One Bank
One
UniCredit

2017

Annual Financial Statements

Banking that matters.

Bank Austria
Member of UniCredit

Contents

*) Part of the consolidated financial statements in accordance with IFRSs

Management Report of Bank Austria for 2017

Management Report (CONTINUED)

Economic environment – market developments

Global recovery and strong economic cyclical upswing in Europe

Ten years after the beginning of the financial crisis, the global economy is undergoing a substantially synchronous return to growth – i.e. taking place in nearly all regions of the world – for the first time. The revival of the global economy with robust tailwind from the industrial and emerging markets, as well as being solidified across many sectors, has facilitated the framework conditions for the banking business in 2017, which is still required by the escalation of the regulations and the gradual start of the normalisation of monetary policy.

● The global economy was able to use its starting position in 2017, which was characterised by a solid fundamental data set and improved consumer and business sentiment, to accelerate growth of the real economic output to around 3.5% year-on-year. Therefore, global growth has reached its highest level in seven years, despite the accumulation of potential economic risks, such as the announcement of US protectionist economic policy, Brexit, key election decisions in core EU countries, and the robustness of the emerging economies' recovery. However, the protectionist economic policy measures of Donald Trump in his first year in office as US President largely failed to appear due to strong opposition. Although the negotiations on the United Kingdom's EU exit proved to be difficult as expected, the emerging uncertainty did not unfold its potential for disruption, as it became increasingly clear that negative consequences will only be experienced in the medium term, and largely only for the UK itself. With the election victory of Emmanuel Macron in France and the confirmation of Angela Merkel in Germany, political risks caused by strong populist forces in the EU were reduced, even though the long process of forming a government in Germany and the separation movement in Catalonia created new uncertainty, however, the steady flow of good economic data declined. The upswing in the emerging markets also proved to be sustainable. The combination of robust growth in developed countries, the revival of global trade and the higher commodity prices led to a sustained recovery, spurred on by renewed capital inflows and a renewed rise in stock and bond prices. The Asian emerging markets, especially China and India, were the mainstays of growth, while large parts of Latin America, the Middle East and Africa developed more modestly.

● The US economy continued its recovery in 2017 after a weak period at the beginning of the year. The strong support in particular of consumption, the stimulus received by the positive development on the labour market, saw economic growth rise to 2.3% (2016: 1.5%). However, for the second year in a row, the US economy lagged behind the growth rate of the European economy. The eurozone achieved the strongest economic growth in ten years in 2017, at 2.5%. Furthermore, for the first time since the financial crisis, the economies of all eurozone countries are growing and the economic upturn is regionally very balanced. Since the introduction of the euro, the range of growth rates between the countries in the eurozone has never been so low as in 2017.

● Domestic demand also continued to be driven by growth in the eurozone in 2017. On the one hand, consumption benefited from a strong growth of employment, which led to a further decline in the unemployment rate to an average of 7.6% (2016: 8.6%), as well as continued moderate annual inflation of 1.6%, despite the upward pressure, due to the rise in oil prices from an average of €41 in 2016 to €48 in 2017. On the other hand, the recovery in investment was supported by the loose monetary policy and the favourable interest rates. Despite the strength of the euro, which saw a rise in value against the US dollar from 1.05 to 1.20 at the start of the year, the rise in global trade reflected a noticeably higher export momentum. After a one year break in 2017, net exports contributed at least slightly to economic growth again.

Slow return to normality in terms of monetary policy

The economic recovery allows central banks to slowly return to normal with regard to monetary policy. In the US, the Fed continued its tightening cycle that began at the end of 2015 and raised a total of three interest rate hikes of 25 basis points in 2017. The US economy will start 2018 with a key interest margin of 1.25% to 1.5%. Furthermore, in October 2017, the US Federal Reserve began its efforts to increase the asset purchase program to almost USD 4.5 trillion, to reduce its balance sheet by not supporting government bonds and mortgage-backed securities on maturity, and by gradually reinvesting. Due to the economic upswing in Europe, which was delayed by the euro crisis, the ECB is lagging behind in its path to the normalisation of monetary policy. The asset purchase program was extended until September 2018, however the volume was reduced from €80 billion to €60 billion per month from April 2017 and further reduced to €30 billion at the beginning of 2018. The key interest rates in Europe have not changed since March 2016. The interest rate for the main refinancing instrument is 0%. The marginal lending rate is 0.25% and the deposit rate remains minus 0.4%.

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While in the US, short-term interest rates showed a clear upward trend as a result of monetary tightening – the 3-month LIBOR rose by approximately 70 basis points to 1.7 % at the end of 2017 – money-market interest rates remained low in the eurozone. The 3-month Euribor was stagnant at minus 0.33 %. The yields of long-term interest rates, which had already gained momentum following Donald Trump's election victory in November 2016, were also down 2.4 % in the US at the end of 2017, and 0.4 % for the ten-year German government bond scarcely changed at the beginning of the year. The yield of the Austrian counterpart was stable at just under 20 basis points higher. The global increase in economic growth and the continued favourable economic outlook fuelled the markets in 2017. The equity markets closed 2017 at, or close to, their annual highs. The MSCI world index advanced overall by around 20 % in 2017. Germany's DAX stock index rose by more than 12 %, and Austria's ATX index rose by over 30 %, making it one of the best performers.

Economic situation and market developments in Austria

● With the favourable global environment, the **Austrian economy** was able to deliver positive surprises in 2017. The economic recovery gained significant momentum and sustainability and spread in all sectors. Economic growth accelerated from 1.5 % in 2016 to 2.9 %, driven by a remarkably strong investment boom and the continued strength of consumption. In combination with the strong support from the global demand, strong domestic demand has established the highest growth rate for 10 years. For the first time in three years, economic development in Austria was once again characterised by a higher momentum than in the eurozone. The central pillar of growth acceleration in Austria in 2017 was once again attributed to domestic demand. In particular, a very lively investment activity provided momentum. Gross fixed capital formation, which had already increased by 3.7 % in 2016, rose by more than 5 % in 2017. Both the growth of investment and construction investments gained momentum. The solid combination of increasing profitability and solid liquidity of companies as well as the favourable financing conditions have significantly supported the investment boom, especially given that capacity utilisation has significantly exceeded the long-term average, driven by strong export demand. Consumption was also a driving force of economic development in Austria in 2017. Although the positive effects of the German tax reform ended in 2016, a real increase of almost 1.5 % was recorded again. The upward trend was significantly strengthened by the increasing optimism of Austrian consumers over the course of the year. The decisive factor was the significant improvement in the situation on the labour market. The strong employment growth of around 2 % was enough to lower the unemployment rate according to national calculations from 9.1 % in 2016 to an average of 8.5 % in 2017, despite the continuing increase in labour supply. The unemployment rate (in accordance with the Eurostat definition) in Austria was 5.5 % on average in 2017. For the first time since 2011, the unemployment rate in Austria was therefore once again down compared to the previous year. In addition to the easing of the labour market, wage increases have turned consumer sentiment into a positive one in Austria. However, high inflation in Europe strained real wage development and put pressure on consumption. After rising 0.9 % in 2016, inflation climbed to an annual average of 2.1 % in 2017. While the increase in commodity prices also somewhat was subdued by the strong euro, is moderate, there is a noticeable increase in demand for some services, for example in tourism and leisure and cultural activities, due to demand. In addition, rental prices rose sharply. The Austrian economy also benefited from the economic tailwind from abroad in 2017. The revival of global trading led to increasing demand for Austrian export products. Thanks to high export growth, the net contribution of foreign trade to global economic growth took a positive turn and, after one year's break, helped to support a GDP increase again.

● In parallel with the economic recovery, credit demand in Austria increased significantly in 2017. Rising growth over the course of the year was mainly due to corporate loans, but also the volume of loans for consumption and SMEs began to rise again during the course of the year. The demand for housing loans continued to be relatively strong, although growth remained relatively moderate compared to the past, with an annual growth rate below 5 %. Despite the increasing momentum in corporate loans, a large part of the strong investment boom in Austria is not financed by bank loans, but rather by internal financing and other forms. The high liquidity of Austrian companies continues to be documented by the strong deposit growth of almost 10 % in corporate deposits.

● Private households also saw a further strong build-up of bank deposits in 2017, which continued to remain by far the most important investment class, even if the volume of new business is likely to have decreased slightly compared to 2016. The second most important investment class also continued to be the funds in 2017, while bonds and life insurance again reached a new decline. Direct investments by private households in Austria in shares remained insignificant.

Management Report (CONTINUED)

Bank Austria at a glance

Income statement figures

(€ million)	2017	2016 [1]	+/–
Net interest	980	1,040	–5.7 %
Dividends and other income from equity investments	154	126	22.5 %
Net fees and commissions	711	675	5.3 %
Net trading, hedging and fair value income/loss	77	87	–12.1 %
Operating income	2,004	2,081	–3.7 %
Operating costs	–1,292	–1,504	–14.1 %
Operating profit	711	577	23.4 %
Net write-downs of loans and provisions for guarantees and commitments	9	6	43.4 %
Net operating profit	720	583	23.6 %
Profit or loss before tax	571	–279	n. m.
Total profit or loss after tax from discontinued operations	114	38	> 100 %
Net profit or loss attributable to the owners of the parent company	653	–362	n. m.

Volume figures

(€ million)	31 DEC, 2017	31 DEC, 2016	+/–
Total assets	102,128	105,785	–3.5 %
Loans and receivables with customers	60,032	60,926	–1.5 %
Direct funding	70,487	74,032	–4.8 %
Equity	8,422	7,892	6.7 %
Risk-weighted assets (overall) [2]	33,243	35,446	–6.2 %

Key performance indicators

	2017	2016
Cost/income ratio	64.5 %	72.3 %
Cost of risk	–1 bp	–1 bp
Loan/direct funding ratio	85.2 %	82.3 %
Leverage ratio [3]	5.9 %	5.6 %
Common Equity Tier 1 capital ratio [4]	19.9 %	18.0 %
Tier 1 capital ratio [4]	19.9 %	18.0 %
Total capital ratio [4]	22.5 %	20.8 %

Staff

(Full-time equivalent)	31 DEC. 2017	31 DEC. 2016	+/–
Bank Austria Group in total [5]	5,532	6,162	–630

Offices

	31 DEC. 2017	31 DEC. 2016	+/–
Austria in total	138	162	–24
of which: UniCredit Bank Austria AG	123	141	–18

1) Comparative figures for 2016 recast to reflect the current structure and methodology
2) Regulatory Risk-Weighted Assets
3) Leverage ratio under Basel 3 based on the current status of transitional arrangements
4) Capital ratios based on all risks under Basel 3 (transitional) and IFRS
5) Excl. FTE relating to the companies of Immobilien Holding (held for sale)
n. m. = not meaningful

Management Report (CONTINUED)

Business developments in 2017

Major events

The strategic realignment "BA Reloaded" was implemented in 2017 as part of the UniCredit Group's "Transform 2019" plan. Despite the transfer of CEE subsidiary banks in the fourth quarter of 2016, Bank Austria remains the largest single financial institution in the country by far. Being part of the UniCredit Group as one of the largest banks in Europe allows customers to access all opportunities offered by a large international bank. Bank Austria's customers can thus continue to make use of the high-quality **consulting and services in Austria and the UniCredit banking network in Central and Eastern Europe**.

With regard to the strategic realignment, there was an additional focus on reducing complexity at Bank Austria. The range of services and organisational processes are continually and sustainably improved for our customers in this context. Following UniCredit's guiding principle "Customers first", there is a focus on pioneering service and customer-focused access, with longer opening hours and consulting via SmartBanking that can be provided also outside of opening hours. Transform 2019 is supported by further **digitisation** and the **streamlining of the product range**.

In addition to external processes, efforts are also focused on **improving internal processes**, which allows for an efficient use of human resources. In addition to natural turnover, the staff has been reduced on the basis of a successful programme introduced already in 2016 in accordance with the principles of voluntariness and social compatibility. Furthermore, work is also continuously undertaken on other initiatives relating both to income and costs. In 2017, the bank focused in particular on preparations for the relocation of all head office employees to the new "Austria Campus" in 2018. The new corporate headquarters of Bank Austria and other UniCredit Group companies in Austria are being constructed as part of the "Austria Campus" at Vienna's former Northern Railway Station, probably the city's most important urban development area. Basing all employees – who previously worked in different office buildings in various districts in Vienna – at a single central location will significantly improve efficiency, together with the modern, contemporary standard at the site.

In connection with Bank Austria's focus on its core function as a leading bank in Austria, the bank successfully continued to reduce its non-operating real estate assets. In accordance with this strategy, additional significant parts of the property portfolio that were pooled primarily in Immobilien Holding were disposed of in 2017, such as the DC Tower, the highest office building in Vienna.

In connection with the move from a defined benefit pension system, which applied to some of the active workforce, to a defined contribution **pension system** in the context of statutory social security (Austrian General Social Security Act, ASVG) and the associated transfer of the majority of the entitlements for the relevant persons for whom Bank Austria acted as a social insurance agency to the statutory social security system, the Constitutional Court passed its judgment on 12 October 2017 on the amendment to the ASVG adopted by the National Council of the Republic of Austria in March 2016. In this amendment, the National Council decided that an amount of 22.8%, not 7.0%, of the last contribution base would be payable for the transfer of entitlements to the Austrian federal pension fund from employments previously not having a public pension insurance. The associated additional expense was booked already in 2016, hence the highest court's decision in favour of the amendment to the ASVG adopted by the National Council of the Republic of Austria in March 2016 had no effect on income in the 2017 annual financial statements.

In the context of financial reporting, Bank Austria will prepare its financial statements from 2018 onwards in accordance with **IFRS 9**, pursuant to regulatory requirements, which will result in changes to the applicable valuation approaches for many balance sheet items. The corresponding preparation in the bank's accounting department and other areas of the bank was an important focus in 2017.

