheet, and a deficit of €15,658,000.00 (1 January 2016: €31,315 thousand) compared with the amount of provisions for severance payments stated in the balance sheet.

The deficit resulting from the discontinuation of the corridor method in IAS 19, which was calculated as at 31 December 2012, has been spread over five years starting on 1 January 2013 and is recognised as an expense on this basis [2017: €157,147,000.00 (pensions) and €15,658,000.00 (severance payments)]. The amounts recognised as expenses in 2016 were €157,147,000.00 (pensions) and €15,658,000.00 (severance payments).

In the financial year, pension provisions rose by €446,864,000.00 (2015: a decrease of €1,510,363 thousand). In the balance sheet at 31 December 2016, pension provisions were stated at €3,359,635,607.19 (1 January 2016: €2,912,772 thousand).

In the financial year, provisions for severance payments declined by €100,345,125.68 (2015: an increase of €15,148 thousand). Of the total reduction, exit agreements concluded with employees accounted for €104,904,000.00. In the balance sheet at 31 December 2016, provisions for severance payments were stated at €258,758,483.54 (1 January 2016: €359,103 thousand).

4.25.2. Other provisions

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Provisions for credit risks	112,977,182.12	143,012
Provisions for pending losses	279,978,617.33	172,810
Provisions for indeterminate liabilities	211,667,387.32	304,810
Restructuring provisions	49,459,294.72	880,349
TOTAL	**654,082,481.49**	**1,500,981**

Provisions for indeterminate liabilities include provisions related to payroll accounting and provisions for legal costs and experts' fees. Restructuring provisions include payroll costs and other administrative expenses for the "Bank Austria Reloaded" project. The reduction of the restructuring provision was mainly due to use and to the transfer to liabilities with regard to those employees who have already signed exit agreements.

Notes (CONTINUED)

4.26. Tier 2 capital

Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013, including accrued interest payable and interest allocated to zero coupon bonds, stated in the balance sheet at 31 December 2016 amounts to €1,835,480,170.67 (1 January 2016: €1,972,221 thousand).

Six subordinated issues totalling €163,036,176.81 were redeemed in the reporting year.

As at 31 December 2016, subordinated liabilities included 23 bonds (1 January 2016: 29 bonds) and 4 time deposits (1 January 2016: 4 time deposits), most of which have maturities exceeding four years. The bonds and time deposits are denominated in US$, JPY and €.

4.27. Equity

4.27.1. Subscribed share capital

The share capital of UniCredit Bank Austria AG as at 31 December 2016 was €1,681,033,521.40, unchanged compared with the previous year. The share capital is divided into 10,115 registered no-par value shares with voting rights and restricted transferability and 231,218,705 registered no-par value shares with voting rights, and each no-par value share participates in the share capital to the same extent.

4.27.2. Capital reserves

As at 31 December 2016, capital reserves subject to legal restrictions were stated at €876,354,199.40, unchanged compared with 1 January 2016. A capital reserve which is not subject to legal restrictions amounted to €1,000,000,000.00 as at the balance sheet date (1 January 2016: €0 thousand), reflecting a shareholder contribution from UniCredit S.p.A.

4.27.3. Revenue reserves

As at 31 December 2016, revenue reserves were stated at €244,208,853.41 (1 January 2016: €282,119 thousand).

4.27.4. Reserve pursuant to Section 57 (5) of the Austrian Banking Act

As at 31 December 2016, the reserve pursuant to Section 57 (5) of the Austrian Banking Act was €2,129,748,409.45, unchanged compared with the previous year.

Notes (CONTINUED)

4.28. Tier 1 capital and Tier 2 capital

The following table includes the profit or loss for 2016. Please note that the financial statements for 2016 have not yet been adopted at the annual general meeting. The figures for the previous year were not adjusted retrospectively; the previous year's figures are the audited figures before the demerger of CEE business.

Item 4 shown below the balance sheet on the liabilities side

(€)

Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013		31 Dec. 2016	6,793,789,609.60
		31 Dec. 2015	14,576,797,693.54
UNICREDIT BANK AUSTRIA AG			
1	CAPITAL		6,793,789,609.60
1.1	**TIER 1 CAPITAL (T1)**		**5,451,158,082.58**
1.1.1	**COMMON EQUITY TIER 1 CAPITAL (CET1)**		**5,451,158,082.58**
1.1.1.1	Capital instruments qualifying as Common Equity Tier 1 capital	3,557,387,720.80	
1.1.1.1.1	Paid-up capital instruments	1,681,033,521.40	
1.1.1.1.3	Share premium	1,876,354,199.40	
1.1.1.2	Retained earnings	244,208,853.41	
1.1.1.2.1	Retained earnings of previous years	282,098,444.62	
1.1.1.2.2	Qualifying profit or loss	– 37,889,591.21	
1.1.1.2.2.1	*Profit or loss attributable to the owners of the parent company*	*– 37,889,591.21*	
1.1.1.4	Other reserves	2,129,748,409.45	
1.1.1.9	Deductions and filters due to adjustments to Common Equity Tier 1 capital (prudential filters)	– 17,769,867.00	
1.1.1.9.4	*Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities*	*– 17,652,570.00*	
1.1.1.9.5	*(–) Write-downs resulting from requirements for prudent valuation*	*– 117,297.00*	
1.1.1.11	(–) Other intangible assets	– 1,235,279.00	
1.1.1.11.1	*(–) Gross amount of other intangible assets*	*– 1,235,279.00*	
1.1.1.13	(–) IRB shortfall arising from credit risk adjustments to expected losses	– 5,425,729.64	
1.1.1.16	(–) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	– 25,332,733.46	
1.1.1.18	(–) Securitisation positions to which a risk weight of 1250 % may be assigned as an alternative	– 9,998,275.24	
1.1.1.24	(–) Common Equity Tier 1 capital instruments of financial sector entities in which the institution has a significant investment	– 184,487,770.01	
1.1.1.25	(–) Amount exceeding the 17.65 % threshold	– 270,952,765.57	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	35,015,518.84	
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	– 25,332,733.46	
1.1.2.10	Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital (deduction from Common Equity Tier 1 capital)	25,332,733.46	
1.2	**TIER 2 CAPITAL (T2)**		**1,342,631,527.02**
1.2.1	**Capital instruments and subordinated loans qualifying as Tier 2 capital**		**1,106,372,890.17**
1.2.1.1	Paid-up capital instruments and subordinated loans	1,122,303,278.41	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify for inclusion	676,808,727.42	
1.2.1.4	(–) Own Tier 2 instruments	– 15,930,388.24	
1.2.1.4.1	*(–) Direct positions in Tier 2 capital instruments*	*– 15,930,388.24*	
1.2.2	**Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)**		**158,786,700.00**
1.2.5	**Qualifying provisions exceeding the expected losses under the IRB approach (IRB excess)**		**140,352,355.40**
1.2.9	**(–) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment**		**– 53,197,633.17**
1.2.10	**Other transitional adjustments to Tier 2 capital**		**– 9,682,785.38**

Notes (CONTINUED)

Item 5 shown below the balance sheet on the liabilities side

(€)

Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013		31 Dec. 2016	2,741,545,882.92
		31 Dec. 2015	5,072,596,411.94
UNICREDIT BANK AUSTRIA AG			
1	**TOTAL RISK EXPOSURE AMOUNT**		**34,269,323,536.50**
1.1	**RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK AND FOR FREE DELIVERIES**		**31,078,998,572.62**
1.1.1	**Standardised approach**		**7,684,634,158.48**
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	7,684,634,158.48	
1.1.1.1.01	*Central governments or central banks*	*978,961,579.70*	
1.1.1.1.02	*Regional governments or local authorities*	*14,114,607.93*	
1.1.1.1.03	*Public sector entities*	*53,290,472.97*	
1.1.1.1.06	*Institutions*	*943,744,734.66*	
1.1.1.1.07	*Corporates*	*2,347,713,296.94*	
1.1.1.1.08	*Retail exposures*	*14,677.70*	
1.1.1.1.09	*Exposures secured by mortgages on immovable property*	*38,218,056.30*	
1.1.1.1.10	*Exposures in default*	*24,968,140.58*	
1.1.1.1.11	*Exposures associated with particularly high risk*	*50,379,511.90*	
1.1.1.1.12	*Covered bonds*	*299,235.07*	
1.1.1.1.13	*Exposures to institutions and corporates with a short-term credit assessment*	*37,358.36*	
1.1.1.1.15	*Equity exposures*	*2,625,644,545.94*	
1.1.1.1.16	*Other items*	*607,247,940.43*	
1.1.2	**Internal ratings-based (IRB) approach**		**23,392,059,233.72**
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	21,013,251,852.00	
1.1.2.2.01	*Central governments and central banks*	*48,441,077.15*	
1.1.2.2.02	*Institutions*	*2,428,504,030.31*	
1.1.2.2.03	*Corporates – SMEs*	*1,787,022,632.00*	
1.1.2.2.04	*Corporates – specialised lending exposures*	*278,697,407.85*	
1.1.2.2.05	*Corporates – other*	*10,266,789,009.89*	
1.1.2.2.06	*Retail exposures – secured by mortgages on immovable property, SMEs*	*202,708,732.68*	
1.1.2.2.07	*Retail exposures - secured by mortgages on immovable property, non-SMEs*	*2,546,202,917.82*	
1.1.2.2.08	*Retail exposures – qualifying revolving*	*434,122,335.31*	
1.1.2.2.09	*Retail exposures – other, SMEs*	*376,360,746.52*	
1.1.2.2.10	*Retail exposures – other, non-SMEs*	*2,644,402,962.47*	
1.1.2.3	Equity exposures under the IRB approach	2,028,335,065.89	
1.1.2.4	Securitisation positions under the IRB approach	350,472,315.83	
1.1.2.4*	Of which: re-securitisation	8,280,771.85	
1.1.3	**Risk exposure amount for contributions to the default fund of a central counterparty**		**2,305,180.42**
1.2	**RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS**		**353,825.25**
1.2.1	**Settlement and delivery risk in the non-trading book**		**353,825.25**
1.3	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN EXCHANGE RISK AND COMMODITIES RISK**		**145,079,262.63**
1.3.2	**Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models**		**145,079,262.63**
1.4	**TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK**		**3,018,372,613.75**
1.4.3	**Advanced measurement approach (AMA) for operational risk (OpR)**		**3,018,372,613.75**
1.6	**TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)**		**26,519,262.25**
1.6.1	**Advanced method**		**26,519,262.25**
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013			2,741,545,882.92
of which: capital requirements pursuant to Article 92 (1) points (a) to (c) and to the transitional arrangement pursuant to Article 465 of Regulation (EU) No 575/2013 in conjunction with Section 1 of the Austrian CRR Supplementary Regulation			
	a) a Common Equity Tier 1 capital ratio of		15.91 %
	b) a Tier 1 capital ratio of		15.91 %
	c) a total capital ratio of		19.82 %

Notes (CONTINUED)

The following table includes the profit or loss for 2016. It should be noted that the financial statements of various subsidiaries have not yet been adopted by their respective supervisory boards and that resolutions concerning the appropriation of profits have not yet been passed at the respective annual general meetings.