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Condensed income statement of Bank Austria[1)]

(€ million)

	RECAST [2)]		CHANGE		RECONCILIATION		BANK AUSTRIA GROUP	
	2017	2016	+/– €	+/– %	2017	2016	2017	2016
Net interest	980	1,040	–60	–5.7%	0	–78	980	962
Dividend income and other income from equity investments	154	126	+28	+22.5%	0	0	154	126
Net fees and commissions	711	675	+36	+5.3%	0	1	711	676
Net trading, hedging and fair value income	77	87	–11	–12.1%	0	1	77	89
Net other expenses/income	81	152	–71	–46.7%	0	–1	81	152
Operating income	2,004	2,081	–77	–3.7%	0	–77	2,004	2,004
Payroll costs	–667	–735	+68	–9.3%	0	2	–667	–733
Other administrative expenses	–596	–698	+102	–14.6%	0	–1	–596	–698
Recovery of expenses	1	0	+1	n.a.	0	1	1	1
Amortisation, depreciation and impairment losses on intangible and tangible assets	–30	–71	+41	–58.1%	0	0	–30	–71
Operating costs	–1,292	–1,504	+212	–14.1%	0	2	–1,292	–1,502
Operating profit	711	577	+135	+23.4%	0	–75	711	501
Net write-downs of loans and provisions for guarantees and commitments	9	6	+3	+43.4%	0	0	9	6
Net operating profit	**720**	**583**	**+138**	**+23.6%**	**0**	**–75**	**720**	**507**
Provisions for risks and charges	3	–201	+205	n.m.	0	0	3	–201
Systemic charges	–102	–182	+81	–44.2%	0	0	–102	–182
Integration/restructuring costs	–65	–409	+344	–84.1%	0	0	–65	–409
Net income/loss from investments	14	–69	+82	n.a.	0	0	14	–69
Profit or loss before tax	**571**	**–279**	**+850**	**n.m.**	**0**	**–75**	**571**	**–354**
Income tax for the period	–12	–58	+46	–78.9%	0	0	–12	–58
Total profit or loss after tax from discontinued operations	114	38	+77	>100%	0	1,104	114	1,141
Non-controlling interests	–19	–62	+43	–68.9%	0	–25	–19	–87
Net profit or loss [3)]	**653**	**–362**	**+1,015**	**n.m.**	**0**	**1,003**	**653**	**641**

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 2017. / 3) Attributable to the owners of the parent company.

Management Report (CONTINUED)

Details of the 2017 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 previous CEE Division as at 1 October 2016 and its subsequent transfer to UniCredit SpA, results generated by the CEE Division for the first nine months of 2016, including demerger-related effects, are presented in the previous year's unadjusted figures in the item "Total profit or loss after tax from discontinued operations" (before deduction of non-controlling interest) in accordance with IFRS 5. This means that the other items of the income statement reflect the remaining Austrian business.

The item "Total profit or loss after tax from discontinued operations" in both years also reflects proceeds from real estate sales and the results from the companies of Immobilienholding which are still held by Bank Austria, but are classified as held for sale.

Segment reporting covers four operating segments: Retail Banking, Corporate Banking, Private Banking and Corporate & Investment Banking. Corporate Banking as used in this commentary is the sum of corporate customer business, leasing and factoring activities. The earnings components not attributable to the operating segments are assigned to the Corporate Centre.

The following commentary also relates exclusively to the Austria result for 2016, as shown in the column "RECAST" in this report. This also corresponds to the presentation in the column "Austria Group (adjusted)" in segment reporting. Exclusive reference to Austria in the previous year ensures a meaningful comparison.

● **Operating income** in 2017 was €2,004 million, down by 3.7% on the previous year's figure (€2,081 million). The decline is based primarily on net interest and other net operating income and expenses. Significant drivers here were the loss of interest income as a result of the CEE demerger (expiring refinancing lines to previous CEE banking subsidiaries) and a high one-off effect on other operating income in the previous year (VISA Inc. share buyback programme and resulting special income of the subsidiary card complete Service Bank AG (card complete) in the amount of €95 million). **Net interest** remained the largest component of operating income, accounting for about 50% of the total figure. At €980 million, the position was below the previous year's level, where the planned expiry of the CEE funding remaining in Bank Austria played a significant role, although the continuing environment of extremely low or negative interest rates also affected the development of the position.

Dividends and other income from equity investments, which were primarily driven by the earnings contributions of large minority shareholdings, grew by 22.5% to €154 million.

Net fees and commissions (€711 million) rose in 2017 by €36 million or 5.3% compared to the same period in the previous year. About two-fifths of net fees and commissions were generated by asset management business, which showed improvements overall, with income from assets under management, in particular, continuing its favourable trend. Around one-half of net fees and commissions came from payment transactions, a business area which remained a major generator of contributions with income above the previous year's level. Income from financing services was increased compared to the level of 2016.

● **Net trading, hedging and fair value income** (€77 million) was lower than in the previous year (–€11 million or –12.1%), where the decline is also due to special effects in the previous year. In terms of segments, the Corporate Banking and Corporate & Investment Banking divisions contributed most of the net trading, hedging and fair value income.

● The position **Net other expenses/income** includes positions that are not directly related to the banking business. At €81 million in 2017, there was a significant decline on the previous year (€152 million). This is based primarily on a one-off effect in 2016: income of €95 million from the sale of VISA shares as a result of VISA Inc.'s share buyback programme. This income is derived from the subsidiary card complete, although €47 million is reported as a deduction in the position "Non-controlling interests" due to the minority shareholders in this company.

Management Report (CONTINUED)

● Costs are still a very important focus of the ongoing restructuring activities undertaken in connection with the UniCredit Group's "Transform 2019" plan. Operating costs fell significantly by €212 million or –14.1% to €1,292 million (previous year: €1,504 million), with reductions achieved in all major cost categories. Payroll costs were €68 million or 9.3% below the previous year's level, which mainly reflected the reduction in staff capacities (FTE) introduced in line with the ongoing strategy. This socially responsible reduction in FTE provided attractive models for employees and led to a reduction in staff capacities of 630 compared to December 2016 across all areas of the bank. Other administrative expenses also fell significantly by €102 million or –14.6% mainly due to strict cost management – a special focus for the bank in the context of the implementation of Transform 2019. The decrease is also due in part to special effects, such as a one-off charge of legal costs in the previous year and a one-time effect from the reversal of a provision in 2017. Depreciation, which at €30 million was 58.1% below the previous year, included a special depreciation in the previous year in connection with office buildings. Furthermore, the implementation of the planned cost-cutting measures based on branch closures and other reductions in fixed assets had a positive impact on the development of depreciation.

● These developments significantly improved the cost/income ratio (64.5%) as compared to the previous year (72.3%); this is a central indicator for the success of the restructuring activities.

As in the previous year, the development of **net write-downs of loans and provisions for guarantees and commitments** is very satisfactory. Given the currently positive environment and the bank's professional credit risk management, it was possible to reverse provisions formed in previous years and generate a positive amount of €9 million (a positive amount was also reported in 2016, amounting to €6 million).

The cost of risk ratio, expressed in basis points/bp as a ratio of the net write-downs of loans and provisions for guarantees and commitments and the average credit volume (see also alternative performance ratios in the glossary), shows by definition a negative value of –1 bp for Bank Austria in 2017 due to the positive contribution of net write-downs of loans and provisions for guarantees and commitments (–1 bp in the previous year). The divisions have the following cost of risk: Retail Banking –17 bp, Corporate Banking 6 bp and CIB division 17 bp.

➔ Operating performance (net operating profit) was €720 million in 2017, which corresponded to a significant increase on 2016 of €138 million or 23.6%. The decline in operating income (–€77 million, by and large driven by the aforementioned one-off effect in the previous year) was more than offset by the cost reduction (+€212 million), while the positive contribution from credit risk also improved significantly (+€3 million). From a divisional perspective, all Austrian customer segments made significant contributions to operating performance: Retail Banking +€168 million, Corporate Banking +€384 million, Private Banking +€50 million and CIB +€223 million.

For non-operating positions, the situation was largely as expected after the high one-off costs in the previous year. While –€862 million was attributable to non-operating positions in 2016 to determine profit before tax, this figure was only –€149 million in 2017, with systemic charges being the most important individual position here. The previous year was affected in particular by the increase in the liability for the transfer of defined benefit pension obligations for active employees to the state system, which resulted in integration costs of €409 million in 2016.

Under **provisions for risks and charges**, there was a net release of €3 million in 2017 following expenses of –€201 million in the previous year.

Management Report (CONTINUED)

Systemic charges were down at –€102 million (–€182 million in the same period in the previous year). Of the total amount, the bank levy accounted for €45 million, contributions to the deposit guarantee scheme €18 million and contributions to the resolution fund €39 million. The reduction is based primarily on the new regulation of the Austrian bank levy, where the above amount includes the one-off special payment to be made in four instalments between 2017–2020 (€44 million p.a.). The CEE demerger leads to a one-off credit of €22 million, the composition of the bank levy 2017 is hence as follows: bank levy due to the new regulation –€23 million, instalment 2017 of the one-off special payment for the stability fund –€44 million, one-off credit due to CEE demerger +€22 million.

Integration/restructuring expenses amounted to –€65 million, primarily resulting from expenses in connection with the move of all head office units to the new Campus planned for 2018. In contrast, there were net costs of –€409 million in the previous year, primarily due to the additional burden due to the transfer of pension obligations for active employees to the state system due to the amendment to the ASVG adopted by the National Council in the first quarter of 2016.

Net income from investments was positive at €14 million (previous year: –€69 million).

After recognising non-operating positions in the amount of –€149 million in 2017, **profit before tax** amounts to €571 million. The substantial improvement as compared to the previous year of €850 million is primarily due to the operational improvements presented (significant cost reductions) and the charges in the previous year resulting from the additional integration costs.

Income tax for the period amounts to –€12 million in 2017 which is a reduction of –€46 million compared to the previous year, partly due to one-off effects.

Total profit or loss after tax from discontinued operations includes +€114 million (previous year: +€38 million) resulting from the sale of real estate companies and properties held by these companies and the contribution of the companies of Immobilienholding-group included herein. The property developer BAI Bauträger Austria Immobilien GmbH, including its subsidiaries, and DC Tower 1, Austria's highest building, were among the assets sold to investors in 2017.

Non-controlling interests (minority interests) amounted to –€19 million (previous year: –€62 million, higher on account of the minority interest in card complete's VISA sales profit).

Overall, a net profit was generated **(net profit attributable to the owners of the parent company)** in 2017, i.e. the first full financial year after the transfer of CEE investments, in the amount of €653 million after an Austria result of –€362 million in 2016.

The overall unadjusted result for the previous year included, as already mentioned, the Austria result described above and the result of the previous CEE division for the first nine months, which amounted to €1,003 million after deduction of the non-controlling interests. With the inclusion of this CEE result for the first nine months of 2016, the Bank Austria Group's net profit (attributable to the owners of the parent company) for 2016 was +€641 million.

Management Report (CONTINUED)

Financial position and capital resources

Bank Austria transferred the management control of CEE companies and the related CEE sub-holding company functions to UniCredit Group as at 1 October 2016 ("CEE carve-out"). Both the balance sheet as at 31/12/2017 and the previous year's balance sheet as at 31/12/2016 show the remaining Bank Austria Group excluding CEE units at these reporting dates.

Generally, the Bank Austria Group's balance sheet at 31/12/2017 reflects the target structure which was to be achieved through the bank's reorientation: **an Austrian universal bank** focused on traditional commercial banking business with customers. This can be seen in the balance sheet structure in which customer loans on the asset side and customer deposits on the liabilities side account for more than half of the total assets.

As at 31/12/2017, Bank Austria's **total assets** were **€102.1 billion**. This is a small decline of –3.5% compared to the end of 2016.

On the asset side, **loans and receivables with customers** are at €60.0 billion, by far the largest item as mentioned. Two-thirds is attributable to the Corporate Banking and Corporate & Investment Banking divisions and highlights the leading position of Bank Austria as an important lender for the Austrian economy, while the bank also plays an important role in granting loans to Austrian retail customers. The slight decline compared to the previous year (–€0.9 billion) is due to opposing developments: While the – planned – phasing out of funding of UniCredit leasing companies in Central and Eastern Europe as well as currency effects reduced the loan volume, strong new business with customers in the Austrian segments largely compensated for this decline. The CIB division in particular was able to generate a significant volume increase. Retail saw pleasing developments in 2017, in particular new business in EUR mortgage loans.

Major items in the statement of financial position

(€ million)

	31 DEC. 2017	31 DEC. 2016	YEAR-END 2017 VERSUS YEAR-END 2016	
			+/–	+/– %
ASSETS				
Financial market investments [1]	15,279	16,040	–762	–4.7%
Financial assets held for trading and hedging derivatives	3,092	3,774	–683	–18.1%
Loans and receivables with banks	19,688	20,762	–1,074	–5.2%
Loans and receivables with customers	60,032	60,926	–895	–1.5%
Investments in associates and joint ventures	1,937	1,777	+159	+9.0%
Intangible assets	9	11	–2	–16.1%
Non-current assets and disposal groups classified as held for sale	330	900	–571	–63.4%
Other asset items	1,763	1,594	+169	+10.6%
Total assets	**102,128**	**105,785**	**–3,657**	**–3.5%**
LIABILITIES AND EQUITY				
Financial liabilities held for trading and hedging derivatives	2,659	3,260	–601	–18.4%
Deposits from banks	15,126	13,939	+1,187	+8.5%
Deposits from customers	55,463	56,239	–776	–1.4%
Debt securities in issue	14,722	17,394	–2,672	–15.4%
… Direct funding [2]	*70,487*	*74,032*	*–3,546*	*–4.8%*
Liabilities included in disposal groups classified as held for sale	56	123	–67	–54.8%
Provisions for risks and charges	3,962	4,212	–250	–5.9%
Equity	8,422	7,892	+530	+6.7%
Other liability items	1,718	2,726	–1,008	–37.0%
Total liabilities and equity	**102,128**	**105,785**	**–3,657**	**–3.5%**

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.

Management Report (CONTINUED)

Compared to the end of 2016, non-performing loans and receivables with customers of €2.9 billion fell to €2.6 billion (–9.9%), demonstrating further improvement in asset quality. This is reflected in a reduced (4.6% to 4.2%) gross NPL ratio and underscores the positive development in credit risk. The coverage ratio of non-performing receivables was a solid 53.4% at 31/12/2017. The decrease of 59.7% compared to last year's amount is also related to the positive development of the asset quality, resulting in releases of loan loss provisions for highly covered receivables.

Deposits from customers totalled €55.5 billion (31/12/2016: €56.2 billion), with the Retail Banking and Private Banking business segments accounting for almost 60% of total deposits. This gives Bank Austria a strong refinancing base. Direct funding amounted to €70.5 billion at 31/12/2017. This means that loans to non-banks are covered by deposits from non-banks and debt securities in issue to the extent of about 117%. The significant decline in direct funding of –€3.5 billion compared to the end of 2016 is in line with the bank's current liquidity strategy and relates in particular to a decrease in deposits in the CIB and Corporate divisions and a decline in **debt securities in issue** resulting from lower issue activity in the reporting year over sufficient liquidity. **Deposits from banks** rose by €1.2 billion to €15.1 billion, reflecting the use of favourable refinancing lines at the European Central Bank.

At 31/12/2017, **provisions for risks and charges** amounted to €4.0 billion, of which the majority was for provisions for pensions and similar obligations (€3.6 billion). The relevant discount rate had to be adjusted in 2017 from 1.6% to 1.8%, which led to a reduction in this provision.

At the balance sheet date, the **equity** reported amounted to €8.4 billion and therefore increased compared to the end of 2016 by some €0.5 billion, also due to the included profit after tax of €653 million, which was partially reduced by a decline in other positions recognised in equity.

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. Accordingly, 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 fourth year of the transition period, but are to be considered to the extent specified (in accordance with the above regulations for 2017).

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

Changes in regulatory capital and capital requirements as compared to the previous year were strongly influenced by the demerger of CEE business.

The Bank Austria Group's **capital resources** remained stable compared to the end of 2016 with **regulatory capital of €7.5 billion**. A positive trend of +€95 million of total regulatory capital is divided between +€225 million of **Common Equity Tier 1 capital** (CET1) totalling €6.6 billion, and –€130 million of Tier 2 totalling €0.9 billion. The increase in CET1 results mainly from €274 million of profit which is not distributed but added to reserves. Opposing effects result from the increase of significant deductible equity participations due to higher book values, valuation effects as well as deductions due to deferred taxes and prudential filters.

For **Tier 2**, amortisation and foreign currency effects from recognised subordinated instruments were offset by the higher phase-in rate applicable from 1 January 2017 in accordance with the CRR transitional provisions. Two Tier 2 instruments were repaid early in Q4 2017 following the supervisory authority's approval (–€126 million at 8/11/2017, –€9 million at 21/12/2017).

● In comparison to the end of 2016, the **total amount at risk** (RWA) fell by –€2.2 billion to **€33.2 billion**, largely due to credit risk with a reduction of –€1.7 billion.

▶ –€0.5 billion of the decline in **credit risk** is attributable to the financing volume of CEE and leasing units and other UniCredit Group units, while –€1.2 billion is attributable to business- and currency-related effects.

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▶ **Market risk and operational risk**: Market risk RWAs increased to **€0.3 billion**. The amount at risk from operational risk decreased by €0.7 billion to **€3.2 billion**.

● The decline in the total amount at risk compared to constant equity led to an increase in the **Common Equity Tier 1 capital ratio** from 18.0% (end of 2016) to 19.9% at 31 December 2017.

The **total capital ratio** increased from 20.8% to **22.5%**.

Capital ratios based on all risks

	31 DEC. 2017	31 DEC. 2016*)
Common Equity Tier 1 capital ratio	19.9%	18.0%
Tier 1 capital ratio	19.9%	18.0%
Total capital ratio	22.5%	20.8%

*) 31 December 2016 as published.

● Without taking the transitional provisions defined in the CRR into account, the Common Equity Tier 1 Ratio (fully loaded) was 19.5% and the total capital ratio (fully loaded) was 22.3%

● As at 31 December 2017, the **leverage ratio** pursuant to the Delegated Regulation (EU) 2015/62, based on the current status of transitional arrangements, was 5.9% (31 December 2016: 5.6%). Without taking the transitional provisions defined in the CRR into account, the value is also 5.9%

Permanent establishments

There are no permanent establishments.

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Non-financial performance indicators

As a member of UniCredit Group, Bank Austria does not prepare its own non-financial declaration in accordance with Section 243b of the Austrian Commercial Code (UGB), since it is included in UniCredit SpA's non-financial report pursuant to Section 243b (7) UGB. This report is available on UniCredit's website (https://www.unicreditgroup.eu/en.html).

Research and development

Bank Austria is a credit institution and provides banking services. The production process of a bank generally 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, new regulatory provisions necessitate new developments and adjustments on an ongoing basis.

In the area of **information and communication technology** (ICT), investment at UniCredit level focuses on further developing digitisation while maintaining stringent cost management. The main objective is to enhance the customer experience and expand it to include digital channels. In 2017, some €77 million were invested in IT; a large proportion of this amount went into digitisation and the further development of online channels (mobile banking, online sales, self-service facilities), in addition to regulatory requirements. ICT expenses and investments (investment budgets) are capitalised at the UniCredit subsidiary UBIS and charged to Bank Austria. UBIS provides the entire Group with IT services, enabling UniCredit to benefit from Group-wide developments and joint IT 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.

Community

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 commitment, and to encourage discussion on such important topics as tolerance, respect and social interaction. With regard to social sponsorship, we focus on initiatives that help children and young people in need and on activities in the area of integration/migration. Every year, we hand out the **Bank Austria Social Prize** in each federal state, which comes with funding of €81,000. Over the eight years that the Bank Austria Social Prize has been awarded, the bank has supported more than 100 projects across Austria with more than €500,000.

Long-term **partnerships** which we have developed over many years with well-known charitable 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 cooperation in Vienna and throughout Austria for over 25 years. This covers proven projects such as the Integration through Sport initiative, 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 Austrian families who experienced hardship without any fault of their own.

UniCredit Group's **"Gift Matching Programme"** is an annual initiative, probably unique in Austria, which allows Bank Austria to promote the social commitment of its employees. The idea behind the programme is simple: private donations made by employees are increased by funds held by UniCredit Foundation. Creativity knows no bounds, which results in a lively exchange on social issues among employees. The Gift Matching Programme 2017 provided some €143,000 to 61 aid projects; this amount was increased by the Foundation to €225,000.

The promotion of the arts and culture is also an important part of our social commitment. Bank Austria has long been one of the most important private sponsors in Austria. We focus on supporting young talents and long-term partnerships with renowned partners, such as the Bank Austria Art Forum, the Albertina or the Vienna Music Society. The bank has been awarding the Bank Austria Art Prize since 2010, which comes with €218,000. For three years, it has been pursuing an innovative path that is unique in Austria in the field of cultural promotion

Management Report (CONTINUED)

by using some of the prize money to support crowdfunding campaigns. We received an award in recognition of this in 2017 from the Economy and Arts (Maecenas) initiative.

In the **sporting** field, we also focus on traditional sponsoring activities and on people with special needs. We are proud to have been a partner of the Austrian Paralympic Committee since it was established. We also supported the 2017 Special Olympic Winter Games in Schladming with great enthusiasm.

Our economic responsibility also includes our **financial education** initiative. Our website www. finanz-bildung. at is aimed at young people, students and teachers and provides useful information about money. The topics discussed range from the functions of money and banks to banking products and distributive justice. The objective of the initiatives 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.

Customers

Customer focus and change

A great focus on customers, and therefore customer loyalty, guarantees the long-term success of Bank Austria. The rapid change in our society and our customers' demands for a digital, 24/7, mobile, socially connected, individual and customisable multi-channel bank mean that our business and service model is subject to ongoing change. Nevertheless, our activities always focus on the customer experience, as embodied by our slogan, "We want to be the best for you", and our claim, "We are here for you through the ups and the downs!" The quality of customer relationships depends not least on customers' day-to-day experience with their bank. This may be direct and indirect, significant and less significant, and conscious and subconscious experiences. We use TRI*M on scorecards as a measure of Bank Austria customers' satisfaction in relation to service, reliability and consulting quality to determine our quality score in the long term. The bank's aggregate TRI*M improved by 1 point in the course of the year (Q1➔Q4) to 69. The TRI*M reached an all-time high of 84 in specific client groups, e. g. Private Banking. In 2017, we carried out customer satisfaction surveys by telephone (approx. 9,000/year). "MyFeedback", a tool that allows customers to give feedback quickly and easily on their smartphones after consultations, services or online usage, was further developed. Our customers make extensive use of this opportunity via digital and mobile channels to express their satisfaction at various contact points within our multi-channel bank. More than 20,000 pieces of feedback were provided in 2017 alone via MyFeedback.

CoCreation in the digital and real worlds: Our Bank Austria employee and customer forum is an open social media platform for questions, forum discussions, quick polls and voting that we have used since 2013 to include our customers and employees in company processes. Overall in 2017, around 20,000 questionnaires on more than 30 topics were evaluated and discussed (e. g. bank of the future or cash-free payments). In the real world, we have included customer integration in product and process development (using CoCreation workshops and in-depth interviews).

The BeschwerdeExzellenz project enables us to review all internal and external complaint processes and improve them on an ongoing basis with a view to optimising the handling of complaints for our customers at all points of contact (branch, @mail, call centre, etc.). We aim to offer the highest standards both with regard to response time (within 48 hours) and solutions. Moreover, we have pooled specific competencies in the ombudsman's office for cases of social hardship, where customers in financial difficulty receive assistance to reduce their debt, or are granted additional time for payment, etc. quickly and without excessive bureaucracy. We maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associations and special interest groups in order to proactively prevent specific issues such as complaints concerning foreign currency loans, for example, and to find solutions together with our customers.

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Employees

Working at the new Campus
Historic representational buildings no longer meet the requirements of the new working world since 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 building 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 meters, 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) on this complex will be used by Bank Austria under a long-term rent agreement. The bank’s future headquarters account for about 45 % of the Austria Campus and are scheduled to be used by about 5,000 employees of the group starting in 2018.

The new headquarters will unlock significant synergies – through shorter distances, better use of space, and lower operating and maintenance costs. The concept of our new headoffice building will allow us to strengthen a sense of togetherness and create attractive working practices for the core bank 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. All employees have been able to see specifically how their working practices have been changing since the fall of 2015 in a test office, the “Campino”. This was set up at one of the bank’s existing office buildings and fitted out in accordance with the Austria Campus’ latest plans. More than 120 employees use about 1,250 square meters 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 personalities of employees as all people in the company are recognised and respected in all their diversity. With the “Job and Family” audit successfully performed at Bank Austria at the end of 2009 for the first time 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 work more compatible; creating equal career opportunities for part-time employees; promoting “Remote Work” – also in relation to the new working environment at the Bank Austria Campus, which will be acquired in 2018 – 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

Management Report (CONTINUED)

numerous measures. They are supported by a network of about 60 disability employees. Pilot projects were carried out in which various options were trialled under the motto "barrier-free banking" to make it easier for people with disabilities to complete banking tasks. Measures that have already been implemented include a special bank card for visually impaired people, 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. With SmartBanking in sign language, since the fall of 2015 our tried and tested Bank Austria consulting services have been available to the deaf via video calling. Employees also undergo training to raise their awareness of and sensitise them to 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 having advantages for the company in the form of cost savings resulting from a more efficient use of resources. The company therefore makes an important contribution 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 specific 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).

With 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 undertaken, through a voluntary agreement on objectives, to reduce CO_2 emissions by 45% and achieve a 51% share of renewable energies. Bank Austria further reduced business travel through the use of video conferencing facilities and the trend towards digitisation 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 relies on continuous measures to raise awareness, such as an interactive film that brings environmental issues closer to its employees. Electricity supplied to Bank Austria comes exclusively 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 use 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.

Bank Austria's environmental performance will be significantly improved by the relocation to the new main building at the Austria Campus in 2018. There, one of the largest private geothermal systems will be used.

Management Report (CONTINUED)

Human Resources

Human Resources Austria

All measures for socially responsible and sustainable savings in personnel expenses that were developed in 2016 and agreed with the works council in the context of a social plan were implemented according to plan in the course of 2017. This allowed predefined targets to be reached in full.

In addition, the focus in 2017, in particular in sales, was on investments in the development of executives and employees in order to implement the new business model as well as in targeted measures to streamline workflows and processes.

Internal recruiting: Bank Austria's internal job market is an integral part of the human capital strategy and provides a platform for internal vacancies. The aim is to show employees new prospects within the company. Depending on the individual skills, interests and resources, in future it will be possible to work on projects across the Group in the short and medium term in addition to the opportunity to move to a new position. Finding the right job or an exciting challenge no longer depend on employees' resumes and training alone but also on their personal motivation and initiative.

The internal job board shows employees new prospects, makes better use of employee potential and boosts employee satisfaction.

Assessment of staff performance: Differentiation, transparency, a feedback culture and commitment are the main drivers of our development and remuneration decisions. Our UniCredit Performance Management is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. Each individual always has access to the evaluations and feedback documentation in his/her personal electronic archive. We use this process to strengthen the performance mindset and inclusion within our bank and our Group, always keeping in mind that this is based on our five guiding principles and that this is the most suitable way to implement the Transform 2019 plan.

Staff development: Digital learning media are becoming increasingly important. While advancing digitisation opens up new channels for our customers to do banking business with us, it also offers our employees new ways of cooperating internally 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. One of the areas on which the Academy is focusing is support for divisions in relation to "Transform 2019 – 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 providing 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 area on which the UniCredit Academy Austria's activities are focusing is to encourage learning from and with one another, and learning on the job. The UniCredit Academy Austria is thus following the 70/20/10 principle of what is called "new learning" (70% learning on the job, 20% learning by sharing, and 10% 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.

Succession planning: Our Executive Development Plan (EDP) and Talent Management Review (TMR) programme support our managers in developing the relevant qualities and skills for the future success of Bank Austria. 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 – a focus that starts with our talented staff.

In 2017, we also boosted our pool of junior executives with our forward-looking staff planning to ensure we are prepared for a constantly changing, digitised society and can make a lasting contribution to shaping Bank Austria.

Reward and benefits: Our human resources activities, especially those in the area of rewards and 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 and the five guiding principles, which define 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

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method on the other hand further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

Diversity and equal opportunities: Bank Austria sees diversity as one of its key values. **Diversity management** activities are aimed at enhancing productivity, creativity and innovation (see the Diversity section in the section Corporate Sustainability).

Gender balance: 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 on the Supervisory Board has increased since 2012. This progress reflects the strong commitment of diversity managers who are currently active under global management, supported in Bank Austria by ambassadors at the divisional level. To support women's career planning, female candidates are specifically informed about job offers for management positions and talented women are supported as their careers progress. Specific communication activities focus on women who have already been promoted to managerial positions and act as models for other talents.

IT platform for efficient human resources management: in 2017, as in previous years, we worked hard to simplify our services. Following the smooth transition of payroll accounting to the new HR IT platform in early 2016, the self-service options introduced in 2016 for employees and managers were extended to include various modules, such as changes in working time models or applications for remote working. This continuous implementation of efficient human capital processes allows us to simplify services in HR management continually as planned.

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Outlook

Economic scenario

The global economy made an excellent start to 2018. Although the environment is characterised by a number of risks, in particular geopolitical risks, such as a further intensification of tensions in the Middle East or a possible escalation for North Korea, as well as the dwindling global leadership of the US and protectionist tendencies, economic sentiment has climbed to record highs. The confidence reflected in the stock markets is unwavering. At the beginning of 2018, the Dow Jones broke through the 25,000-point mark for the first time. However, market volatility is rising in line with the progression of the economic cycle. This resulted in corrections of the stock market pricing levels at the beginning of February – combined with an increased discussion on rising interest rates. An end of the upward trend in the stock markets is quite unlikely at the current economic situation, especially in the light of positive ecomomic data and solid profits of corporates. This is why 2018 is once again expected to be an economically outstanding year with strong performance in industrial nations, especially in Europe but also in emerging markets.

● The **global economy** got off to a good start in 2017 and has grown more than it has in seven years. The conditions are favourable for the acceleration of economic growth to continue in 2018. At an estimated 3.6%, global growth is expected to rise to 3.9% in 2018. With the increasingly synchronous growth, the revival of global trading, the increasing significance of investment for momentum and a largely expansionary economic policy, we believe that there are four key reasons for sustainability and the continuation of the global recovery in 2018. Firstly, the good economic prospects are supported by the fact that global growth has expanded regionally. The recovery is synchronised in developed and emerging markets, resulting in positive spill over effects that reinforce and strengthen the upswing. Secondly, simultaneous recovery across many countries has accelerated global trading growth to around 4% and will continue to provide momentum. Trade elasticity, i.e. the ratio of trade growth to GDP growth, has risen again to a value of over 1 in 2017 after a few weak years. Thirdly, global growth is increasingly based on investment rather than consumption. Therefore, this means that the upswing is on a broader foundation and the combination of stronger export demand, improved sentiment and increasing capacity utilisation argues for greater growth potential. Finally, a largely accommodating economic policy should continue to be favourable for growth. Both monetary policy and fiscal policy remain essentially expansionary.