Item 4 shown below the balance sheet on the liabilities side

(€)

Eligible capital pursuant to Part Two of Regulation (EU) No 575/2013		31 Dec. 2016	7,383,364,714.39
		31 Dec. 2015	19,070,295,489.31
UNICREDIT BANK AUSTRIA SUB-GROUP			
1	**CAPITAL**		**7,383,364,714.39**
1.1	**TIER 1 CAPITAL (T1)**		**6,397,760,615.00**
1.1.1	**COMMON EQUITY TIER 1 CAPITAL (CET1)**		**6,397,760,615.00**
1.1.1.1	Capital instruments qualifying as Common Equity Tier 1 capital	5,814,434,521.40	
1.1.1.1.1	Paid-up capital instruments	1,681,033,521.40	
1.1.1.1.3	Share premium	4,133,401,000.00	
1.1.1.2	Retained earnings	2,513,025,000.00	
1.1.1.2.1	Retained earnings of previous years	1,871,744,000.00	
1.1.1.2.2	Qualifying profit or loss	641,281,000.00	
1.1.1.2.2.1	*Profit or loss attributable to the owners of the parent company*	*641,281,000.00*	
1.1.1.3	Accumulated other comprehensive income	– 711,373,000.00	
1.1.1.4	Other reserves	187,612,000.00	
1.1.1.7	Minority interests that qualify as Common Equity Tier 1 capital	15,891,665.06	
1.1.1.8	Transitional arrangements concerning additional minority interests	3,848,933.98	
1.1.1.9	Deductions and filters due to adjustments to Common Equity Tier 1 capital (prudential filters)	– 224,300,280.76	
1.1.1.9.2	*Cash flow hedge reserves*	*– 191,504,000.00*	
1.1.1.9.3	*Gains or losses on own liabilities valued at fair value that result from changes in the institution's own credit standing*	*– 8,992,961.76*	
1.1.1.9.4	*Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities*	*– 17,652,570.00*	
1.1.1.9.5	*(–) Write-downs resulting from requirements for prudent valuation*	*– 6,150,749.00*	
1.1.1.11	(–) Other intangible assets	– 11,024,898.08	
1.1.1.11.1	*(–) Gross amount of other intangible assets*	*– 11,024,898.08*	
1.1.1.12	(–) Deferred tax assets that rely on future profitability and do not arise from temporary differences, less associated deferred tax liabilities	– 8,761,102.22	
1.1.1.13	(–) IRB shortfall arising from credit risk adjustments to expected losses	– 3,519,452.78	
1.1.1.16	(–) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	– 118,430,811.64	
1.1.1.18	(–) Securitisation positions to which a risk weight of 1250 % may be assigned as an alternative	– 11,345,702.81	
1.1.1.24	(–) Common Equity Tier 1 capital instruments of financial sector entities in which the institution has a significant investment	– 1,005,281,814.04	
1.1.1.25	(–) Amount exceeding the 17.65 % threshold	– 195,714,909.07	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	152,700,465.96	
1.1.2	**ADDITIONAL TIER 1 CAPITAL (AT1)**		**0.00**
1.1.2.2	Transitional adjustments to Additional Tier 1 capital instruments (grandfathering)	87,173,400.00	
1.1.2.3	Instruments issued by subsidiaries that qualify as Additional Tier 1 capital	943,334.94	
1.1.2.4	Transitional arrangements concerning instruments issued by subsidiaries that are additionally recognised as Additional Tier 1 capital	– 377,333.98	
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	– 206,170,212.60	
1.1.2.10	Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital (deduction from Common Equity Tier 1 capital)	118,430,811.64	
1.2	**TIER 2 CAPITAL (T2)**		**985,604,099.39**
1.2.1	**Capital instruments and subordinated loans qualifying as Tier 2 capital**		**1,106,372,890.17**
1.2.1.1	Paid-up capital instruments and subordinated loans	1,106,372,890.17	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify for inclusion	665,209,192.62	
1.2.2	**Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)**		**34,869,360.00**
1.2.5	**Qualifying provisions under the IRB approach that exceed the expected losses (IRB excess)**		**123,342,064.74**
1.2.9	**(–) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment**		**– 77,219,962.15**
1.2.10	**Other transitional adjustments to Tier 2 capital**		**– 201,760,253.37**

Notes (CONTINUED)

Item 5 shown below the balance sheet on the liabilities side

(€)

Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013		31 Dec. 2016	2,835,714,332.94
		31 Dec. 2015	10,260,709,712.07
UNICREDIT BANK AUSTRIA SUB-GROUP			
1	**TOTAL RISK EXPOSURE AMOUNT**		**35,446,429,161.74**
1.1	**RISK-WEIGHTED EXPOSURES FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK, AND FOR FREE DELIVERIES**		**31,421,420,954.86**
1.1.1	**Standardised approach**		**10,862,104,984.13**
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	10,862,104,984.13	
1.1.1.1.01	*Central governments or central banks*	*894,938,549.64*	
1.1.1.1.02	*Regional governments or local authorities*	*14,541,657.73*	
1.1.1.1.03	*Public sector entities*	*55,361,794.24*	
1.1.1.1.06	*Institutions*	*1,056,047,830.43*	
1.1.1.1.07	*Corporates*	*4,041,814,609.26*	
1.1.1.1.08	*Retail exposures*	*486,918,672.65*	
1.1.1.1.09	*Exposures secured by mortgages on immovable property*	*299,996,199.85*	
1.1.1.1.10	*Exposures in default*	*209,946,291.96*	
1.1.1.1.11	*Exposures associated with particularly high risk*	*70,932,221.01*	
1.1.1.1.12	*Covered bonds*	*385,243.54*	
1.1.1.1.13	*Exposures to institutions and corporates with a short-term credit assessment*	*26,232,144.05*	
1.1.1.1.14	*Units or shares in collective investment undertakings (CIUs)*	*49,793.76*	
1.1.1.1.15	*Equity exposures*	*2,217,325,665.18*	
1.1.1.1.16	*Other items*	*1,487,614,310.83*	
1.1.2	**Internal ratings-based approach (IRB)**		**20,557,010,790.31**
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	19,435,765,163.70	
1.1.2.2.01	*Central governments or central banks*	*47,803,741.36*	
1.1.2.2.02	*Institutions*	*2,488,158,450.67*	
1.1.2.2.03	*Corporates – SMEs*	*1,787,502,940.59*	
1.1.2.2.04	*Corporates – specialised lending exposures*	*278,375,716.00*	
1.1.2.2.05	*Corporates – other*	*8,658,486,696.57*	
1.1.2.2.06	*Retail exposures – secured by mortgages on immovable property, SMEs*	*202,144,956.22*	
1.1.2.2.07	*Retail exposures – secured by mortgages on immovable property, non-SMEs*	*2,535,522,120.90*	
1.1.2.2.08	*Retail exposures – qualifying revolving*	*434,096,014.00*	
1.1.2.2.09	*Retail exposures – other, SMEs*	*375,764,086.24*	
1.1.2.2.10	*Retail exposures – other, non-SMEs*	*2,627,910,441.15*	
1.1.2.3	Equity exposures under the IRB approach	755,344,185.63	
1.1.2.4	Securitisation positions under the IRB approach	365,901,440.98	
1.1.2.4*	of which: re-securitisation	8,935,483.29	
1.1.3	**Risk exposure amount for contributions to the default fund of a central counterparty**		**2,305,180.42**
1.2	**RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS**		**353,825.25**
1.2.1	**Settlement and delivery risk in the non-trading book**		**353,825.25**
1.3	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN-EXCHANGE RISK AND COMMODITIES RISK**		**146,551,687.50**
1.3.2	**Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models**		**146,551,687.50**
1.4	**TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK**		**3,851,583,431.88**
1.4.2	**Standardised approach or alternative standardised approach (ASA) for operational risk**		**690,787,669.38**
1.4.3	**Advanced measurement approach (AMA) for operational risk**		**3,160,795,762.50**
1.6	**TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)**		**26,519,262.25**
1.6.1	**Advanced method**		**26,519,262.25**
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013			**2,835,714,332.94**
of which: capital requirements pursuant to Article 92 (1) points (a) to (c) and to the transitional arrangement pursuant to Article 465 of Regulation (EU) No 575/2013 in conjunction with Section 1 of the Austrian CRR Supplementary Regulation			
	a) a Common Equity Tier 1 capital ratio of		**18.05%**
	b) a Tier 1 capital ratio of		**18.05%**
	c) a total capital ratio of		**20.83%**

Notes (CONTINUED)

4.29. Cross-holdings

There are no cross-holdings within the meaning of Section 241, item 6, of the Austrian Business Code.

4.30. Assets pledged as security

Assets pledged as security for liabilities pursuant to Section 64 (1) 8 of the Austrian Banking Act

ASSETS	31 DEC. 2016 (IN €)	DESCRIPTION OF THE LIABILITIES	BALANCE SHEET ITEM
Cover fund for deposits held in trust for wards:			
Fixed-income securities	141,407,194.24	Deposits held in trust for wards	Liabilities item 2
Cover fund for mortgage bonds and public-sector covered bonds:			
Loans and advances to customers	13,049,079,034.67	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Loans and advances to credit institutions	451,400,000.00	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Fixed-income securities	1,625,228,416.64	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Total	**15,125,707,451.31**		
Collateral for Wohnbaubank bonds issued on a trust basis:			
Loans and advances to customers	1,637,796,046.73	Wohnbaubank bonds issued on a trust basis	Liabilities item 3
Collateral pool OeNB (tender):			
Loans and advances to customers	8,721,137,065.41	OeNB/ECB funding	Liabilities item 1
Fixed-income securities	2,496,270,966.47	OeNB/ECB funding	Liabilities item 1
Total	**11,217,408,031.88**		
Collateral EIB and KfW:			
Loans and advances to customers	563,756,354.89	Supranational funding	Liabilities item 1
Fixed-income securities	438,660,712.31	Supranational funding	Liabilities item 1
Total	**1,002,417,067.20**		
Collateral for trading transactions in securities and derivatives:			
Cash collateral	527,487,796.87	Margin requirements	
Securities collateral	27,353,620.12	Margin requirements	
Total	**554,841,416.99**		
Collateral for clearing systems:			
Fixed-income securities	110,353,747.47	Security provided in favour of OeKB, Euroclear, Clearstream Banking	
Collateral for amounts owed to credit institutions:			
Loans and advances to customers	4,306,418,942.73	Claims assigned in favour of OeKB	Liabilities item 1
Loans and advances to customers	49,152,508.69	Earmarked deposit Wohnbaubank AG	Liabilities item 1
Total	**4,355,571,451.42**		
AGGREGATE TOTAL	**34,145,502,407.24**		

The sub-item "Savings deposits" (liabilities item 2a) includes deposits held in trust for wards in the amount of €129,261,590.35 (1 January 2016: €126,490 thousand).

Notes (CONTINUED)

Assets pledged as security for liabilities pursuant to Section 64 (1) 8 of the Austrian Banking Act

ASSETS	1 JAN. 2016 (IN €)	DESCRIPTION OF THE LIABILITIES	BALANCE SHEET ITEM
Cover fund for deposits held in trust for wards:			
Fixed-income securities	141,353,385.48	Deposits held in trust for wards	Liabilities item 2
Cover fund for mortgage bonds and public-sector covered bonds:			
Loans and advances to customers	12,209,532,875.85	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Loans and advances to credit institutions	445,000,000.00	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Fixed-income securities	1,672,053,340.93	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Total	**14,326,586,216.78**		
Collateral pool OeNB (tender):			
Loans and advances to customers	6,963,268,947.44	OeNB/ECB funding	Liabilities item 1
Fixed-income securities	2,641,078,198.73	OeNB/ECB funding	Liabilities item 1
Total	**9,604,347,146.17**		
Collateral EIB and KfW:			
Loans and advances to customers	2,135,697,400.87	Supranational funding	Liabilities item 1
Fixed-income securities	535,583,679.08	Supranational funding	Liabilities item 1
Total	**2,671,281,079.95**		
Collateral for trading transactions in securities and derivatives:			
Cash collateral	439,256,204.76	Margin requirements	
Securities collateral	26,962,900.09	Margin requirements	
Total	**466,219,104.85**		
Collateral for clearing systems:			
Fixed-income securities	115,371,201.93	Security provided in favour of OeKB, Euroclear, Clearstream Banking	
Total			
Collateral for amounts owed to credit institutions:			
Loans and advances to customers	4,548,930,427.72	Claims assigned in favour of OeKB	Liabilities item 1
Loans and advances to customers	1,690,420,197.57	Earmarked deposit Wohnbaubank AG	Liabilities item 1
Total	**6,239,350,625.29**		
Assets pledged in favour of foreign credit institutions and financial institutions which are group companies			
Loans and advances to credit institutions	124,247,365.00	Pledge agreements with CEE banks	
Fixed-income securities	71,949,362.71	Pledge agreements with CEE banks	
Total	**196,196,727.71**		
AGGREGATE TOTAL	**33,760,705,488.16**		

4.31. Derivatives business

Derivatives shown in the relevant tables are classified as financial derivatives and credit derivatives, according to the underlying financial instrument. In these categories, a distinction is made between trading book and banking book and between different products and remaining maturities. UniCredit Bank Austria AG's business volume in derivatives focuses on interest rate contracts.

Over-the-counter transactions are individual agreements concerning volume, maturities and underlying instrument. In large-volume interbank trading, these agreements reflect international practice, while in customer business they are usually adjusted to specific needs. Exchange-traded contracts are always standardised in respect of volume and maturity date.

Derivatives are mainly used by the bank itself for hedging market risk and credit spread risk arising from new issue activities. In customer business, market participants include banks, securities houses and corporate customers.
Trading in derivatives at UniCredit Bank Austria AG is primarily related to the hedging of positions entered into vis-à-vis customers.

Details of derivatives transactions and of the uniform Group-wide method of recording them for risk measurement and risk management purposes are given in Enclosure 2.

Information pursuant to Section 64 (1) 3 of the Austrian Banking Act may also be derived from the tables showing derivatives transactions in Enclosure 2.

(in €)

	31 DEC. 2016			1 JAN. 2016		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
Trading book	**46,449,151,211**	**1,003,715,713**	**1,065,303,230**	**36,838,245,354**	**907,095,021**	**971,565,276**
Financial derivatives on debt instruments and interest rates	**35,603,772,918**	**717,154,214**	**787,744,253**	**23,031,355,450**	**658,896,917**	**734,582,210**
Options	5,151,626,444	32,565,552	34,850,395	5,287,713,591	39,027,505	41,901,309
Swaps	28,806,082,504	684,027,074	752,332,269	17,743,641,859	619,869,412	692,680,901
Forwards	1,646,063,971	561,589	561,589	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on equity instruments and share indices	**1,224,428,494**	**5,531,016**	**5,529,117**	**1,662,574,129**	**4,972,040**	**4,973,615**
Options	1,224,428,494	5,531,016	5,529,117	1,662,574,129	4,972,040	4,973,615
Swaps	0	0	0	0	0	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on exchange rates and gold	**9,272,561,385**	**228,364,083**	**219,361,143**	**11,907,072,599**	**225,177,705**	**213,889,588**
Options	1,855,753,523	12,206,354	12,189,283	883,582,200	12,351,530	12,398,035
Swaps	922,606,246	58,429,568	58,647,638	918,860,106	67,555,081	67,236,230
Forwards	6,494,201,615	157,728,161	148,524,223	10,104,630,293	145,271,095	134,255,323
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on other underlying transactions	**348,388,414**	**52,666,400**	**52,668,717**	**237,243,177**	**18,048,359**	**18,119,864**
Options	0	0	0	4,255,634	372,369	372,404
Swaps	348,388,414	52,666,400	52,668,717	232,987,542	17,675,991	17,747,460
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**
Credit default swaps	0	0	0	0	0	0
Other	0	0	0	0	0	0

Notes (CONTINUED)

(in €)

	31 DEC. 2016			1 JAN. 2016		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
Banking book – hedging derivatives	**92,341,163,951**	**2,701,870,404**	**2,111,527,366**	**100,657,361,574**	**2,865,018,241**	**2,234,160,548**
Financial derivatives on debt instruments and interest rates	**73,600,372,459**	**2,583,537,372**	**1,981,969,269**	**80,633,525,982**	**2,758,308,240**	**2,054,200,426**
Options	3,569,635,669	90,707,497	238,834,014	4,295,070,309	77,968,930	205,496,919
Swaps	70,030,736,791	2,492,829,875	1,743,135,255	76,338,455,673	2,680,339,311	1,848,703,507
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on equity instruments and share indices	**290,268,000**	**22,621,892**	**2,798,018**	**258,098,000**	**28,212,105**	**919,951**
Options	290,268,000	22,621,892	2,798,018	239,798,000	27,575,406	919,951
Swaps	0	0	0	18,300,000	636,699	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on exchange rates and gold	**18,076,223,491**	**95,326,926**	**119,223,507**	**19,386,037,592**	**77,979,395**	**171,403,859**
Options	39,472,126	1,626,671	6,102,835	52,104,770	1,829,626	7,577,589
Swaps	13,617,180,801	89,359,511	106,319,731	17,107,710,888	67,090,306	154,540,404
Forwards	4,419,570,563	4,340,743	6,800,941	2,226,221,934	9,059,463	9,285,865
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on other underlying transactions	**0**	**0**	**0**	**0**	**0**	**0**
Options	0	0	0	0	0	0
Forwards	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Credit derivatives	**374,300,000**	**384,215**	**7,536,573**	**379,700,000**	**518,501**	**7,636,312**
Credit default swaps	374,300,000	384,215	7,536,573	379,700,000	518,501	7,636,312
Other	0	0	0	0	0	0
TOTAL	**138,790,315,161**	**3,705,586,117**	**3,176,830,596**	**137,495,606,928**	**3,772,113,262**	**3,205,725,824**