● The global economic upturn will be significantly supported by the emerging markets in 2018. The large Asian emerging markets of China and India, which currently account for almost 50% of the GDP total amount of emerging markets, will be able to make a significant contribution to the good development. While momentum in China is expected to slow slightly from 6.9% in 2017 to 6.5% in 2018, as excessive debt and environmental damage from rapid industrialisation are being counteracted with restrictive measures, India's GDP is set to accelerate from 6.7% to 7.4%. India should therefore replace the United Kingdom as the fifthlargest economic power in the world. Expansion is expected to be much more moderate in most other emerging markets, with considerable differences between the regions. While, along with Asian emerging markets, boosted by demand from China and India, the outlook for the growth markets of Central and Eastern Europe are promising, based on the solid recovery in Europe, expectations for the Middle East, Africa and most Latin American countries remain more reserved. An important driver of emerging market growth differentials in 2018 will be resilience to negative global influences and adaptability to changing commodity prices. Crude oil prices will continue to be above $60 per barrel over the coming months. Accordingly, we expect commodity prices to be high enough as a safety line for commodity exporters, but will not allow macroeconomic imbalances of commodity importers to rise to critical levels. In view of the favourable short-term growth outlook, the prospects of a gradual slowdown in US monetary easing and the probability of a devaluation of the US dollar, we expect solid capital inflows in emerging markets in 2018, albeit with a weaker bias for countries such as South Africa, Argentina and Turkey where increased attention is needed.

● The upturn is also continuing in developed countries. After an increase of 2.3% in the previous year, economic growth in the USA will increase to 2.7% in 2018, primarily due to a reduction in taxes. Nevertheless, with diminishing fiscal momentum, the US economy's third-longest economic upswing since the 1850s has been slowly starting to fade towards the end of the year, especially as support for wealth effects, energy-related investments and the global economy is likely to slow. The lower overcapacity will boost inflation in 2018 and core inflation will also exceed the 2% mark. As a result, the US Federal Reserve will continue its gradual normalisation of monetary policy under the new Chairman Jerome Powell. The balance sheet reduction will be carried out in accordance with the announced plan and the key interest rate should continue to rise. For 2018, we are again assuming three interest rate steps of 25 basis points each.

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● The economy in the eurozone will experience a slower pace of growth in 2017 than in the US, but the broadly supported recovery is expected to continue briskly in 2018, with GDP rising by 2.3%. The brightening fundamentals of consumption and investment are increasingly benefiting each other. At the same time, the solid growth of the global economy offers a good buffer against exchange rate charges. In addition, the still weak inflation allows the ECB to maintain an accommodating monetary policy.

Domestic demand will remain a driving force behind the upswing in the eurozone in 2018, since the recovery of investments strengthens and widens, and consumer sentiment should continue to boost consumption. Investment activity in 2018 will be supported by rising profitability, sound liquidity positions and flexible financing conditions, including declining equity costs, low lending interest rates of banks and low capital market rates. Private consumption will benefit from the strong rise in job creation, while wage growth in a still high-unemployment economy is likely to remain relatively sluggish. A broadly supported stabilisation of the momentum of global trade suggests that exports will have less growth momentum in 2018. This assumption is supported by the expected continued depreciation convergence of the US dollar towards a fair value of approximately $1.25 for €1. In addition to the strong growth in the eurozone, the lower political risks, the ECB's curbing of the asset purchase program and the increase in portfolio inflows support the strengthening of the euro. Overall, foreign trade in 2018 should therefore be able to only make a slightly positive to largely neutral contribution to GDP growth.

● Headline inflation remains weak at 1.5% in 2018, but the continued fall in the output gap should provide for a flat upward trend in core inflation. Therefore, we expect the European Central Bank to complete its qualitative easing at the end of 2018 and to increase deposit rates mid-2019. The normalisation of monetary policy in Europe follows the path in the US with a time interval of approximately four years, due to the equally long delay in the economic recovery in the eurozone due to the "euro crisis". While the US Federal Reserve ended its asset purchase program in October 2014, the ECB is not expected to stop net purchases until the end of 2018. Interest rate normalisation is unlikely to start until the first half of the year or mid-2019 at the earliest. It was not until the second half of the year or the end of 2019 that another step in the deposit rate should end the phase of negative interest rates after five years. Then, an increase in the refinancing rate to 0.25% is likely.

● In the favourable global environment, the **Austrian economy** in 2017 was a positive surprise. With high spirits in all economic sectors, both among consumers and entrepreneurs, and good fundamental data, the Austrian economy will be able to take a lot of momentum going into 2018 and continue with the upturn. After the revival of global trade, which gave a strong momentum to the domestic export sector, investment has picked up significantly. As a result, consumption has been able to put off the decreasing positive effects of the 2016 tax reform. Supported by domestic demand and solid global growth, Austria's economic recovery in 2018 will regain stability and normalise. In Austria, the self-supporting upswing will enable a GDP growth of 2.6% in 2018. This normalisation of the growth rate in comparison with the particularly strong 2.9% of 2017 is due to two key factors: Firstly, the slightly negative effects of the price increase of the euro for domestic exports and, secondly, the slowdown in the momentum of investment activity, due to the already long duration of a very strong recovery and the shift in focus away from replacement to expansion investment. An ongoing high employment growth, supporting a drop in the unemployment rate to 5.1% (Eurostat method), as well as slowly increasing wage pressure, will provide income growth that will boost private consumption. Domestic demand will therefore remain the driving force of the Austrian economy in 2018. However, high inflation in Europe is slowing real wage growth and repressing consumer spending. Inflation is set to persist in Austria at 2.1% in 2018. Furthermore, the demand-side upward pressure on services is the dominant influence for the inflation surcharge to Germany of around half a percentage point.

The ongoing very positive economic prospects are likely to lead to a similarly lively demand for corporate finance in 2018 as in 2017. However, the liquidity situation of companies continues to be very good. Also, due to the good economic growth, a further slight increase in both consumer loans and loans to SMEs is to be expected. The demand for housing loans is expected to be similar to that of 2017 in 2018, helped by continued high demand for housing and low interest rates.

On the investment side, the low interest rate environment will continue to dominate the behaviour of private households. However, the share in short-term deposits should continue to decline even more. The holdings of life insurance and bonds are also expected to continue to decrease net in 2018, with funds again as the second-most important type of asset. Due to the already very high valuations, it is also expected that private households will not significantly increase their direct investments in shares in 2018.

Management Report (CONTINUED)

Medium-term and long-term objectives

2017, 2018 and 2019 will see the implementation of the "Transform 2019" Group strategy put forward by UniCredit in December 2016. Transform 2019 aims to create a successful pan-European commercial bank with a simple business model, fully plugged-in Corporate & Investment Banking and a unique network in Western, Central and Eastern Europe that we make available to our broadly diversified customer base.

At Bank Austria, we have taken clear action to transform the bank and increase existing competitive advantages in order to remain profitable in the long term and to become more attractive and modern for our customers. For Bank Austria, this specifically means:

- the further development of the business model with regard to focused customer service and a sustainably low-cost structure, with an increased focus on digitisation and corresponding investments in the IT structure,

- 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,

- reducing the cost base through a significantly leaner Corporate Centre.

- As an entrepreneurs' bank, we are the major financial partner for Austrian corporate customers and are cementing our number one position in Austrian corporate banking – as part of a leading European banking group – with a broad spectrum of expertise and competence and through our international network. We are the first port of call for private banking customers and offer them a recognised, excellent range of products and services – either directly at Bank Austria or at our subsidiary Schoellerbank. A new service model was implemented for retail customers that takes changing customer needs into account. It includes fewer, but significantly larger branches with longer opening hours and improved consulting services for our customers. Our real estate experts and investment experts provide advice in person at our branches and via video in smaller branches. Expert consulting services can also be accessed from any location via SmartBanking.

Our services, internal organisational structures and processes are continuously adjusted to meet the changing needs of our customers. To this end, income and cost initiatives are run in addition to numerous initiatives that benefit customers, such as the successful launch of photo transfers or money transfers to phone contacts in the Bank Austria mobile app.

On the revenue side, Bank Austria will further expand its leading market position in three business areas: Corporate Banking, Corporate & Investment Banking, and wealthy individuals in Private Banking. In addition to efforts to win new corporate customers, Bank Austria will concentrate on leveraging more effectively existing customer business potential available to the bank as Austrian market leader. We see further growth opportunities in Private Banking, but also in the affluent retail customers segment where the new UNIVERS investment solutions and individual asset management were recently introduced for the first time. Schoellerbank, which independent testers from Elite Report named the best asset manager for the sixth time in a row, will pursue its growth strategy. On the Bank Austria side, we see great potential for new business with existing customers through increased cooperation between the individual customer divisions. Retail banking activities focus on consistently expanding branches and the digital marketplace – comprising the online shop and the online branch – giving them equal weight as channels for product sales and advisory services.

On the cost side, at the same time that staff numbers are being reduced and the Corporate Centre is being streamlined, complexity is being reduced by focusing on essential services and designing and digitising processes more efficiently. This process is also supported by preparatory work and the relocation of all central units to the new Bank Austria Campus in 2018. The geographic concentration on one site and the changeover to SmartWorking will lead to a further increase in efficiency and cost reductions, among others also in the Corporate Centre.

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.17 within "F – Additional disclosures" of the notes to the consolidated financial statements on page 213.

▶ The risk report is a separate chapter ("E – Risk report") in the notes to the consolidated financial statements (pages 147 to 195).

▶ The report on key features of the internal control and risk-management system in relation to the accounting process is contained in section E.15 of the risk report (pages 193 to 195).

▶ 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

Segment report (CONTINUED)

Development of business segments

Retail Banking

(€ million)	2017	2016 [1)]	CHANGE	
Operating income	817	894	–77	–8.6%
Operating costs	–679	–754	+75	–9.9%
Operating profit	138	140	–3	–1.9%
Net write-downs of loans	30	–52	+83	n.m.
Net operating profit	168	88	+80	+91.1%
Profit before tax	**136**	**35**	**+101**	**>100%**
Ø Receivables from customers	17,966	18,071	–105	–0.6%
Ø Customer deposits	22,631	22,281	+350	+1.6%
Ø Risk-weighted assets (RWA) [2)]	7,958	8,519	–561	–6.6%
ROAC in % [3)]	9.8%	–2.8%	+13%P	n.m.

1) The comparative figures for 2016 were adjusted in the segment reporting to the structure and methodology used for the 2017 reporting period (see the notes to the segment reporting in the notes to the consolidated interim financial statements on page 139 of this report). / 2) Average risk assets (all types) under Basel 3. / 3) Calculation based on 12.5% allocated capital. / n.m. = not meaningful

● Operating profit

The Retail Division significantly improved its operating profit in 2017, despite the ongoing difficult market environment, as the reported decline in earnings was due in large part to a one-time effect. Operating income fell –€77 million (–8.6%), but it must be considered that the previous year's income included income from the sale of VISA shares (+€95 million). Strict cost management associated with the continuing realignment of the branch network and the consistent implementation of measures to increase efficiency in sales led to a significant reduction in operating costs, which were down to €679 million (–9.9% compared to the previous year).

● Net write-downs of loans and provisions for guarantees and commitments

Excellent risk management and major reductions resulted in a positive amount of €30 million over 2017 as a whole, up €83 million on the previous year.

● Profit before tax

After taking account of the positive net write-downs of loans and provisions for guarantees and commitments and nonoperating expenses, the Retail Division contributed €136 million to earnings in 2017 (+€101 million on the previous year) and is fully in line with the restructuring plan.

● Loans and receivables with customers/customer deposits (average values)

At €18.0 billion, the average loan volume is at the previous year's level. Average customer deposits rose by 1.6% on the previous year to €22.6 billion in spite of the unattractive interest rate environment.

Retail Banking also serves business customers and the independent professionals with annual turnover of up to €3 million. Numerous growth initiatives were launched in 2017 in these business segments.

The entire branch network was further modernised in 2017. Our customers benefit from extended opening hours at numerous branches (9 a.m. – 6 p.m. or 8:30 a.m. – 5:30 p.m.). We also provide consulting services to retail and business customers and independent professionals in any location via video at the online branch (8 a.m. to 8 p.m.). We expanded our high-quality consulting services for affluent retail customers and the self-employed in 2017 with the introduction of Premium asset management (for customers with assets greater than €50,000) and UNIVERS, an innovative and transparent investment consulting model (for customers with assets greater than €70,000). In investment and real-estate financing, we rely on our investment and real-estate experts who support consultants either locally or via video.

Customers' requirements for daily business are increasingly being met by digital services that are gradually being expanded. Bank Austria further highlighted its innovation leadership in mobile online services by launching the photo transfer function in addition to the Bank Austria app that is already available, the mobile wallet and the online loan application, which can be completed online at any time. This new function allows customers to take photos of and pay paper-based bills, payment slips, etc. with ease using their smartphones. A further innovation for smartphone users is ZOIN which enables real-time payments to smartphone contacts. The strong focus on the expansion of our digital sales channels allows us to focus on our core business and simplify processes.

Segment report (CONTINUED)

Corporate Banking (including factoring and leasing units)

(€ million)	2017	2016 1)	CHANGE	
Operating income	612	599	+13	+2.2%
Operating costs	–213	–260	+47	–18.0%
Operating profit	400	340	+60	+17.7%
Net write-downs of loans	–16	14	–30	n.m.
Net operating profit	384	353	+30	+8.6%
Profit before tax	**358**	**214**	**+144**	**+67.3%**
Ø Receivables from customers	26,420	26,490	–70	–0.3%
Ø Customer deposits	15,670	16,678	–1,008	–6.0%
Ø Risk-weighted assets (RWA) 2)	8,592	8,786	–195	–2.2%
ROAC in % 3)	25.1%	15.0%	+10%P	n.m.

1) The comparative figures for 2016 were adjusted in the segment reporting to the structure and methodology used for the 2017 reporting period (see the notes to the segment reporting in the notes to the consolidated interim financial statements on page 139 of this report). / 2) Average risk assets (all types) under Basel 3. / 3) Calculation based on 12.5% allocated capital. / n.m. = not meaningful

● Operating profit
A slight increase in operating income of 2.2% (+€13 million) to €612 million was recorded by the Corporate Banking Division in 2017 compared to the previous year, despite a persistently difficult interest rate environment. Together with a significant reduction in operating costs of –€47 million/–18.0% to €213 million due to strict cost management and other cost reduction measures and a one-off effect in the previous year, this led to an increase in operating profit from €340 million in the previous year to €400 million in 2017 (+€60 million/+17.7%).