Notes (CONTINUED)

Notional amounts of derivatives by residual maturity (in €)

	31 DEC. 2016			
	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Trading book	**15,328,139,048**	**17,387,917,206**	**13,733,094,956**	**46,449,151,211**
Financial derivative contracts on debt instruments and interest rates	7,967,451,255	14,989,375,557	12,646,946,107	35,603,772,918
Financial derivative contracts on equity instruments and share indices	184,005,685	370,198,651	670,224,158	1,224,428,494
Financial derivative contracts on exchange rates and gold	6,861,699,269	1,994,937,424	415,924,692	9,272,561,385
Financial derivative contracts on other underlying transactions	314,982,839	33,405,574	0	348,388,414
Credit derivatives	0	0	0	0
Banking book	**29,663,628,213**	**35,623,082,322**	**27,054,453,416**	**92,341,163,951**
Financial derivative contracts on debt instruments and interest rates	23,631,050,482	27,311,410,062	22,657,911,915	73,600,372,459
Financial derivative contracts on equity instruments and share indices	62,384,000	30,420,000	197,464,000	290,268,000
Financial derivative contracts on exchange rates and gold	5,965,193,731	7,971,952,260	4,139,077,500	18,076,223,491
Financial derivative contracts on other underlying transactions	0	0	0	0
Credit derivatives	5,000,000	309,300,000	60,000,000	374,300,000
TOTAL	**44,991,767,261**	**53,010,999,528**	**40,787,548,372**	**138,790,315,161**

The book values (in €) of derivatives as at 31 December 2016 are included in the following items:

Other assets – trading book	1,003,715,713
Other assets – banking book	378,341,246
Other liabilities – trading book	1,065,303,230
Other liabilities – banking book	442,148,157

	1 JAN. 2016			
	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Trading book	**13,200,028,095**	**11,202,143,639**	**12,436,073,621**	**36,838,245,354**
Financial derivative contracts on debt instruments and interest rates	3,268,160,776	8,463,254,864	11,299,939,810	23,031,355,450
Financial derivative contracts on equity instruments and share indices	261,828,857	715,687,362	685,057,910	1,662,574,129
Financial derivative contracts on exchange rates and gold	9,501,502,900	1,954,493,798	451,075,900	11,907,072,599
Financial derivative contracts on other underlying transactions	168,535,562	68,707,615	0	237,243,177
Credit derivatives	0	0	0	0
Banking book	**37,446,027,846**	**33,353,080,043**	**29,858,253,685**	**100,657,361,574**
Financial derivative contracts on debt instruments and interest rates	30,187,191,294	25,757,247,827	24,689,086,861	80,633,525,982
Financial derivative contracts on equity instruments and share indices	62,600,000	85,664,000	109,834,000	258,098,000
Financial derivative contracts on exchange rates and gold	7,196,236,552	7,190,468,216	4,999,332,824	19,386,037,592
Financial derivative contracts on other underlying transactions	0	0	0	0
Credit derivatives	0	319,700,000	60,000,000	379,700,000
TOTAL	**50,646,055,941**	**44,555,223,682**	**42,294,327,305**	**137,495,606,928**

4.32. Contingent liabilities

Contingent liabilities of UniCredit Bank Austria AG shown below the line in item 1 on the liabilities side amounted to €9,697,533,573.52, an increase of €473,363,532.20 or 5.13% compared with 1 January 2016.

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Acceptances and endorsements	0.00	0
Guarantees and assets pledged as collateral security	9,697,533,573.52	9,224,170

Guarantees in connection with retirement planning products benefiting from a state premium pursuant to Section 108 h (1) 3 and subsequent sections of the Austrian Income Tax Act (Einkommensteuergesetz – EStG)

In connection with retirement planning products benefiting from a state premium, UniCredit Bank Austria AG has incurred nominal capital guarantee obligations defined by law. Under the "VorsorgePlus-Plan" product (a mutual fund managed by Pioneer Investments Austria GmbH), the bank guarantees the investor that in the case of repayment through regular payments to the investor, the amount available for repayment will not be lower than the sum of amounts paid in plus premiums (variable in a range between 4.25% and 6.75%, and index-linked) credited to the account pursuant to Section 108 g of the Austrian Income Tax Act.

Notes (CONTINUED)

As at 31 December 2016, amounts paid in for retirement planning products benefiting from a state premium (including state premiums credited so far) compare with a guarantee obligation of €3,734,843.16 (1 January 2016: €21,053 thousand) and the fund's net asset value as a provision of €3,652,040.50 (1 January 2016: €20,956 thousand).

Risk management is based on a CPPI model reflecting the stochastic characteristics of the proportions of equity and bond investments. Daily marking to market of the related options carried in the bank's trading book ensures that, if necessary, a sufficient provision is made immediately for any losses. The valuation functions are integrated in the MUREX system. Risk indicators are determined by the Markets Execution & Structuring unit. Required guarantee payments are also made by Markets Execution & Structuring. These payments are not added to the fund assets but are made directly to individual customers.

4.33. Letters of comfort and undertakings

In addition to the contingent liabilities shown below the balance sheet in item 1 on the liabilities side, there are the following letters of comfort and undertakings:

For five subsidiaries of UniCredit Bank Austria AG, guarantees were issued in favour of S.W.I.F.T.

Letters of comfort for a total amount of €565,736,594.25 (1 January 2016: €547,757 thousand) were issued in connection with international leasing transactions; given the nature of collateral for these transactions, it is not expected that claims will be lodged against UniCredit Bank Austria AG because the rights to payment undertaking amounts serving as collateral and held with the leasing companies or with UniCredit Bank Austria AG, or the rights to other security of stable value, have been transferred to the leasing companies.

Two letters of comfort were issued for the floating of hybrid capital of BA-CA Finance (Cayman) Limited as well as of BA-CA Finance (Cayman 2) Limited; they are included at a value of €1 in the item below the balance sheet.

Furthermore, a commitment has been imposed on UniCredit Bank Austria AG under its membership, as prescribed in Sections 93 and 93a of the Austrian Banking Act and in the Austrian Deposit Guarantee and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz – ESAEG), of a deposit guarantee scheme.

As of 19 December 2016, UniCredit Bank Austria AG switched from being a member of Sparkassen Haftungs AG, a company which is the deposit insurance institution of the Austrian savings bank sector, to being a member of Einlagensicherung der Banken und Bankiers Gesellschaft mbH.

4.34. Commitments

	31 DEC. 2016 (IN €)	1 JAN. 2016 (IN € THOUSAND)
Liabilities arising from sales with an option to repurchase pursuant to Section 50 (3) and (5) of the Austrian Banking Act	0.00	0
Underwriting commitments in respect of securities	0.00	911,543
Call/put options sold (pursuant to Annex 1 to Section 22, item 1 j)	0.00	0
Irrevocable loan commitments not yet utilised (credit facilities, commitments to lend, obligations to purchase securities, obligations to provide guarantees or acceptance facilities)	12,629,523,973.94	10,786,458
Securities borrowed – own account	0.00	0
Obligations under rent and lease agreements	0.00	62,251
Any other irrevocable transactions that may give rise to credit risk and have not been mentioned above	0.00	0
TOTAL	**12,629,523,973.94**	**11,760,252**

4.35. Return on assets

The return on assets, which is the ratio of profit/loss after tax ("annual surplus/annual deficit") to total assets as at the balance sheet date, was –0.04% for the reporting year (1 January 2016: +0.75%).

5. Notes to the profit and loss account

5.1. Special cost of capital

As a result of the currently low interest rate levels, interbank business has partly led to expenses for financial assets and income from financial liabilities.

Expenses relating to loans and advances (assets) amounted to €26,008,776.00 (2015: €732 thousand) and are included in "Interest and similar income".

Income received for deposits (liabilities) amounted to €6,605,332.54 (2015: €367 thousand) and is included in "Interest and similar expenses".

5.2. Expenses for subordinated liabilities

In the reporting year, the total amount of expenses for subordinated liabilities and Tier 2 capital was €82,199,456.70 (2015: €87,666 thousand).

5.3. Income from equity interests and group companies

The item "Income from shares in group companies" included income from profit-pooling arrangements in the amount of €77,175,354.86 (2015: €431,874 thousand).

5.4. Income from administrative and agency services provided to third parties

In 2016, income from safe-custody services and from intermediary services relating to insurance, building-society savings agreements and real estate totalled €58,387,165.32 (2015: €62,385 thousand).

5.5. Other operating income

Other operating income included compensation for group services, the release of provisions for litigation risks, gains on other assets and rent income from real estate as well as all income not directly related to banking operations. The total amount of this item in 2016 was €47,506,805.89 (2015: €872,756 thousand).

5.6. Staff costs – wages and salaries

This item includes the additional costs of €506,500,000.00 associated with the transfer of employees to the ASVG social insurance scheme, less a net release of €150,000,000.00 from the restructuring provision.

5.7. Expenses for severance payments

The item "Expenses for severance payments and payments to severance-payment funds" shows expenses of €51,820,074.40 (2015: €36,216 thousand).

5.8. Other operating expenses

Other operating expenses related primarily to expenses on banking operations not arising from lending business, especially expenses for provisions for legal risks, and expenses of €17,800,000.00 (2015: €8,926 thousand) for deposit guarantee schemes and expenses of €35,474,162.00 (2015: €34,609 thousand) for the EU bank resolution fund. Expenses reflected in this item in the reporting year totalled €260,969,563.88 (2015: €186,274 thousand).

5.9. Valuation and disposal of equity interests and shares in group companies

In the reporting year, write-downs totalled €43,619,969.10 (2015: €369,931 thousand). These write-downs related to various companies including, on account of distributions, also to an Austrian group company (€23,305,695.00).

Valuation gains in 2016 totalled €106,355,281.03 (2015: €46,835 thousand) as the reasons for write-downs made in the past were no longer applicable.

Within "net income/expenses from the disposal and valuation of shares in group companies and equity interests", group companies accounted for a balance of €80,618,362.52 (2015: minus €310,359 thousand).

No income was realised on the sale of shares in profit-pooling arrangements.

5.10. Taxes on income

The item "Taxes on income" shows net income of €495,740,188.33 for the 2016 financial year (2015: net income of €66.794 thousand).

This figure reflects the fact that deferred taxes of €497,618,855.33 were carried as assets for the first time. Also included is an expense of €15,000,000.00 (2015: income of €897 thousand) for corporation tax, expenses of €3,260,134.21 (2015: €6,502 thousand) for foreign taxes on income, and income of €16,381,466.91 (2015: €72,398 thousand) resulting from amounts charged to individual group companies under tax compensation agreements.

Pursuant to Section 9 of the Austrian Corporation Tax Act (Körperschaftsteuergesetz – KStG), a group of companies existed as at 31 December 2016 which consisted of UniCredit Bank Austria AG as group holding company and 53 companies as group members all of which are Austrian companies (16 companies with profit and loss transfer agreements and 37 companies with tax compensation agreements) as well as one group member in Austria included via a joint control arrangement.

Under the tax compensation agreements, payments are made to UniCredit Bank Austria AG for taxable profits in the amount of corporation tax payable on such profits, after deduction of an interest benefit shared by the group holding company and the group member. There is no obligation to make tax compensation payments to the group holding company to the extent that tax losses from previous years are offset at the group member level. Moreover, UniCredit Bank Austria AG undertakes to make a compensation payment to group members leaving the group for unused tax losses. A provision was made for future tax obligations resulting from this undertaking.

5.11. Movements in reserves

In the 2016 financial year, the amount of €37,889,591.21 was released from revenue reserves to cover the annual deficit (2015: allocation of €254,080 thousand to reserves).

5.12. Audit costs

Information on the costs of the audit of the financial statements (pursuant to Section 238 (1) 18 of the Austrian Business Code) is provided in the notes to the consolidated financial statements.

5.13. Proposal for the appropriation of profit

After the release of reserves amounting to €37,889,591.21 the profit or loss of UniCredit Bank Austria AG for the financial year beginning on 1 January 2016 and ending on 31 December 2016 was €0.00. This means that there is no accumulated profit which may be distributed.

6. Information on staff, Management Board and Supervisory Board

6.1. Staff

The average number of employees (full-time equivalent) in the 2016 financial year was 5,183 (2015: 5,670).

6.2. Expenses for severance payments and pensions

Expenses for severance payments and pensions relate to the items "expenses for retirement benefits", "allocation to the pension provision" and "expenses for severance payments and payments to severance-payment funds" in the profit and loss account.

In the 2016 financial year, allocations and payments for members of the Management Board and former members of the Management Board as well as their surviving dependants totalled €10,528,711.46 (2015: €9,201 thousand); allocations and payments for other employees and their surviving dependants totalled €562,712,447.95 (2015: €230,649 thousand). The amounts include payments to pension funds amounting to €239,017.62 (2015: €340 thousand) for active members of the Management Board and €1,765,469.47 (2015: €0 thousand) for former members of the Management Board.

6.3. Emoluments of Management Board members and Supervisory Board members

The emoluments paid by UniCredit Bank Austria AG to Management Board members in the 2016 financial year (excluding payments into pension funds) totalled €2,357,373.62 (comparable emoluments in 2015 totalled €3,065 thousand). Of this total, €1,571,499.26 (2015: €2,306 thousand) related to fixed salary components and €785,874.36 were variable salary components (2015: €759 thousand). Moreover, a provision was made for variable remuneration for 2015 (subject to malus) in the amount of €1,045,333.00, which may be paid in subsequent years pursuant to the same legal provisions governing compensation.

Several members of the Management Board receive their emoluments from companies which are not included in the group of consolidated companies of Bank Austria; these emoluments granted to Management Board members for activities in UniCredit Bank Austria AG and in subsidiaries in the 2016 financial year amounted to €3,296,493.14 (2015: €4,079 thousand) and are partly (2016: €776,833.17; 2015: €1,057 thousand) charged to UniCredit Bank Austria AG. These Management Board members also received emoluments for activities which are not connected with the Bank Austria Group but are in the interest of UniCredit Group.

Payments to former members of the Management Board and their surviving dependants (excluding payments into pension funds) totalled €8,008,877.58. (Of this total, €4,565,502.80 was paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,627,319.61 was paid to former Management Board members of Österreichische Länderbank AG, which merged with Zentralsparkasse in 1991, and their surviving dependants.) The comparative figure for 2015 was €8,773 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €10,383.64 (2015: €4 thousand).

The emoluments of the Supervisory Board members active in the 2016 business year totalled €306,158.62 (2015: €330 thousand) for UniCredit Bank Austria AG, and €1,180.00 (2015: €2 thousand) for the two credit associations.

6.4. Loans and advances to Management Board members and Supervisory Board members

Loans to members of the Management Board amounted to €331,680.67 (2015: €406 thousand), utilised overdraft facilities were €33,595.46 (2015: €41 thousand). Repayments during the business year totalled €33,944.68 (2015: €40 thousand).

Loans to members of the Supervisory Board amounted to €953,976.64 (2015: €622 thousand). Overdraft facilities utilised by Supervisory Board members totalled €37,002.74 (2015: €65 thousand). Repayments during the business year totalled €63,146.01 (2015: €54 thousand).

Loans to the Supervisory Board include those made to members of the Employees' Council who are members of the Supervisory Board. The maturities of the loans range from five to thirty years. The rate of interest payable on these loans is the rate charged to employees of UniCredit Bank Austria AG.

6.5. Share-based payments

The Management Board and selected executives of UniCredit Bank Austria AG participate in the UniCredit share-based payment scheme of UniCredit Group. The share-based payment arrangements relate to Stock Options and Performance Shares for activities in UniCredit Bank Austria AG, based on shares in the parent company UniCredit S.p.A.

UniCredit calculates the economic value of the share-based payment arrangements on a uniform basis for the entire Group (Hull & White evaluation model) and provides the Group companies with relevant information. In UniCredit Bank Austria AG, the total amount recognised in the profit and loss account for the reporting year was €5,744,935.84 (2015: €5,509 thousand).

The number and distribution of Stock Options granted to Management Board members in the respective financial years, the exercise price, the maturity, the periods during which Stock Options may be exercised, the transferability of Stock Options, the minimum holding period (blocking period), the conditions of transferability and exercise, and the estimated value as at 31 December 2016 are shown in Enclosure 4.

1.a) Stock Options – Management Board members

MANAGEMENT BOARD	YEAR IN WHICH STOCK OPTIONS WERE GRANTED*	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANS-FER-ABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2016 IN EUR 2)
	2004	10,500	1,882	4.018	22.42	03.09.08	9 Years	1)	No	10,479.00
	2005	129,000	23,119	4.817	26.88	25.11.09	9 Years	1)	No	136,069.20
	2006	126,100	22,600	5.951	33.21	28.06.10	9 Years	1)	No	160,020.90
	2007	175,414	31,438	7.094	39.58	13.07.11	6 Years	1)	No	233,160.29
	2008	769,709	137,947	4.185	23.35	25.06.12	6 Years	1)	No	504,313.34
	2009	0	0	0	0.00	–	–	–	–	0.00
	2010	0	0	1.807	11.90	31.07.14	–	–	–	0.00
	2011	0	0	4.01	4.01	01.07.16	6 Years	1)	–	0.00
	2012	0	0	0	0.00	–	–	–	–	0.00
	2013	0	0	0	0.00	–	–	–	–	0.00
	2014	0	0	0	0.00	–	–	–	–	0.00
	2015	0	0	0	0.00	–	–	–	–	0.00
	2016	0	0	0	0.00	–	–	–	–	0.00
Total Management Board	**2004–2016**	**1,210,723**	**216,986**	**–**	**–**	**–**	**–**	**–**	**–**	**1,044,042.73**

*) Date of resolution passed by the Group's Board of Directors

In 2016, no new Stock Options were issued to Management Board members; no Stock Options were exercised by members of the Management Board. The Stock Options of Management Board members in 2011 reflected part of the bonus with deferred payment for 2011 (payment in 2012 and subsequent years). The Plan was evaluated in 2016. All rights have lapsed.

1.b) Stock Options – executives and other employees

	YEAR IN WHICH STOCK OPTIONS WERE GRANTED*	NUMBER OF OPTIONS GRANTED	NUMBER OF SHARES THAT MAY BE PURCHASED	EXERCISE PRICE OR BASIS OR FORMULA	SHARE PRICE	MATURITY	PERIOD DURING WHICH STOCK OPTIONS MAY BE EXERCISED	TRANS-FER-ABILITY	BLOCKING PERIOD	ESTIMATED VALUE AS AT 31 DEC. 2016 IN EUR 2)
Executives	2007	639,648	114,433	7.094	39.58	13.07.11	6 Years	1)	No	850,220.12
Executives	2008	1,504,195	269,100	4.185	23.35	25.06.12	6 Years	1)	No	985,548.56
Executives	2010	0	0	–	–	–	–	–	–	0.00
Total executives	**2007–2010**	**2,143,843**	**383,534**	**–**	**–**	**–**	**–**	**–**	**–**	**1,835,768.69**
Other employees	2007	231,495	41,414	7.094	39.58	13.07.11	6 Years	1)	No	307,703.15
Other employees	2008	451,947	80,853	4.185	23.35	25.06.12	6 Years	1)	No	296,115.67
Other employees	2010	0	0	–	–	–	–	–	–	0.00
Total other employees	**2007–2010**	**683,442**	**122,268**	**–**	**–**	**–**	**–**	**–**	**–**	**603,818.83**
TOTAL STOCK OPTIONS	**2004–2010**	**4,038,008**	**722,787**	**–**	**–**	**–**	**–**	**–**	**–**	**3,483,630.24**

*) Date of resolution passed by the Group's Board of Directors

No new Stock Options were issued to executives and other employees in the years 2011 to 2016; no Stock Options were exercised.