● Net write-downs of loans and provisions for guarantees and commitments
Following the net releases in the previous year, there were moderate net write-downs of loans and provisions for guarantees and commitments of –€16 million in 2017 (previous year: +€14 million), which corresponds to a cost of risk of 6 bps.

● Profit before tax
Non-operating expenses were significantly lower at –€26 million than in the previous year (–€140 million), which was burdened with a high one-off effect. Systemic charges in the amount of –€26 million were the most important position under non-operating expenses. Profit before tax increased overall by €144 million/67.3% on the previous year to €358 million due to a strong operating performance and lower one-off charges.

● Loans and receivables with customers/customer deposits (average values)
On the credit side, the average volume remained stable at €26.4 billion (2016: €26.5 billion); average customer deposits fell significantly by €1.0 billion from €16.7 billion in the previous year to €15.7 billion in 2017 (–6.0%) due to the strategically necessary reduction in excess liquidity.

In Corporate Banking, 2017 was marked by continuously increasing economic activity in Austria: propensity to invest increased, as did Bank Austria's new business from investment financing for medium-sized and large Austrian companies, which grew significantly over the year. However, the persistent zero interest rate environment dampened the performance of other Corporate Banking areas at the same time: Short-term loans to provide liquidity reduced somewhat, as did deposits from our corporate customers. In commercial real-estate financing, the focus was successfully placed on large, experienced companies in the sector.

Following the Group motto "One Bank, One UniCredit", cross-border business in CEE countries and in the Far East was successfully increased, with set ambitions clearly exceeded.

Bank Austria – as part of the UniCredit Group – is the Austrian bank with the strongest international presence, being represented also in countries such as China. Our customers value this and there is consistently high demand for international payment transactions and financing.

Bank Austria is still the market leader for digital innovations for Corporate Banking: the new online funding finder allows entrepreneurs to find information on the variety of funding opportunities for their investment or export projects in just a few clicks and also make contact with our experts.

Segment report (CONTINUED)

Private Banking

(€ million)	2017	2016 [1]	CHANGE	
Operating income	173	169	+4	+2.2%
Operating costs	–121	–122	+1	–0.8%
Operating profit	52	47	+5	+9.8%
Net write-downs of loans	–1	0	–1	n.m.
Net operating profit	50	47	+3	+6.7%
Profit before tax	**46**	**38**	**+8**	**+20.5%**
Total financial assets	24,518	23,900	+618	+2.6%
∅ Receivables from customers	646	647	–1	–0.2%
∅ Customer deposits	9,017	9,002	+15	+0.2%
∅ Risk-weighted assets (RWA) [2]	578	600	–22	–3.6%
ROAC in % [3]	46.9%	36.4%	+11%P	n.m.

1) The comparative figures for 2016 were adjusted in the segment reporting to the structure and methodology used for the 2017 reporting period (see the notes to the segment reporting in the notes to the consolidated interim financial statements on page 139 of this report). / 2) Average risk assets (all types) under Basel 3. / 3) Calculation based on 12.5% allocated capital. / n.m. = not meaningful

● Operating profit

2017 was a very successful year for the Private Banking Division. Operating income increased from €169 million to €173 million (+2.2%) despite the prevailing low-interest environment, where fee and commission income increased significantly (+4.2%). Operating costs of €121 million remained unchanged in the reporting period due to strict cost discipline, thus resulting in operating profit of €52 million (+€5 million, +9.8% on the previous year).

● Profit before tax

Profit before tax was, at €46 million, up €8 million (+20.5%) on the previous year. No significant risk provisions were formed.

● Loans and receivables with customers/customer deposits (average values)

The volume of total financial assets has grown by 2.6% to €24.5 billion since the start of the year. The increase is mainly due to assets under management (+€0.6 billion, +6.9%), which corresponds to the implementation of the strategy for this business segment.

With its two renowned brands, Bank Austria Private Banking – a major bank's private banking segment – and Schoellerbank – a traditional private bank – the Private Banking Division is a clear market leader when it comes to serving affluent private customers with €500,000 or more to invest in Austria. Bank Austria Private Banking's unique selling point is the personalised 360-degree service approach that is based on specific customer needs and covers all banking services.

Investors trust the investment models managed by the BA Private Banking experts in the ongoing low interest-rate environment and volatile markets caused by geopolitical tensions. As a result, in 2017, Private Banking had a specific business focus on the sustained growth of the successful asset management programme VermögensManagement 5Invest and the further successful development of the flexible investment consulting model UNIVERS Exklusiv with a lump-sum expenses agreement. The consulting model UNIVERS Exklusiv currently serves customers with a total investment volume of over €1.3 billion.

In addition, this year the SmartSelection – Global Ausgeglichene Strategie fund, the management of which has already been awarded 5 stars by Morningstar, was launched for our customers. The fund of funds SmartSelection – Aktien Global Strategie, which has been available since 2014 and invests in global equity funds, was also honoured by GELD magazine at the Austrian Fund of Funds Awards.

Schoellerbank, established in 1833, is one of the leading private banks in Austria that specialises in sophisticated investments. The bank's investment philosophy follows the motto "Invest, don't speculate". According to this principle, experts choose only the best investments for their customers – who have already entrusted the bank with some €11.5 billion – in accordance with strict selection criteria. Schoellerbank asset management was established 25 years ago and has generated very positive results in recent years in a challenging market environment. This is in large part attributable to Schoellerbank's own investment management company, the investment funds of which are regularly recognised for their good performance. The high level of customer satisfaction and the numerous top rankings in various bank tests, as well as regular awards as the country's best private bank, show that the traditional bank is highly successful with its approach. With 10 locations, Schoellerbank – a fully-owned subsidiary of UniCredit Bank Austria AG – is also the only private bank represented throughout Austria.

Segment report (CONTINUED)

Corporate & Investment Banking (CIB)

(€ million)	2017	2016 1)	CHANGE	
Operating income	427	414	+13	+3.2%
Operating costs	–181	–207	+26	–12.7%
Operating profit	246	207	+40	+19.1%
Net write-downs of loans	–24	38	–62	n.m.
Net operating profit	223	245	–22	–9.0%
Profit before tax	**192**	**133**	**+59**	**+44.4%**
∅ Receivables from customers	14,091	13,566	+525	+3.9%
∅ Customer deposits	7,928	9,086	–1,158	–12.7%
∅ Risk-weighted assets (RWA) 2)	8,056	7,792	+264	+3.4%
ROAC in % 3)	14.1%	10.3%	+4%P	n.m.

1) The comparative figures for 2016 were adjusted in the segment reporting to the structure and methodology used for the 2017 reporting period (see the notes to the segment reporting in the notes to the consolidated interim financial statements on page 139 of this report). / 2) Average risk assets (all types) under Basel 3. / 3) Calculation based on 12.5% allocated capital. / n.m. = not meaningful

● Operating profit

Operating profit in the CIB Division increased in 2017 by 19.1% to €246 million. Operating income was, at €427 million, 3.2% higher than the previous year's level (2016: €414 million). Despite the difficult market and interest rate environment, net interest, with €294 million, was up by 2.4%. Net fees and commissions increased to €89 million. At the same time, operating costs fell by –€26 million to €181 million, a decrease of –12.7% due to strict cost management and further efficiency improvements as well as a one-off effect in the previous year.

● Net write-downs of loans and provisions for guarantees and commitments

The credit risk result was –€24 million (2016: €38 million). At 17 bp, cost of risk remained at a low level.

● Profit before tax

Due to strict cost management and the positive course of business, the CIB division increased its profit before tax by 44.4% to €192 million, an increase of €59 million compared to the result for the same period in the previous year, which was burdened with a high one-off effect.

● Loans and receivables with customers/customer deposits (average values)

On the loan side, an increase in the average volume was recorded of 3.9% to €14.1 billion. Average customer deposits fell in 2017 to €7.9 billion (2016: €9.1 billion).

Business development in 2017 underscores our strength as part of UniCredit, a simple pan-European commercial bank with a fully plugged-in Corporate & Investment Banking and a unique network in Western, Central and Eastern Europe that we make available to our broadly diversified customer base.

The CIB business segment further expanded its leading market position in the segment of multinational companies. In addition to extensively serving Austrian multinational companies, CIB also continued to work for extended core markets such as Scandinavia and Spain on a sustained basis. Business developed positively despite a persistently challenging and highly competitive market environment. In particular, the successful conclusion of structured financing resulted in significant growth.

We use our leading position in capital market transactions (no. 1 Corporate Bonds Austria), syndicated loans (no. 1 Syndicated Loans Austria), and within the UniCredit Group (no. 2 EMEA bonds and loans in EUR in 2017; in the top three bookrunners since 2012) to secure diversified liquidity for our customers and continuously expand the bank's position in our markets. Business with institutional customers and large real estate customers and funds also continued to develop satisfactorily.

Our leading market position in cash management (no. 1 Cash Management House in Austria 2017 – Euromoney), trade finance (no. 1 Bank for Trade Finance in Austria 2017 – Global Finance), supply chain finance and foreign exchange (no. 1 Foreign Exchange Provider in Austria – Global Finance) enabled CIB to acquire considerable mandates from Austrian and multinational customers. Despite the challenging macroeconomic environment, persistently low interest rates and negative government bond yields in most eurozone countries, the Treasury made a significant contribution to the CIB result in 2017. Demand from companies for currency hedges remained high due to the volatility on currency markets.

Management Report (CONTINUED)

Vienna, 16 February 2018

The Management Board

Robert Zadrazil
CEO Business Areas &
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 Capital

Consolidated Financial Statements

in accordance with International Financial Reporting Standards (IFRSs)

Consolidated Income Statement

of the Bank Austria Group for the year ended 31 December 2017

Income statement for the year ended 31 December 2017

(€ million)

	Notes	2017	2016
Interest income and similar revenues	B.1	1,547	1,689
Interest expense and similar charges	B.1	–567	–727
Net interest margin		**980**	**962**
Fee and commission income	B.2	907	876
Fee and commission expense	B.2	–195	–200
Net fees and commissions		**712**	**676**
Dividend income and similar revenue	B.3	18	8
Gains and losses on financial assets and liabilities held for trading	B.4	66	52
Fair value adjustments in hedge accounting	B.5	–2	9
Gains and losses on disposal of:	B.6	12	16
a) loans		–	–
b) available-for-sale financial assets		17	8
c) held-to-maturity investments		–	–
d) financial liabilities		–5	8
Gains and losses on financial assets/liabilities at fair value through profit or loss	B.7	1	11
OPERATING INCOME		**1,787**	**1,735**
Impairment losses on:	B.8	13	–5
a) loans		23	–36
b) available-for-sale financial assets		–2	–12
c) held-to-maturity investments		6	–
d) other financial assets		–15	42
Net income from financial activities		**1,800**	**1,730**
Administrative costs:		–1,388	–2,065
a) staff expense	B.9	–681	–1,093
b) other administrative expense	B.10	–707	–972
Net provisions for risks and charges	B.11	4	–145
Impairment/write-backs on property, plant and equipment	B.12	–74	–95
Impairment/write-backs on intangible assets	B.13	–4	–6
Other net operating income	B.14	86	164
OPERATING COSTS		**–1,376**	**–2,147**
Profit (loss) on equity investments	B.15	136	47
Gains and losses on tangible and intangible assets measured at fair value		–1	–1
Gains and losses on disposal of investments	B.16	12	17
TOTAL PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**571**	**–354**
Tax expense (income) related to profit or loss from continuing operations	B.17	–12	–58
Total profit or loss after tax from continuing operations		**558**	**–413**
Total profit or loss after tax from discontinued operations	B.18	114	1,141
NET PROFIT OR LOSS FOR THE YEAR		**673**	**729**
Attributable to:			
Non-controlling interests from continuing operations		19	63
from discontinued operations		–	25
Non-controlling interests		**19**	**88**
Owners of the parent company from continuing operations		539	–476
from discontinued operations		114	1,116
Owners of the parent company		**653**	**641**
Earnings per share (in €, basic and diluted) from continuing operations	B.19	2.33	–2.06
from discontinued operations		0.49	4.83

Consolidated Statement of Comprehensive Income

of the Bank Austria Group for the year ended 31 December 2017

Statement of comprehensive income

(€ million)

	1 JAN. – 31 DEC. 2017	1 JAN. – 31 DEC. 2016
Total profit or loss after tax from continuing operations	**558**	**–413**
Total profit or loss after tax from discontinued operations	**114**	**1,141**
PROFIT OR (–) LOSS FOR THE PERIOD	**673**	**729**
OTHER COMPREHENSIVE INCOME	**–118**	**–58**
Items that will not be reclassified to profit or loss	**61**	**–218**
Actuarial gains or (–) losses on defined benefit pension plans	81	–291
Share of other recognised income and expense of entities accounted for using the equity method	0	0
Income tax relating to items that will not be reclassified	–20	73
Items that may be reclassified to profit or loss	**–179**	**160**
Foreign currency translation	–1	147
Cash flow hedges [effective portion]	–57	–46
Available-for-sale financial assets	–181	45
Non-current assets and disposal groups held for sale	0	29
Share of other recognised income and expense of entities accounted for using the equity method	1	–11
Income tax relating to items that may be reclassified to profit or (–) loss	59	–3
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**555**	**671**
Comprehensive income after tax from continuing operations	**441**	**–636**
Comprehensive income after tax from discontinued operations	**114**	**1,308**
Thereof attributable to		
Non-controlling interests from continuing operations	21	62
from discontinued operations	0	20
Non-controlling interests	**21**	**83**
Owners of the parent from continuing operations	420	–699
from discontinued operations	114	1,287
Attributable to owners of the parent	**534**	**589**

Earnings per share (in €, basic and diluted)

(€)

	1 JAN. – 31 DEC. 2017	1 JAN. – 31 DEC. 2016
Earnings per share from comprehensive income after tax from continuing operations	1.82	–3.02
Earnings per share from comprehensive income after tax from discontinued operations	0.49	5.57

Statement of Financial Position

of the Bank Austria Group at 31 December 2017

Assets

(€ million)

	Notes	31 DEC. 2017	31 DEC. 2016
Cash and cash balances	C.1	230	165
Financial assets held for trading	C.2	1,008	1,113
Financial assets at fair value through profit or loss	C.3	6	14
Available-for-sale financial assets	C.4	15,057	15,791
Held-to-maturity investments	C.5	216	236
Loans and receivables with banks	C.6	19,688	20,762
Loans and receivables with customers	C.7	60,032	60,926
Hedging derivatives	C.8	2,084	2,661
Changes in fair value of portfolio hedged items (+/–)	C.9	243	–36
Investments in associates and joint ventures	C.10	1,937	1,777
Property, plant and equipment	C.11	629	695
of which held for investment		*223*	*303*
Intangible assets	C.12	9	11
Tax assets		269	320
a) current tax assets		43	55
b) deferred tax assets	C.13	226	265
Non-current assets and disposal groups classified as held for sale	C.14	330	900
Other assets	C.15	391	450
TOTAL ASSETS		**102,128**	**105,785**