2. Performance Shares

No Performance Shares were allocated to Management Board members in 2016.

Conditions of transferability and exercise
1) Stock Options are restricted to the beneficiary's name and cannot be sold, assigned, pledged or transferred in any way. In the event of the beneficiary's death, claims under Stock Options may be transferred in full or in part to the beneficiary's heirs.

2) The estimated value of the Long Term Incentive Plans (LTIP) was determined on the basis of fair value as at 31 December 2016:

YEAR	FAIR VALUE STOCK OPTION	FAIR VALUE PERFORMANCE SHARE
LTIP 2004	0.998	–
LTIP 2005	1.0548	–
LTIP 2006	1.269	Plan expired
LTIP 2007	1.3292	Plan expired
LTIP 2008	0.6552	Plan expired
LITP 2010 (2011–2013)	Rights lapsed	Rights lapsed
LITP 2011 (2012–2015)	Rights lapsed	Rights lapsed

6.6. Names of Management Board members and of Supervisory Board members

A list of the members of the Supervisory Board and of the members of the Management Board is given in Enclosure 3 at the end of the notes to the financial statements.

7. Events after the balance sheet date

There are no major events to be reported.

Shares in group companies and equity interests

of UniCredit Bank Austria AG

List of shares in group companies and equity interests pursuant to Section 238 of the Austrian Business Code (UGB)

Shares in group companies (consolidated)

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
AI Beteiligungs GmbH, Vienna, AT	100.00	1,759,993.00	11,657.00	1,955,865.00	31 Dec. 2016[2])
Alpine Cayman Islands Ltd., Grand Cayman, KY	100.00	114,876,099.00	–148,486.00	510,182,528.00	31 Dec. 2016[2])
BA Alpine Holdings, Inc., Wilmington County,New Castle, US	100.00	9,097,172.94	1,706,481.36	14,311,892.61	31 Dec. 2016[2])
BA Betriebsobjekte GmbH, Vienna, AT	100.00	15,977,159.00	–137,399.00	24,530,227.00	31 Dec. 2016[2])
BA GVG-Holding GmbH, Vienna, AT	100.00	1,272,208.00	–24,468.00	1,291,492.00	31 Dec. 2016[2])
BA-CA Markets & Investment Beteiligung Ges. m. b. H., Vienna, AT [1])	100.00	39,197,851.00	1,091,061.00	39,200,723.00	31 Dec. 2016[2])
BA-CA Wien Mitte Holding GmbH, Vienna, AT	100.00	1,393,875.03	306,773.03	12,128,658.12	31 Dec. 2016[2])
Bank Austria Finanzservice GmbH, Vienna, AT	100.00	3,367,179.00	270,849.00	5,596,966.00	31 Dec. 2016[2])
Bank Austria Real Invest Immobilien-Management GmbH, Vienna, AT [1])	94.95	103,551,228.00	9,183,520.00	115,850,376.00	31 Dec. 2016[2])
Bank Austria Wohnbaubank AG, Vienna, AT [1])	100.00	53,075,610.00	–884,309.00	206,016,979.00	31 Dec. 2016[2])
Buchstein Immobilienverwaltung GmbH und Co OG, Vienna, AT	100.00	586,460.30	66,079.30	1,287,217.06	31 Dec. 2016[2])
CABET-Holding GmbH, Vienna, AT [1])	100.00	692,067,705.00	18,050,652.00	692,087,224.00	31 Dec. 2016[2])
card complete Service Bank AG, Vienna, AT [1])	50.10	153,093,653.23	121,642,073.45	645,149,665.89	31 Dec. 2016[2])
Cards & Systems EDV-Dienstleistungs GmbH, Vienna, AT	58.00	8,776,306.00	1,786,742.00	12,612,978.00	31 Dec. 2016[2])
FactorBank Aktiengesellschaft, Vienna, AT	100.00	58,776,960.68	2,809,478.03	626,029,052.97	31 Dec. 2016[2])
Human Resources Service and Development GmbH, Vienna, AT [1])	100.00	234,376.51	257,084.50	1,255,508.00	31 Dec. 2016[2])
Immobilien Holding GmbH, Vienna, AT	100.00	416,905,593.00	103,774,407.00	456,935,525.00	31 Dec. 2016[2])
Immobilien Rating GmbH, Vienna, AT	99.00	917,445.00	123,027.00	1,832,184.00	31 Dec. 2016[2])
Kaiserwasser Bau- und Errichtungs GmbH und Co OG, Vienna, AT	99.80	400,367.00	578,009.00	18,938,439.00	31 Dec. 2016[2])
KLEA ZS-Immobilienvermietung G. m. b. H., Vienna, AT	100.00	3,032,904.95	158,448.95	3,101,661.94	31 Dec. 2016[2])
KLEA ZS-Liegenschaftsvermietung G. m. b. H., Vienna, AT	100.00	2,197,782.43	–7,573.57	4,221,027.31	31 Dec. 2016[2])
Lassallestraße Bau-, Planungs-, Errichtungs- und Verwertungsgesellschaft m. b. H., Vienna, AT	100.00	–5,631,914.68	488,797.92	119,311,545.67	31 Dec. 2016[2])
MY Drei Handels GmbH, Vienna, AT	100.00	685,823.00	–150.00	686,845.00	31 Dec. 2016[2])
Nordbahnhof Projekte Holding GmbH, Vienna, AT [1])	100.00	58,923,720.00	220,211.00	59,408,749.00	31 Dec. 2016[2])
Paytria Unternehmensbeteiligungen GmbH, Vienna, AT	100.00	391,001.00	–133,171.00	393,061.00	31 Dec. 2016[2])
POLLUX Immobilien GmbH, Vienna, AT	100.00	5,620,919.76	539,498.76	9,515,584.72	31 Dec. 2016[2])
RAMSES Immobilien Gesellschaft m. b. H. & Co OG, Vienna, AT	100.00	23,909,906.00	1,890,680.00	41,828,337.00	31 Dec. 2016[2])
RIGEL Immobilien GmbH, Vienna, AT	100.00	11,308,222.66	166,007.66	11,505,702.26	31 Dec. 2016[2])
Schoellerbank Aktiengesellschaft, Vienna, AT	100.00	196,250,644.48	26,104,803.84	4,471,009,376.21	31 Dec. 2016[2])
SIRIUS Immobilien GmbH, Vienna, AT	100.00	6,640,060.12	3,091,981.12	8,979,459.29	31 Dec. 2016[2])
UniCredit Center am Kaiserwasser GmbH, Vienna, AT	100.00	13,769.00	0.00	63,022.00	31 Dec. 2016[2])
UniCredit Leasing (Austria) GmbH, Vienna, AT	100.00	180,777,351.87	12,304,283.18	942,897,357.30	31 Dec. 2016[2])
UNIVERSALE International Realitäten GmbH, Vienna, AT	100.00	382,736,651.00	14,276,338.00	386,752,707.00	31 Dec. 2016[2])

Shares in group companies and equity interests (CONTINUED)

Interests in companies accounted for under the equity method

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck, AT	47.38	1,173,762,000.00	52,775,000.00	9,845,483,000.00	31 Dec. 2016 2)
BKS Bank AG, Klagenfurt, AT	29.78	942,206,240.00	46,513,000.00	7,314,070,240.00	31 Dec. 2016 2)
NOTARTREUHANDBANK AG, Vienna, AT	25.00	27,379,894.00	7,739,000.00	1,717,258,000.00	31 Dec. 2016 2)
Oberbank AG, Linz, AT	27.17	2,222,964,682.00	170,074,000.00	19,079,367,682.00	31 Dec. 2016 2)
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna, AT	49.15	752,532,000.00	41,823,000.00	25,764,556,000.00	31 Dec. 2016 2)
Österreichische Hotel- und Tourismusbank Gesellschaft m. b. H., Vienna, AT	50.00	29,241,809.00	2,333,123.00	999,031,188.00	31 Dec. 2016 2)
Österreichische Wertpapierdaten Service GmbH, Vienna, AT	29.30	72,065.00	6,701.00	2,050,812.00	31 Dec. 2016 2)
WKBG Wiener Kreditbürgschafts- und Beteiligungsbank AG, Vienna, AT	21.54	29,208,911.00	−272,308.00	33,222,761.00	31 Dec. 2016 2)

Unconsolidated companies

NAME AND DOMICILE OF COMPANY	TOTAL INTEREST IN %	EQUITY (IN €)	NET INCOME/LOSS (IN €)	TOTAL ASSETS (IN €)	BALANCE SHEET DATE
A) Group companies					
Alfa Holding Ingatlanszolgaltato Kft., Györ, HU	95.00	−12,542.36	−1,533.10	2,359.36	31 Dec. 2014
Bank Austria Immobilien Entwicklungs- und VerwertungsgmbH in Liqu., Vienna, AT 1)	100.00	17,500.00	−728.88	18,230.88	31 Dec. 2015
Bank Austria-CEE BeteiligungsgmbH, Vienna, AT	100.00	25,404.00	−7,139.00	28,050.00	31 Dec. 2015
RAMSES-Immobilienholding GmbH, Vienna, AT	100.00	30,563.00	43.00	32,441.00	31 Dec. 2015
Real(e)value Immobilien BewertungsGmbH, Vienna, AT	100.00	548,458.92	169,342.64	772,056.77	31 Dec. 2015
RE-St. Marx Holding GmbH, Vienna, AT 1)	100.00	20,955.18	−2,395.57	24,117.18	31 Dec. 2015
Sigma Holding Ingatlanszolgaltato Kft., Budapest, HU	95.00	−324,038.99	−4,034.47	442,671.79	31 Dec. 2015
THETA Fünf Handels GmbH, Vienna, AT	100.00	204,069.45	227,255.03	500,000.00	31 Dec. 2015
Wirtschaftsverein der MitarbeiterInnen der UniCredit Bank Austria e. Gen. in Liquidation, Vienna, AT	52.99	1,062,896.68	1,453,569.65	1,989,686.45	31 Dec. 2015
B) Associated companies					
Einlagensicherung der Banken und Bankiers Gesellschaft m. b. H., Vienna, AT	27.29	77,000.00	0.00	818,719.90	31 Dec. 2015
MY Fünf Handels GmbH, Vienna, AT	50.00	17,229.69	−3,783.01	18,779.29	31 Dec. 2015
C) Other companies					
2020 Medici GmbH, Vienna, AT	25.00	219,447.69	0.00	787,247.34	31 Dec. 2015

The total percentage held comprises all shares held by consolidated companies and other group companies but not shares held on a trust basis.
Equity: equity pursuant to Section 229 of the Austrian Business Code.
1) Profit pooling arrangements with UniCredit Bank Austria AG.
2) Figures in accordance with IFRSs.
3) No profit-and-loss account data because of first-time consolidation.

Supervisory Board and Management Board

Supervisory Board and Management Board / 1 January 2016 – 31 December 2016

Supervisory Board

Chairman:
Erich HAMPEL

Deputy Chairman:

Ranieri De MARCHIS	from 7 November 2016
Paolo FIORENTINO	until 30 September 2016

Members:

Mirko D. BIANCHI	from 8 November 2016
Alessandro DECIO	until 31 March 2016
Massimiliano FOSSATI	from 5 August 2016
Olivier Nessime KHAYAT	
Alfredo MEOCCI	
Marina NATALE	
Vittorio OGLIENGO	until 7 November 2016
Gianni Franco PAPA	from 15 January 2016
Karl SAMSTAG	
Eveline STEINBERGER-KERN	
Ernst THEIMER	

Delegated by the Employees' Council:

Adolf LEHNER Chairman of the Employees' Council	
Michaela VRZAL First Deputy Chairman of the Employees' Council	until 22 September 2016
Barbara WIEDERNIG First Deputy Chairman of the Employees' Council	
Alfred FÜRLER Member of the Employees' Council	
Mario PRAMENDORFER Member of the Employees' Council	from 23 September 2016
Barbara TITZE Member of the Employees' Council	from 20 May 2016
Robert TRAUNWIESER Member of the Employees' Council	until 19 May 2016
Wolfgang TRUMLER Member of the Employees' Council	

Management Board

Chairman/Chief Executive Officer:

Willibald CERNKO	until 29 February 2016
Robert ZADRAZIL	from 1 March 2016

Deputy Chairman:

Carlo VIVALDI	until 30 September 2016
Romeo COLLINA	from 1 October 2016

Members:

Helmut BERNKOPF	until 31 March 2016
Romeo COLLINA	from 1 March 2016 until 30 September 2016
Mirko BIANCHI	until 30 September 2016
Dieter HENGL	
Gregor HOFSTÄTTER-POBST	from 1 October 2016
Jürgen KULLNIGG	
Doris TOMANEK	
Robert ZADRAZIL	until 29 February 2016

Financial Statements for 2016

UniCredit Bank Austria AG
Jahresabschluss 2016

Wien, 24. Februar 2017

Der Vorstand:

Robert Zadrazil
CEO Commercial & Private Banking,
Support Services
(Vorsitzender)

Romeo Collina
COO Chief Operating Officer
(Vorsitzender-Stellvertreter)

Mag. Dieter Hengl
Corporate & Investment
Banking Division

Mag. Gregor Hofstätter-Pobst
CFO Finance

Dr. Jürgen Kullnigg
CRO Risk Management

Mag. Doris Tomanek
Human Resources

Auditors' Report

UniCredit Bank Austria AG
Financial Statements for 2016

Auditors' Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UniCredit Bank Austria AG, Vienna, comprising the balance sheet as at 31 December 2016, the income statement for the fiscal year then ended, and the notes.

In our opinion, the financial statements comply with legal requirements and give a true and fair view of the financial position of UniCredit Bank Austria AG as of 31 December 2016, and its financial performance for the year then ended in accordance with the Austrian Commercial Code and the Banking Act.

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section "Auditor's Responsibilities for the Audit of the Financial Statements" of our report. We are independent of UniCredit Bank Austria AG in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Representation and Valuation of Restructuring Measures (see Notes to the Financial Statements, 4.23 Other liabilities resp. 4.25.2 Other provisions)

Description and issue

The already undertaken and further planned restructuring measures of UniCredit Bank Austria AG, as well as other adjustments to the Multi Year Plan 2016–2019 of UniCredit S.p.A have led to the building of restructuring provisions mainly for staff measures in 2015 and 2016.

The restructuring provisions for staff measures from last year together with those accumulated during 2016 have been largely used in 2016. Therefore, as of 31 December 2016 the restructuring provisions amounted to EUR 49.5 mn, while liabilities for staff measures amounted to EUR 545.3 mn.

The staff measures include various agreements resp. offers for the termination of the employment contracts. The calculation of the remaining provision amount is based on numerous assumptions.

Due to their significance for the financial statements, the complexity of calculations and the underlying assumptions we identified the restructuring provisions and the usage of last year's restructuring provisions for staff measures as a key audit matter.

Our response

We critically examined the management`s assumptions and estimations for the major parameters regarding the restructuring provisions, based on UniCredit Bank Austria AG's past experience regarding staff measures.

We identified and examined the key processes, controls and calculation models, which were the basis for the calculation of the restructuring provisions, the accounting for the provisions' usage and the calculation of the liabilities.

We examined the adequacy of the information contained in the notes to the financial statements.

Auditors' Report (CONTINUED)

Impairment of loans and advances
(see Management Report, 2.2. Risks, Provisioning process)
Description and Issue
To account for the risk of losses in credit portfolios, risk provisions are built in the form of impairment allowances for loans and advances. At 31 December 2016, gross loans and advances (to customers and credit institutions) before impairments amounted to EUR 80,360.5 mn, against which loan impairment provisions of EUR 2,038.0 mn were recorded.

UniCredit Bank Austria AG uses different methods to determine the amount of impairment provisions, depending on the credit quality and volume of the respective receivables (see Management Report, 2.2. Risks, Process for building impairments).

As the calculation of impairment allowances for loans and advances – whether derived on an individual- or portfolio basis – represents an estimation, which is substantially determined by the identification of impairment events, the estimation of expected cash-flows resp. the calculation of parameters depicting the latter, we identified the amount of impairment allowances of loans and advances as a key audit matter.

Our Response
To assess the adequacy of impairments, we reviewed the key processes and models in credit risk management, as well as a sample of loans. We identified and tested key controls in the credit process, especially in the ongoing monitoring and in the early warning process of potentially non-performing borrowers. We examined the internal control system for the correct application of rating models and collateral valuation.

We examined the bank's internal control system for assessing the reliability of the implemented models for the determination of collective provisions (backtesting, ongoing monitoring and regular validation of models and parameters; re-estimation and if necessary recalibration based on updated time series, discussion in relevant committees) regarding design and implementation. We regularly analyzed the risk committees' protocols regarding possible impacts on the financial statements, retraced the provided analyses on backtesting and re-estimations and critically assessed the performed IT- and model validations. Our credit risk specialists examined the reliability of the estimations of material regulatory models that are also used for collective provisioning, based on fundamental model characteristics.

We examined the adequacy of individual provisions based on a sample of test cases. Apart from the adherence to internal guidelines referring to rating, collateral assignment and –valuation, we examined whether major impairment events were identified. For this, we tested loans and advances that had not been identified by management as defaulted to form our own assessment as to whether events with major impact on the repayment capability of the borrower had occurred. For non-performing loans we critically assessed the estimated cash flows that are expected from redemptions and collateral, and retraced the present value calculation.

Representation and Valuation of legal risks
(see Management Report, 2.2 Risks, Legal risks)
Description and issue
UniCredit Bank Austria AG is exposed to various legal risks, which can have material impacts on the bank's financial statements, such as litigation costs or compensation claims. Moreover, such costs can also arise as a consequence of supervisory and regulatory audits or investigations due to administrative prosecutions. On the one hand, there is an inherent risk that these risks are not recognized and accounted for in the financial statement in a timely manner, while on the other hand the valuation of these risks are an estimation by management which allows for a considerable amount of discretion.

UniCredit Bank Austria AG builds provisions for those proceedings for which it is possible to make reliable predictions of the outcome or of the potential losses. For these cases provisions are built in such an amount that is deemed appropriate by UniCredit Bank Austria AG, based on the given circumstances and in accordance with accounting principles. Issues with a potentially material impact, for which no provisions for compensation claims or penalties were recorded at the reporting date, besides the legal risks provisions, are described in the Notes.

Auditors' Report (CONTINUED)

As legal risks can have a material impact on the financial statements and as their valuation relies on management judgments which are of a considerable discretionary nature, we identified them as a key audit matter.

Our response
We assessed the processes related to the identification of legal risks and the building of provisions and evaluated the effectiveness of the identified key controls.

We discussed the underlying assumptions and estimations for the largest provisions with management and responsible employees and have critically assessed them. Moreover, we critically questioned cases for which no provisions were built.