Liabilities and equity

(€ million)

	Notes	31 DEC. 2017	31 DEC. 2016
Deposits from banks	C.16	15,126	13,939
Deposits from customers	C.17	55,463	56,239
Debt securities in issue	C.18	14,722	17,394
Financial liabilities held for trading	C.19	1,004	1,107
Financial liabilities at fair value through profit or loss	C.20	301	399
Hedging derivatives	C.21	1,655	2,153
Changes in fair value of portfolio hedged items (+/–)	C.22	52	–196
Tax liabilities		34	54
a) current tax liabilities		27	33
b) deferred tax liabilities	C.23	7	21
Liabilities included in disposal groups classified as held for sale	C.24	56	123
Other liabilities	C.25	1,332	2,469
Provisions for risks and charges	C.26	3,962	4,212
a) post-retirement benefit obligations		3,625	3,855
b) other provisions		337	357
Equity	C.27	8,422	7,892
of which non-controlling interests (+/–)		*62*	*88*
TOTAL LIABILITIES AND EQUITY		**102,128**	**105,785**

Statement of Changes in Equity

of the Bank Austria Group for the year ended 31 December 2017

(€ million)

			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
			CHANGES DURING THE PERIOD					
				SHAREHOLDERS' EQUITY TRANSACTIONS				
	BALANCE AS AT 1 JAN. 2017	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. 2017
Issued capital: a) ordinary shares	1,681					–		**1,681**
b) other shares	–					–		**–**
Share premium	4,133				1	1		**4,135**
Reserves: a) other reserve	2,059	641		23		23		**2,723**
b) foreign currency reserve	1	–		–		–	−1	**0**
Cash flow hedge reserve	192			–		–	−43	**149**
Available-for-sale reserve	638					–	−138	**500**
Cash flow hedge and AFS reserve associates and joint ventures	36			–		–	1	**36**
Pension and similar liabilities IAS 19	−1,577				–	–	61	**−1,516**
Net profit or loss for the period	641	−641	653			–		**653**
Shareholders' Equity Group	**7,804**	**0**	**653**	**23**	**1**	**24**	**−120**	**8,361**
Shareholders' Equity minorities	88	−50	19	1	–	1	2	62
Total Shareholders' Equity	7,892	−50	673	24	1	25	−118	8,422

Statement of Cash Flows

of the Bank Austria Group for the year ended 31 December 2017

(€ million)

	2017	2016
NET PROFIT OR LOSS	**673**	**729**
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	71	730
Increase in staff-related provisions and other provisions	122	894
Increase/decrease in other non-cash items	–235	–122
Interest income/interest expenses from investing activities	104	187
Gains/losses on disposal of intangible assets, property, plant and equipment, and investments	–24	–22
SUB-TOTAL	**711**	**2,396**
Increase/decrease in operating assets and liabilities after adjustment for non-cash components		
Financial assets held for trading	74	–155
Loans and receivables with banks and customers	1,816	–2,403
Other asset items	559	–473
Financial liabilities held for trading	–102	–749
Deposits from banks and customers	456	2,474
Debt securities in issue	–2,133	–344
Other liabilities items	–1,608	–101
CASH FLOWS FROM OPERATING ACTIVITIES	**–227**	**645**
Proceeds from disposal of		
investments	3,285	2,092
property, plant and equipment, intangible assets and investment property	68	63
Payments for purchases of		
investments	–2,680	–3,233
property, plant and equipment, intangible assets and investment property	–119	–100
Proceeds from sales (less cash disposed of) of subsidiaries	486	25
Payments for acquisition (less cash acquired) of subsidiaries	0	0
Other changes	0	0
CASH FLOWS FROM INVESTING ACTIVITIES [1]	**1,040**	**–1,153**
Proceeds from capital increase	0	1,000
Dividends paid	0	0
Proceeds from issues of subordinated liabilities	0	0
Payments for repayment of subordinated liabilities	–748	–291
CASH FLOWS FROM FINANCING ACTIVITIES	**–748**	**709**
CASH AND CASH EQUIVALENTS AT END OF PREVIOUS PERIOD	**165**	**2,197**
Cash flows from operating activities	–227	645
Cash flows from investing activities	1,040	–1,153
Cash flows from financing activities	–748	709
Effects of changes in scope of consolidation	0	–2,233
of which: CEE demerger	0	–2,233
of which: other changes in scope of consolidation	0	0
Effects of exchange rate changes	0	0
CASH AND CASH EQUIVALENTS AT END OF PERIOD [2]	**230**	**165**
Payments for taxes, interest and dividends		
Income taxes paid from operating activities	65	–14
Interest received from operating activities	1,352	1,458
from investing activities	224	238
Interest paid from operating activities	–226	–364
from investing activities	–386	–447
Dividends received from investing activities	48	40

1) Thereof: Cash flows from investing activities from discontinued operations amounting to € 469 million.
2) Cash and cash equivalents include cash in the amount of € 100 million (2016: € 111 million) and the balance with central banks in the amount of € 130 million (2016: € 54 million).

Notes to the Consolidated Financial Statements

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.

A – Accounting policies

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. Since the transfer of CEE business to UniCredit S.p.A. on 1 October 2016, the geographical focus of the Group's operations is on Austria.

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

The consolidated financial statements of Bank Austria for the year 2017 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 2017, pursuant to EU Regulation 1606/2002. The additional disclosure requirements according to Section 245a UGB (Austrian Business Code) and Section 59a BWG (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), guarantees given and commitments (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 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 2017.

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 2017.

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 consolidated accounts 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. In the event that the subsidiary is part of a for sale group and was already classified as "held for sale purposes", the difference between the proceeds from the sale and the carrying amount of the subsidiary's net assets is recorded in the profit and loss account under the item "Earnings after taxes from discontinued business areas".

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.

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 2017
The Group has adopted the following new standards and amendments to standards, with a date of initial application of 1 January 2017.

Amendments to IAS 12, Income taxes
On 19 January 2016, the IASB published changes with regard to IAS 12, Income taxes, in connection with the approach of active deferred taxes for non-realised losses. The changes are to be applied retroactively to financial years starting on or after 1 January 2017. The standard was incorporated into EU law in November 2017. The amendments only concern clarifications and are only relevant in countries where a distinction is made in tax law between profit from asset growth and operative profits and only concern active deferred taxes from securities inventories valued at fair value. This clarification on IAS 12 has no effects on the Group's associated active deferred taxes as active deferred taxes have already been considered in temporary differences from unrealised losses.

Amendments to IAS 7 Statement of cash flows
On 26 January 2016, the IASB published amendments with regard to IAS 7, Statement of cash flows, with the aim of improving information on changing the company's debt burden. These amendments are to be applied to financial years starting. on or after 1 January 2017. The standard was incorporated into EU law in November 2017. The standard did not bring about any adjustments in the presentation of the Group's statement of cash flows. The disclosures that had to be applied for the first time can be seen in Table F.10.

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

IFRS 9 Financial Instruments - Disclosures in accordance with IAS 8 section 30/31 and EDTF report for December 2017
The initial application of IFRS 9 on 1 January 2018 will involve the following changes:
- Compared to IAS 39, the new standard will lead to significant changes in the classification and valuation of loans and debt instruments, which in future will be based on the "business model" under which the financial instrument is being held, and the characteristics of the financial instrument's cash flow. The key question is, if the instrument provides "Solely Payments of Principal and Interests", SPPI.
- In future, equity instruments can either be classified in the category of "at fair value through profit and loss" or in the category "at fair value through other comprehensive income". Unlike IAS 39, under which the category of "available for sale" required the recognition of impairments in the profit and loss account, this requirement is not present in IFRS 9, provided the option is taken of applying fair value through other comprehensive income, in equity, so avoiding any impact on the P&L. In addition, in the case of the disposal of an equity capital instrument valued with no effect on income, the cumulative revaluation results in equity are not taken in the profit and loss (no longer "recycled"), but are just reclassified under equity into the reserves.

A – Accounting policies (CONTINUED)

- The standard will introduce a new accounting model for impairment, which is based on the "expected credit losses" approach which replaces the previous IAS 39 model based on "incurred credit losses".
- The rules for hedge accounting have changed in several aspects, such as, for example, the options for identifying hedging relationships or determining their effectiveness, in order to achieve greater consistency between the treatment of hedge accounting and the underlying risk management logic. The new standard also gives users the option to continue to use the existing hedge accounting rules under IAS 39, until the IASB has completed the project to define new rules for macro hedges.
- In addition, the accounting rules for valuing liabilities at an optional fair value under the so-called "Fair Value Option" have been changed: the changes in fair value that relate to fluctuations in own credit risk are no longer reported in the profit and loss acount – as they were under IAS 39 – but in future they are included in other comprehensive income (no recycling), which removes a source of earnings volatility.

In order to ensure compliance with these new requirements, the UniCredit Group has implemented a project that is currently in its final phase. The goal of this project is to introduce standard accounting and risk monitoring methods across all Group companies.

The Group-wide project also reflects the significant changes required by IFRS 9 in the organisation, and is split into two main areas:
- **"Classification and Measurement"**, with the goal of ensuring that financial instruments are classified under the new IFRS 9 criteria, and
- **"Impairment"**, with the goal of developing and implementing models and methods to calculate impairments.

The entire project is being carried out with the participation of all the relevant departments in the bank and the active involvement of the board and the most senior levels of management.

In relation to the topic of **"Classification and Measurement"**, the Bank Austria Group
- has identified criteria for the classification of financial instruments into the new categories defined by the accounting standard, which are based on the business model and the asset's contractual cash flow characteristics
- and used these criteria to classify the existing portfolio.

The definition of the business model is done at the level of the business areas of the Bank Austria Group, as this best reflects how groups of financial assets are managed collectively and how information that is relevant for decisions is reported in order to achieve a particular business goal.

Portfolios for the core business of the Bank Austria Group are assigned to either a "hold" or a "hold and sell" business model, depending on the specific portfolio strategy and the expectations relating to the future sales activities of the portfolio.

Sales that are compatible with a "hold" business model are (i) securitisation transactions that do not lead to derecognition of the underlying loans, (ii) sales due to an increase in the default risk, and (iii) sales that are either infrequent or – taken individually – represent immaterial values.

Those portfolios the Bank Austria Group holds for trading are assigned to an "Other" business model, to reflect the underlying trading intention.

An analysis of the asset's cash flow characteristics (SPPI-Test) is also needed for classifying financial assets into the corresponding valuation categories of IFRS 9, as well as defining the "business model" criterion. To determine the cash flows for loans and debt instruments, the Bank Austria Group has developed processes and systems, in order to determine subsequently whether the asset's contractual cash flow permits a later revaluation "at amortised cost" (in the "hold" business model) or "at fair value through other comprehensive income" (under the "hold and sell" business model).

A – Accounting policies (CONTINUED)

The valuation of this SPPI criterion is done either at the level of an individual contract or for clusters, depending on the relevant product and contract characteristics. The analysis is done with the help of both a software solution developed by UniCredit Holding (the "SPPI-Tool") and using information from external data providers.

The valuation of equity instruments within the Bank Austria Group will in future be mainly based on the "at fair value through other comprehensive income" approach ("OCI option" for equity instruments). Investment funds will in future be valued "at fair value through profit and loss", as these instruments are not equity instruments in the sense of IAS 32 and therefore are not covered by this "OCI option".

The Bank Austria Group has applied the optional valuation at fair value (the "fair value option") for selected financial liabilities. The adjustments to fair value that are the result of fluctuations in the bank's own credit risk should therefore in principle be shown in other comprehensive income under equity (no recycling). The bank has hedged the fluctuations in its own credit risk using credit default swaps, which need to be valued through profit and loss, creating an accounting mismatch with a valuation of own credit risk through equity and resulting in an unbalanced accounting treatment. Accordingly, under an exemption clause, the own credit risk can still be shown in profit and loss, despite the new requirements of IFRS 9.

As part of the implementation of the requirements for calculation of **impairments** under IFRS 9, the Bank Austria Group's impairment model was adjusted to comply with the new accounting rules.

The new impairment model for showing expected credit losses is to be applied to all debt instruments that are shown at either "amortised cost" or "at fair value through other comprehensive income, in equity" and also to off-balance sheet instruments such as guarantees and lending commitments.

The determination of the expected credit losses then also requires specific adjustments to the calculation of the PD (Probability of Default), the LGD (Loss Given Default) and the EAD (Exposure At Default). A new model was developed for transferring unimpaired instruments between Stage 1 and Stage 2.

The amount of the expected credit losses to be recorded depends on the assigned stage. For instruments assigned to Stage 1, a credit loss covering the expected 12-month credit loss ("1 year ECL") is recognised. For Stage 2 instruments, on the other hand, a credit loss equal to the expected credit loss over their lifetime ("Lifetime ECL") is recognised.

Starting from the values already used for regulatory purposes for the PD, LGD and EAD, a specific adjustment is applied to these parameters, in order to meet the requirements of IFRS 9. The significant adjustments here include:
- the elimination of regulatory conservative factors,
- a "point–in-time" calibration instead of the regulatory "throughout the cycle" adjustment,
- taking macro-economic forward-looking information into account, and
- modelling the credit risk parameter over the lifetime of the instrument (multi-annual view).

The modelling of the multi-annual PDs includes a point in time adjustment of the observed accumulated default rates, taking into account forward-looking macroeconomic information.

A – Accounting policies (CONTINUED)

The conservative margins included in the regulatory, through-the-cycle LGD for the recovery rates, under the requirements of IFRS 9 are adjusted to match current expectations, considering forward-looking macro-economic information when discounting using the effective interest rate.

The modelling of the EADs over the remaining lifetime is done on the basis of the regulatory (one-year) EADs, subject to an adjustment for the necessary lifetime view, disregarding the conservative factors and taking into account forward-looking macro-economic information.

The expected credit losses take into account forward-looking macro-economic information using a scenario approach, in order to compensate for embedded non-linearities between the macro-economic changes and the significant input parameters. The effect of non-linearities is especially taken into account at the level of the portfolio ECL with a relevant overlay factor.

Taking into account forward-looking macro-economic information by using multiple scenarios is in line with the macro-economic forecasting process used within the UniCredit Group (e.g. taking into account macro-economic forecasts for expected credit losses in the EBA Stress Tests and the ICAAP) and uses independent functionality from UniCredit Research. This results in the creation of a unified starting point, which is adjusted to meet each of the now divergent regulatory requirements, using internally developed scenarios.

A further important factor in the determination of the expected credit losses under IFRS 9 is the modelling of the stage transfer logic for transfers between Stage 1 and Stage 2. (Stage 3 is for impaired instruments). Stage 1 financial assets include primarily (i) newly-issued instruments, (ii) instruments without a significant increase in credit risk since their initial recognition or (iii) instruments with a low probability of default at the balance sheet date.

The Bank Austria Group uses both relative and absolute criteria for transfer between stages. The main criteria include:
- a relative comparison at transaction level of the probability of default (PD) at balance sheet date, to that at initial recognition, applying internal models. The determination of the threshold values takes into account all the relevant information related to the expected probability of default (e.g. age, PD level at initial recognition, historic default patterns by segment)
- absolute criteria, in line with regulatory requirements (i.e. 30 days overdue)
- other internal criteria (e.g. forbearance measures, foreign currency loans to retail customers, considering the inherent risks since their initial recognition)

Under the rules of IFRS 9 it can be stated that the credit risk of a financial asset has not risen significantly, if the asset's value at balance sheet date shows a low risk of default (low credit risk exemption). The Bank Austria Group makes use of this exemption for securities with an "investment grade" rating.

The calculation of the expected credit defaults for impaired assets was also adjusted in the light of the requirements of IFRS 9 inasmuch as adjustments took place for the calculation of impairments both for the portfolio and for individual items, and scenarios were taken into account.

In relation to the definition of impaired assets, the current definition of default used by the Bank Austria Group was used.

In terms of accounting for hedge transactions, the Bank Austria Group is exercising the option of applying the existing accounting rules for hedge transactions under IAS 39 until the IASB has completed the project to define new rules for macro hedges.

The application of the above accounting requirements and their implementation in the organisational processes and systems of the Bank Austria Group is being carried out in line with project schedules, and is currently in the final phase.

The Bank Austria Group will avail itself of the exemption to not adjust comparative information for previous periods in the consolidated accounts for 2018.

A – Accounting policies (CONTINUED)

The UniCredit Group's IFRS 9 project forms part of the European Central Bank's Thematic Review.

In addition, the methods and models developed by the Bank Austria Group as part of the IFRS 9 project are regularly reviewed by external auditors and the application and implementation activities are currently undergoing a wide-ranging evaluation and analysis.

The analyses carried out so far have not revealed any circumstances which throw doubt on the fundamental suitability of the applied methods and models.

It is expected that the main impacts at the time of the initial application of IFRS 9 in the Bank Austria Group will result from the new model for capturing expected credit defaults and the related classification by stages. Higher impairments on financial assets are expected, especially loans and advances to customers. The logic of transferring between different stages will also result in a greater volatility in results (especially between Stage 1, which includes all new items, and all loans with no increase in probability of default since initial recognition, and Stage 2, which holds financial instruments whose rating has substantially deteriorated since their initial recognition).

In relation to classification and valuation, a change in the valuation category for loans and debt instruments is required for the initial application of IFRS 9, from "amortised cost" to "(mandatory) at fair value through profit and loss" as the result of the characteristics of the cash flows (SPPI criterion) of the relevant financial assets. The financial assets newly reclassified into the category of "at fair value through profit and loss" will represent less than 2% of the total assets of the Bank Austria Group.

Adjustments to the carrying value of financial instruments due to IFRS 9 transition will be accounted for through equity as of 1 January 2018. The total impact of the initial application of IFRS 9 on CET1 ("fully loaded") before tax will be around EUR –0.1 billion, and will be mainly due to an increase in impairments.

The impact of IFRS 9 will also be evident in the measurement of the regulatory capital quotas (CRD/CRR). The EU Regulation 2017–2395, published on 27 December 2017, offers a choice in this respect to reduce the initial impact (a phase-in) of the additional risk provision in CET1 for a transitional period of five years, starting in 2018. The Bank Austria Group will not be availing itself of this transitional arrangement.

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 and the clarifications were endorsed in October 2017. UniCredit Bank Austria's net commissioning income is mainly within the scope of IFRS 15. There are no relevant effects in regard to allocating the income to the individual periods or items on the income statement. Therefore, we do not expect any significant impact for Unicredit Bank Austria due to IFRS 15.

IFRS 16 Leases

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 provided IFRS 15 is also applied. The standard was incorporated into EU law in October 2017. The effects of IFRS 16 on UniCredit Bank Austria AG are currently being analyzed.

A – Accounting policies (CONTINUED)

IFRS 17 Insurance contracts
IFRS 17 governs the principles with regard to the formation, evaluation, disclosure and information for insurance contracts with the area of application of the standard. The standard was published on 18 May 2017 and must be applied as mandatory for the first time to financial years starting on or after 1 January 2021. There is still no endorsement by the EU. UniCredit Bank Austria AG does not expect any strong effect from this standard but details such as the effect on the off-balance sheet area must still be analysed.

IFRIC 22 Transactions in foreign currency and considerations paid in advance
On 8 December 2016, IASB IFRIC 22 published a clarification on balancing business transactions which include receiving or paying considerations in foreign currencies. The interpretation shall come into force on 1 January 2018, the assumption of the standard into EU law is expected for the first quarter of 2018. The interpretation does not have any significant effects on the Group as it is only relevant for payments in foreign currencies and for non-monetary items.

IFRIC 23 – Uncertainty over Income Tax Treatments
On 7 June 2017, IFRIC 23 was published which clarifies the balancing of uncertainty with regard to income tax. The interpretation is to be applied to taxable profit (tax losses) and unused tax losses and tax credits if there is uncertainty with regard to income tax treatment pursuant to IAS 12. The interpretation shall come into force on 1 January 2019, the assumption of the standard into EU law is expected for 2018. The effect on UniCredit Bank Austria Group must first of all be analysed.

Amendment to IFRS 4 Insurance contracts
On 12 September 2016, the IASB published adjustments to the existing standard for insurance contracts, IFRS 4. The amendments aim to reduce the effects from various initial times of application of IFRS 9 and IFRS 17and the subsequent standard on IFRS 4 in particular for companies with far-reaching insurance activities. The standard was incorporated into EU law in November 2017. There is no effect for Bank Austria Group.

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 first quarter of 2018. The effects on the UniCredit Bank Austria Group are being analysed.

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 first quarter of 2018. The effect on the Group will probably be limited to occasional cases in the application of IFRS 5.

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 first quarter of 2017. These amendments will probably have an effect on the Group only in some cases on specific occasions.

Amendments to IAS 28 with regard to long-term investments in associates and joint ventures
On 12 October 2017, the IASB published amendments to IAS 28 in order to clarify that a company applies IFRS 9, "Financial instruments" to long-term investments in associates or joint ventures that make up part of the net investment in this associated company or joint venture but that are not balanced according to the equity method. The amendments shall come into force for the reporting periods beginning on or after 1 January 2019. Early application is permitted. The Group must therefore analyse the potential effects of the amendment to this standard.

A – Accounting policies (CONTINUED)

Amendments as parts of the "Annual improvements to IFRS (2015–2017 cycle)

On 12 December 2017, amendments were published by the IASB as part of the annual improvements to IFRS project. These amendments affects amendments to IFRS 3 - Business combinations, IFRS 11 - Joint arrangements, IAS 12 - Income taxes and IAS 23 - Borrowing costs.

The amendments shall come into force on 1 January 2018 and the assumption of the standard into EU law is expected in 2018. The effect on UniCredit Bank Austria Group have to be analysed.

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 several businesses into one reporting entity.

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) do not fall under the scope of application defined by IFRS 3 and are accounted for by carrying them at book value, with any effects directly recognised in equity.

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 euros 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 euros 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 euros 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 euros 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/€)

		2017		2016		CHANGE IN %	
		AVERAGE	END OF REPORTING PERIOD	AVERAGE	END OF REPORTING PERIOD	AVERAGE	END OF REPORTING PERIOD
US Dollar	USD	1.1297	1.1993	1.1069	1.0541	2.06%	13.77%
British Pound	GBP	0.8767	0.8872	0.8195	0.8562	6.98%	3.63%
Japanese Yen	JPY	126.7110	135.0100	120.1970	123.4000	5.42%	9.41%
Swiss Franc	CHF	1.1117	1.1702	1.0902	1.0739	1.97%	8.97%

*) Lists the major exchange rates

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 assets and liabilities are measured initially at their fair value. If the instrument is not valued at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the asset or the issue of the liability will be recognized additionally.

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.

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.

Securities lending transactions collateralised by other securities or not collateralised are recorded as off-balance sheet items.

A – Accounting policies (CONTINUED)

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.

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.

A – Accounting policies (CONTINUED)

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.

Financial instruments accounted for at fair value through profit or loss under the fair value option compise 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.

Financial instruments, recognised at fair value through profit or loss under the fair value option 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. The effect for the Bank Austria Group is not material. 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.

A – Accounting policies (CONTINUED)

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 on loans and receivables".

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 on 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 borrowers in this class. 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) regardless of days in arrears. The classification within the "unlikely to pay" category is not necessarily related to the explicit presence of a default (failure to repay) 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. 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. Such amounts are determined by reference to the individual debtor.

In respect of loans in the performing portfolio, any impairment losses that take account of the fact that due to the timeline between the actual occurrence and recording of the loss event, the de facto occurred losses are considered too late and therefore to a lesser degree (IBNR, incurred but not reported), are covered by the portfolio impairment losses. The loss estimate is based on the expected loss (determined from the parameters of probability of default, PD, the estimated amount owed at the time of the default, EAD, and the loss given default, LGD) which is weighted at the level of the various product and customer clusters with a time factor (for the period of the non-recording) and the so-called LCP factor (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 on 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 pursuant to IAS 39". 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. 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. 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 will be gradually released.

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 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.

A – Accounting policies (CONTINUED)

The micro fair value hedge at Bank Austria serves to hedge changes in market value from individual fixed-interest items in the assets or liabilities side against changes in the market interest rate. This hedging therefore in particular takes place with interest swaps, caps, floors and swaptions. When initiating the hedge relationship, the prospective efficacy is verified using a critical terms match. Subsequently, ongoing efficiency is proven by a retrospective efficacy test. If changes in market value from an underlying transaction and hedge derivative of the hedge relationship are outside of the 80/125% efficiency corridor in the retrospective consideration, the hedge relationship must be wound up and the instruments balanced separately.

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 on 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 a Discounted Cash Flow Valuation Model (3-phase model):

- Phase 1: planning period (2018–2020):
  The 2018 budget figures for net profit and risk-weighted assets were used for 2018, and currently available multi-year planning figures were used for subsequent years.

- Phase 2 (2021–2025):
  In this phase, the return on equity converges towards the capital cost rate.

- 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 for Austria (which is within the range of recommendations issued by the Austrian Chamber of Tax Advisors and Public Accountants) and an appropriate beta. The discount rate is a nominal rate after taxes.

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 2017 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.

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 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

Intangible assets mainly comprise software and are not explained due to their immateriality.

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.

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.

A – Accounting policies (CONTINUED)

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 are reduced to the extent that it is not probable that sufficient taxable profit will be available. Deferred tax assets from unused tax losses can only be compensated to the extent in which sufficient temporary taxable differences are available or as long as there are convincingly substantial indications that a sufficiently taxable result will be available against which the unused tax losses can be used.

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 15 group members (2016: 16), tax compensation agreements have been reached with 135 companies (2016: 37) 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.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.

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 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".

A – Accounting policies (CONTINUED)

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 left 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 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 received compensation, in the form of lump-sum payments, for any disadvantages resulting from this transfer. In addition, UniCredit Bank Austria made 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 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 transfer of the entitlements was not effected 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. A complaint was brought to the Federal Administrative Court against this increase which launched legal examination proceedings with the Constitutional Court. The liability was settled on 17 November 2017 after the decision of the Constitutional Court and the legal effect of the corresponding notices to UniCredit Bank Austria AG. Every amount for each of the 84 cases where a decision by the Federal Administrative Court is still outstanding is open. This sum (approximately €23 million) is recorded as a liability.

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: 1.8% p.a. (2016: 1.6% p.a.)
  This percentage is the rounded percentage according to the Mercer Yield Curve (MYC) as at 31 December 2017 based on the cash flows determined for the pension plan for active employees and pensioners. The duration applicable to the pension plan is 12.64 years (2016: 13.07 years); the weighted duration for the pension, severance payment and anniversary bonus plans is 12.2 years (2016: 12.8 years).
- Increases under collective bargaining agreements: 2.05% p.a. (2016: 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. (2016: 0.25% p.a.) (assumption of increases for active employees).
- Pension increase (Bank Austria ASVG): 1.40% p.a. (2016: 1.40% p.a.).
- Pension increase (others): 2.05% p.a., (2016: 2.05% p.a.).
- No discount for staff turnover.
- 2008-P statistical tables of Aktuarverein Österreich (life-expectancy tables for salaried staff).

A – Accounting policies (CONTINUED)

Sensitivity analysis

(€ million)

		EFFECT ON DEFINED BENEFIT OBLIGATION	
		31 DEC. 2017	31 DEC. 2016
Discount rate	–0.25%	112	124
	0.25%	–106	–118
Salary increase rate	–0.25%	–7	–8
	0.25%	7	8
Pension increase rate	–0.25%	–100	–110
	0.25%	104	116

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 €61 million (previous year: –€219 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.

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).

A restructuring provision is made for restructuring programs which materially change the manner in which that business is conducted.

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 – Accounting policies (CONTINUED)

A.6.8.3 – Share-based payments

Equity-settled payments made to employees and members of the Management board in consideration of services rendered, using equity instruments of the parent company comprise stock options and performance shares.

The instruments themselves are measured at fair value 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.

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.

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.

A – Accounting policies (CONTINUED)

As a result of the currently low interest rate levels, the interbank business of Bank Austria has led to expenses for financial assets and income from financial liabilities. In addition, Bank Austria accrued negative interest in deposit banking with large and institutional customers when a certain limit was exceeded. 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, custody 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.

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.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

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.

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 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.

A – Accounting policies (CONTINUED)

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. 2017			31 DEC. 2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets held for trading	–	977	31	1	1,075	37
Financial assets at fair value through profit or loss	–	–	6	–	–	14
Available-for-sale financial assets	13,678	1,238	97	14,342	1,260	131
Hedging derivative assets	–	2,082	2	–	2,661	–
Property, plant and equipment (measured at fair value)	–	–	14	–	–	23
TOTAL	**13,678**	**4,297**	**150**	**14,343**	**4,996**	**205**
Financial liabilities held for trading	–	1,000	4	–	1,088	18
Financial liabilities at fair value through profit or loss	–	299	2	–	397	2
Hedging derivative liabilities	–	1,655	–	–	2,153	–
TOTAL	**–**	**2,954**	**6**	**–**	**3,638**	**20**

A – Accounting policies (CONTINUED)

Annual changes in assets at fair value level 3

(€ million)

	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**
	2017				
	ASSETS				
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT
Opening balances	**37**	**14**	**131**	**–**	**23**
Increases	**–**	**–**	**30**	**2**	**1**
Purchases	–	–	–	2	–
Profits recognised in:					
Income statement	–	–	–	–	–
of which unrealised gains [1)]	–	–	–	–	–
Equity [2)]	x	x	14	–	–
Transfers from other levels	–	–	6	–	–
Other increases	–	–	10	–	–
Decreases	**–7**	**–8**	**–64**	**–**	**–10**
Sales	–3	–	–4	–	–9
Redemptions	–	–6	–2	–	–
Losses recognised in:					
Income statement	–4	–	–	–	–1
of which unrealised losses [3)]	–	–	–	–	*–1*
Equity [4)]	x	x	–3	–	–
Transfers to other levels	–	–	–51	–	–
Other decreases	–	–2	–4	–	–
Closing balances	**31**	**6**	**97**	**2**	**14**

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)

	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 [1]	–	–	–
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	–	–	–
Equity	x	x	–
Transfers to other levels	–	–	–
Other decreases	–7	–1	–
Closing balances	**18**	**2**	**–**

	2017		
	FINANCIAL LIABILITIES		
	HELD FOR TRADING	AT FAIR VALUE THROUGH PROFIT OR LOSS	HEDGING DERIVATIVES
Opening balances	**18**	**2**	**–**
Increases	**–**	**–**	**–**
Issuance	–	–	–
Losses recognised in:			
Income statement	–	–	–
of which unrealised losses	–	–	–
Equity	x	x	–
Transfers from other levels	–	–	–
Other increases	–	–	–
Decreases	**–14**	**–1**	**–**
Redemptions	–2	–	–
Purchases	–	–	–
Profits recognised in:			
Income statement	–12	–	–
of which unrealised gains [2]	–	–	–
Equity	x	x	–
Transfers to other levels	–	–	–
Other decreases	–	–1	–
Closing balances	**4**	**1**	**–**

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)

In 2017, there were no transfers from Level 1 or Level 2 for financial assets or for financial liabilities.