We requested external confirmation from lawyers for major open legal cases and, based on these, we critically assessed the Board's assessment. We have examined the reports and correspondence with Supervisory Authorities, Internal Audit reports and the reports of the Complaints Office in order to detect indications of other possible legal risks.

We critically assessed the Notes to the Financial Statements, as to whether the risks and the assumptions and estimations of UniCredit Bank Austria AG are disclosed in a sufficiently clear and objective way, and if they contain information about all essential legal risks that were identified.

Other Information
Management is responsible for the other information. The other information contain all information in the annual report but does not include the financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Management's Responsibility for the Financial Statements and for the Accounting System
Management is responsible for the preparation of the financial statements that give a true and fair view of the earnings, finance and asset situation of UniCredit Bank Austria AG in accordance with the Austrian Commercial Code and the Banking Act. Management is also responsible for internal controls that are determined as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing UniCredit Bank Austria AG's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UniCredit Bank Austria AG or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing UniCredit Bank Austria AG's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Please note that this translation is for convenience purposes only. Only the German original is legally valid and binding.

Auditors' Report (CONTINUED)

The scope of the audit does not include assurance on the future viability of UniCredit Bank Austria AG or on the efficiency or effectiveness with which the management has conducted or will conduct its affairs.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the UniCredit Bank Austria AG's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UniCredit Bank Austria AG's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause UniCredit Bank Austria AG to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that give a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

The report (in German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in part or in whole to the auditors' report, without the express written consent of the auditors.

Please note that this translation is for convenience purposes only. Only the German original is legally valid and binding.

Auditors' Report (CONTINUED)

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code and the Banking Act. We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

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

Statement
In the light of the knowledge and understanding of UniCredit Bank Austria AG and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Engagement Partner
The engagement partner responsible for the audit is Herwig Hierzer on behalf of Austrian Savings Bank Auditing Association and Peter Bitzyk on behalf of Deloitte Audit Wirtschaftsprüfungs GmbH.

Financial Statements for 2016
UniCredit Bank Austria AG, Vienna

Vienna, 24 February 2017

Austrian Savings Bank Auditing Association
Auditing Board
(Bank Auditor)

Herwig Hierzer
Certified Accountant

Reinhard Gregorich
Auditor

Deloitte Audit Wirtschaftsprüfungs GmbH

Peter Bitzyk
Certified Accountant

Gottfried Spitzer
Certified Accountant

Statement by Management

UniCredit Bank Austria AG
Financial Statements for 2016

Statement by Management
We state to the best of our knowledge that the financial statements prepared in accordance with the relevant financial reporting standards provide a true and fair view of the financial position and performance of the issuer, and that in the Management Report the business trends including business results and the position of the issuer have been presented in such a way as to provide a true and fair view of the financial position and performance of the issuer, and that it describes the material risks and uncertainties to which the issuer is exposed.

Vienna, 24 February 2017

The Management Board:

Robert Zadrazil
CEO Commercial & Private Banking, Support Services
(Chairman)

Romeo Collina
COO Chief Operating Officer
(Deputy Chairman)

Dieter Hengl
Corporate & Investment Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Resources

Additional disclosures

Glossary of alternative performance measures

The following list contains definitions of key financial indicators (alternative performance measures, APMs) used in addition to the applicable financial reporting framework.

Cost/income ratio: operating costs divided by operating income.

Cost of risk: net write-downs of loans and provisions for guarantees and commitments measured against loans and receivables with customers (average for the period), usually expressed in basis points (1 bp = 1/100% = 0.01%). If the cost of risk is calculated for a period of less than a full year, net write-downs of loans and provisions for guarantees and commitments are annualised.

Coverage ratio: specific write-downs of loans measured as a percentage of non-performing exposures at the reference date.

Credit Value Adjustments (CVA): adjustment to the valuation of a portfolio of transactions reflecting the counterparties' credit risk, which is the risk that the counterparty to a transaction involving financial instruments might default prior to completing all agreed cash-flow exchanges.

Direct funding: sum total of deposits from customers, debt securities in issue and financial liabilities at fair value.

Direct funding ratio: direct funding measured against loans and receivables with customers as reflected in the statement of financial position.

Effective tax rate: income tax in the consolidated income statement measured against profit before tax.

Financial market investments: sum total of financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments as reflected in the statement of financial position.

FTE (full-time equivalent): number of full-time employees, with part-time employees being counted on the basis of effective working hours.

Loans/direct funding ratio: loans and receivables with customers measured against direct funding.

Non-performing exposures include (1) "bad loans", i.e. credit exposures, formally considered uncollectible, to insolvent borrowers, even if insolvency has not been judicially ascertained; (2) "unlikely to pay", i.e. on-balance sheet and off-balance sheet exposures which do not meet the conditions to be classified as "bad loans". The classification as "unlikely to pay" derives from the assessment of the debtor's unlikeliness, without actions such as realisation of collateral, to fully repay the credit obligation (principal and/or interest); (3) "past due": on-balance sheet exposures other than those classified among "bad loans" or "unlikely to pay", which at the reference date have amounts that are more than 90 days past due or over limits.

NPE ratio: non-performing exposures as a percentage of loans to customers before deduction of loan loss provisions (NPE ratio in gross terms) and after deduction of loan loss provisions (loans to customers as reflected in the IFRS statement of financial position; NPE ratio in net terms) at the reference date.

Net operating profit: operating profit less net write-downs of loans and provisions for guarantees and commitments.

Period averages: quarterly averages based on figures at reference dates are calculated as the mean value of the figure at the end of the preceding quarter and the figure at the end of the reporting period. The calculation of averages for longer reporting periods (first six months, first nine months or full year) is based on the averages for the quarters included in the reporting period.

Return on equity (ROE) before tax: profit before tax (annualised) measured against average IFRS equity after deduction of IAS 39 reserves.

Return on equity (ROE) after tax: net profit (annualised) attributable to the owners of the parent company measured against average IFRS equity after deduction of IAS 39 reserves and non-controlling interests.

Risk/earnings ratio: net write-downs of loans and provisions for guarantees and commitments measured against net interest and dividends and other income from equity investments.

Systemic charges: bank levies and other systemic charges, including contributions to bank resolution funds and deposit guarantee schemes established on the basis of European or local regulations.

Total financial assets (TFA): sum total of deposits from customers, assets under management (fund and asset management products) and assets under custody (direct capital market investments/safe-custody business).

Investor Relations

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Ratings

	LONG-TERM	SUBORDINATED LIABILITIES	SHORT-TERM
Moody's 1)	Baa1	Ba1	P-2
Standard & Poor's 2)	BBB	BB+	A-2
Fitch Ratings	BBB+	–	F2

Public-sector covered bonds and mortgage bonds of Bank Austria are rated Aaa by Moody's.
1) Grandfathered senior debt is rated A2, grandfathered subordinated debt is rated Baa2.
2) Grandfathered senior debt is rated BBB, grandfathered subordinated debt is rated BB+.

Information and disclosure pursuant to Sections 24 and 25 of the Austrian Media Act (Mediengesetz):

Publisher and media owner:
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Business objective:
Credit institution pursuant to Section 1 (1) of the Austrian Banking Act (Bankwesengesetz)

Persons (Management Board) authorised to represent the media owner:
Robert Zadrazil (Chairman of the Management Board), Romeo Collina (Deputy Chairman of the Management Board), Dieter Hengl, Gregor Hofstätter-Pobst, Jürgen Kullnigg, Doris Tomanek.

Supervisory Board of the media owner:
Erich Hampel (Chairman of the Supervisory Board), Ranieri de Marchis (Deputy Chairman of the Supervisory Board), Mirko D. Bianchi, Christine Buchinger, Massimiliano Fossati, Olivier Nessime Khayat, Adolf Lehner, Alfredo Meocci, Marina Natale, Gianni Franco Papa, Mario Pramendorfer, Karl Samstag, Eveline Steinberger-Kern, Ernst Theimer, Barbara Titze, Wolfgang Trumler, Barbara Wiedernig.

Interests held in the media owner pursuant to Section 25 of the Austrian Media Act:
UniCredit S.p.A. holds 99.996% of the shares in the media owner (information on the shareholder structure of UniCredit S.p.A. is available at https://www.unicreditgroup.eu/en/governance/shareholder-structure.html).

"Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG, Region Wien" (the Employees' Council Fund of the Employees' Council of employees of UniCredit Bank Austria AG in the Vienna area) and "Privatstiftung zur Verwaltung von Anteilsrechten" (a private foundation under Austrian law; founder: Anteilsverwaltung-Zentralsparkasse; beneficiary: WWTF – Wiener Wissenschafts-, Forschungs- und Technologiefonds) have a combined interest of 0.004% in the media owner.

Notes

This report contains forward-looking statements relating to the future performance of Bank Austria. These statements reflect estimates which we have made on the basis of all information available to us at present. Should the assumptions underlying forward-looking statements prove incorrect, or should risks – such as those mentioned in this report – materialise to an extent not anticipated, actual results may vary from those expected at present. Market share data are based on the most recent information available at the editorial close of this report.

"Bank Austria" as used in this report refers to the group of consolidated companies. Following the demerger of CEE business, the CEE subsidiaries are no longer included in Bank Austria's scope of consolidation. The results of Bank Austria for 2016 include the results of the CEE subsidiaries for the first nine months and the results of the CEE holding company function, which were recognised at Bank Austria in Vienna until the CEE demerger, for the same period in the item "Total profit or loss after tax from discontinued operations". "UniCredit Bank Austria AG" as used in this report refers to the parent company.

In adding up rounded figures and calculating the percentage rates of changes, slight differences may result compared with totals and rates arrived at by adding up component figures which have not been rounded off.

Disclaimer