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 €27.9 million at 31 December 2017 (31 December 2016: €30 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 – Accounting policies (CONTINUED)

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.

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 for performing counterparts. There are exceptions for Specific Wrong Way Risk, which are calculated on a unilateral basis.

For non-performing counterparts, a CVA calculation is performed based on the expected loss.

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, therfore no more complex unobservable model inputs are applied.

(€ million)

PRODUCT CATEGORIES			FAIR VALUE ASSETS	FAIR VALUE LIABILITIES	UNOBSERVABLE PARAMETERS	RANGE
Derivatives	Financial					
		Equity	28.5	3.7	Underlying	50%/2–10%
		Foreign Exchange	0.2	0.0	Interest Rate	2%
		Interest Rate	0.2	0.0	Swap Rate (bp)	0.2%
	Credit derivatives		1.9	0.6	Credit Spread	0.04–3%
Debt Securities and Loans		Corporate/Government/Other	48.9	1.4	Price	0.04–3%
Equity Securities		Unlisted Equity & Holdings	71.6		Price	10%
Units in Investment Funds		Real Estate & Other Funds	26.3		Price	10%

(€ million)

PRODUCT CATEGORIES	FAIR VALUE MOVEMENTS GIVEN REASONABLE POSSIBLE ALTERNATIVES		
Derivatives	Financial		
	Equity	+/–	13.7
	Foreign Exchange	+/–	0.1
	Interest Rate	+/–	0.1
	Credit derivatives	+/–	0.0
Debt Securities and Loans	Corporate/Government/Other	+/–	7.2
Equity Securities	Unlisted Equity & Holdings	+/–	4.4
Units in Investment Funds	Real Estate & Other Funds	+/–	1.3

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

A – Accounting policies (CONTINUED)

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 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.

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 2017:

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. 2017	FAIR VALUE AS AT 31 DEC. 2017	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	157	167	9	6	1	7
	AFS	Loans to banks	–	–	–	–	–	–
TOTAL			**157**	**167**	**9**	**6**	**1**	**7**

A – Accounting policies (CONTINUED)

A.8 – Group of consolidated companies and changes in the group of consolidated companies of the Bank Austria Group in 2017

Consolidated companies

Investments in subsidiaries (consolidated line by line)

			2017		2016	
NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	HOLDING %	VOTING RIGHTS % *)	HOLDING %	VOTING RIGHTS % *)
"BF NINE" Holding GmbH	VIENNA	EUR 35,000	100.00		100.00	
"JOHA" Gebäude-Errichtungs- und -Vermietungsgesellschaft m.b.H. in Liqu.	LEONDING	EUR 37,000	94.03		94.03	
Al Beteiligungs GmbH	VIENNA	EUR 35,000	100.00		100.00	
Allegro Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
ALMS Leasing GmbH.	VIENNA	EUR 36,000	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	
ANTARES Immobilien Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
Arno Grundstücksverwaltungs 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	Sold on 12/04/2017		100.00	
B A I Bauträger Austria Immobilien GmbH	VIENNA		Sold on 12/04/2017		Founded on 25/02/2017	
B A I Beteiligungsverwaltungs-GmbH	VIENNA	EUR 730,000	Merged on 02/08/2017		100.00	
B A I Projektentwicklung GmbH	VIENNA	EUR 730,000	Merged on 26/09/2017		100.00	
BA Alpine Holdings Inc. (US)	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 Eurolease Beteiligungsgesellschaft m.b.H.	VIENNA	EUR 363,364	100.00		100.00	
BA GebäudevermietungsgmbH	VIENNA	EUR 36,336	100.00		100.00	
BA GVG-Holding GmbH	VIENNA	EUR 18,168	100.00		100.00	
BA Immo-Gewinnscheinfonds1	VIENNA		99.00		99.00	
BA RI Z-Fremdenverk GS 1 (Unternehmengewinnscheinfond1)	VIENNA		Liquidated on 31/08/2017		100.00	
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) Limited	GEORGETOWN	EUR 15,000	100.00		100.00	
BA-CA Finance II (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 Carmen GmbH	VIENNA	EUR 36,500	100.00		100.00	
BA-CA Leasing Drei Garagen GmbH	VIENNA	EUR 35,000	100.00		100.00	
BA-CA Leasing MAR Immobilien Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
BACA Leasing und Beteiligungsmanagement GmbH	VIENNA	EUR 18,287	100.00		100.00	
BA-CA Markets & Investment Beteiligung Ges.m.b.H.	VIENNA	EUR 127,177	100.00		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	
BACA-Leasing Aquila Kft.	BUDAPEST	HUF 3,000,000	Sold on 02/08/2017		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	2017 HOLDING %	2017 VOTING RIGHTS % *)	2016 HOLDING %	2016 VOTING RIGHTS % *)
BAI Wohnungseigentumsgesellschaft m.b.H.	VIENNA	EUR 73,000	Sold on 12/04/2017		100.00	
BAL CARINA Immobilien Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
BAL DEMETER IMMOBILIEN LEASING GMBH	VIENNA	EUR 36,500	Sold on 11/10/2017		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 Kft.	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	Sold on 12/04/2017		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	
Brewo Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,337	100.00		100.00	
Buchstein Immobilienverwaltung GmbH und Co OG	VIENNA	EUR 18,168	Merged on 01/12/2017		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 Vermögensverwaltung GmbH & Co OG	VIENNA	EUR 6,719,227	Liquidated on 28/09/2017		100.00	
CA-Leasing Senioren Park GmbH	VIENNA	EUR 36,500	100.00		100.00	
CA-Leasing Zeta Kft.	BUDAPEST	HUF 3,000,000	100.00		100.00	
CALG 307 Mobilien Leasing GmbH	VIENNA	EUR 18,286	100.00		100.00	
CALG 443 Grundstückverwaltung GmbH	VIENNA	EUR 36,336	100.00		100.00	
CALG 445 Grundstückverwaltung GmbH	VIENNA	EUR 18,168	100.00		100.00	
CALG 451 Grundstückverwaltung GmbH	VIENNA	EUR 36,500	100.00		100.00	
CALG Alpha Grundstückverwaltung GmbH	VIENNA	EUR 36,500	100.00		100.00	
CALG Anlagen Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
CALG Anlagen Leasing GmbH & CO Grundstückvermietung und -verwaltung KG	MUNICH	EUR 2,326,378	99.90		99.90	
CALG Delta Grundstückverwaltung GmbH	VIENNA	EUR 36,336	100.00		100.00	
CALG Gamma Grundstückverwaltung GmbH	VIENNA	EUR 36,337	100.00		100.00	
CALG Grundstückverwaltung GmbH	VIENNA	EUR 36,500	100.00		100.00	
CALG Immobilien Leasing GmbH	VIENNA	EUR 254,355	100.00		100.00	
CALG Immobilien Leasing GmbH & Co. 1120 Wien, Schönbr. Schlossstr. 38-42 OG	VIENNA	0	Sold on 04/08/2017		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	2017 HOLDING %	2017 VOTING RIGHTS % *)	2016 HOLDING %	2016 VOTING RIGHTS % *)
CALG Immobilien Leasing GmbH & Co. Projekt Vier OG	VIENNA	0	Sold on 04/08/2017		100.00	
CALG Minal Grundstückverwaltung GmbH	VIENNA	EUR 18,286	100.00		100.00	
CAL-Papier Kft.	BUDAPEST	HUF 3,000,000	Merged on 01/12/2017		100.00	
CANDOUR FIVE GmbH & Co KG	VIENNA		Sold on 06/07/2017		Added to scope of consolidation on 01/06/2017	
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	
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 Grundstücksverwaltungsgesellschaft 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	
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	
DLV Immobilien Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
Döblerhof Immobilien GmbH & Co KG	VIENNA	EUR 10,000	Sold on 12/04/2017		100.00	
Donaumarina Projektentwicklung GmbH	VIENNA	EUR 35,000	Sold on 12/04/2017		100.00	
Dr. W. W. Donath Immobilienverwaltung GmbH	VIENNA	EUR 37,000	Sold on 12/04/2017		100.00	
DUODEC Z Immobilien Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
EKAZENT Gebäudevermietung GmbH	VIENNA	EUR 1,310,000	Sold on 31/01/2017		100.00	
EKAZENT Immobilien Management GmbH	VIENNA	EUR 35,000	Merged on 05/10/2017		100.00	
Ekazent Realitätengesellschaft m.b.H.	VIENNA	EUR 4,370,000	Sold on 31/01/2017		100.00	
EUROGATE Beteiligungsverwaltung GmbH	VIENNA	EUR 35,000	Sold on 12/04/2017		100.00	
EUROGATE Projektentwicklung GmbH	VIENNA	EUR 35,000	Sold on 12/04/2017		100.00	
EUROGATE Projektentwicklung GmbH & Co Area BETA KG	VIENNA	EUR 35,000	Sold on 12/04/2017		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 36,336	100.00		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	
FINN Arsenal Leasing GmbH	VIENNA	EUR 36,500	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	2017 HOLDING %	2017 VOTING RIGHTS % *)	2016 HOLDING %	2016 VOTING RIGHTS % *)
FMC Leasing Ingatlanhasznosító Kft.	BUDAPEST	HUF 3,000,000	100.00		100.00	
FMZ Savaria Szolgaltato	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 36,336	100.00		100.00	
Fugato Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,336	100.00		100.00	
GALA Grundstückverwaltung Gesellschaft m.b.H.	VIENNA	EUR 27,434	100.00		100.00	
Garage Am Hof Gesellschaft m.b.H.	VIENNA	EUR 220,000	92.60		92.60	
GBS Grundstücksverwaltungsgesellschaft m.b.H.	VIENNA	EUR 36,500	Sold on 23/06/2017		100.00	
Gebäudeleasing Grundstücksverwaltungsgesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
Gemeindeleasing Grundstückverwaltung Gesellschaft m.b.H.	VIENNA	EUR 18,333	100.00		100.00	
Grundstücksverwaltung Linz-Mitte GmbH	VIENNA	EUR 35,000	100.00		100.00	
HBF Projektentwicklung Drei GmbH & Co KG	VIENNA	EUR 1,000	Sold on 12/04/2017		100.00	
HBF Projektentwicklung Eins GmbH & Co KG.	VIENNA	EUR 1,000	Sold on 12/04/2017		100.00	
HBF Projektentwicklung Zwei GmbH & Co KG	VIENNA	EUR 1,000	Sold on 12/04/2017		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 Forte Kft.	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-Leasing Garo Kft	BUDAPEST	HUF 3,100,000	100.00		100.00	
HVB-Leasing Jupiter Kft.	BUDAPEST	HUF 3,000,000	100.00		100.00	
HVB-Leasing Maestoso Kft.	BUDAPEST	HUF 3,100,000	Sold on 01/06/2017		100.00	
HVB-Leasing Rocca Kft.	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 Ingatlanhasznosító Kft.	BUDAPEST	HUF 3,000,000	100.00		100.00	
Immobilien Holding GmbH (former BA-CA Infrastrucutre Finance Advisory)	VIENNA	EUR 36,336	100.00		100.00	
Immobilien Rating GmbH	VIENNA	EUR 50,000	95.92		95.92	
Immobilienleasing Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
IMU Immobilienentwicklung Muthgasse GmbH & Co KG	VIENNA	EUR 2,500	Sold on 12/04/2017		60.00	
INTRO Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,336	100.00		100.00	
INV Totalunternehmer GmbH	VIENNA	EUR 35,000	Sold on 12/04/2017		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 36,336	100.00		100.00	
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	Merged on 05/10/2017		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	
Kunsthaus Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
Kur- und Sporthotel Gesellschaft m.b.H.	KITZBUHEL	EUR 3,650,000	Sold on 09/01/2017		100.00	
Kutra Grundstücksverwaltungs-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	

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

A – Accounting policies (CONTINUED)

NAME	MAIN OFFICE/ OPERATIONAL HQ	ISSUED CAPITAL	2017 HOLDING %	2017 VOTING RIGHTS % *)	2016 HOLDING %	2016 VOTING RIGHTS % *)
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 Alpha Assetvermietung GmbH	VIENNA	EUR 35,000	100.00		Founded on 30/05/2017	
LEASFINANZ Bank GmbH	VIENNA	EUR 36,500	100.00		100.00	
LEASFINANZ GmbH	VIENNA	EUR 218,019	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 Bürohausgesellschaft m.b.H.	VIENNA	EUR 37,000	Merged on 02/08/2017		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 36,500	100.00		100.00	
M.A.V. 7., Bank Austria Leasing Bauträger GmbH & Co.OG.	VIENNA	EUR 3,707	100.00		100.00	
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 Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,337	100.00		100.00	
MM Omega Projektentwicklungs GmbH	VIENNA	EUR 35,000	100.00		100.00	
Mögra 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	
NÖ. HYPO LEASING ASTRICTA Grundstückvermietungs Gesellschaft m.b.H.	VIENNA	EUR 36,337	95.00		95.00	
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	
Palais Rothschild Vermietungs GmbH & Co OG	VIENNA	EUR 2,180,185	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	
POLLUX Immobilien GmbH	VIENNA	EUR 36,500	100.00		100.00	
Posato Leasing Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
Prelude Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
PRO WOHNBAU GmbH	VIENNA	EUR 23,621,113	100.00		100.00	
Projekt-Lease Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,500	100.00		100.00	
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 Invest Property GmbH & Co SPB Jota KG	VIENNA		42.30		Added to scope of consolidation on 01/11/2017	
Real-Lease Grundstücksverwaltungs-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 Realitätenverwertungsgesellschaft m.b.H.	VIENNA	EUR 726,728	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	2017 HOLDING %	2017 VOTING RIGHTS % *)	2016 HOLDING %	2016 VOTING RIGHTS % *)
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 Bauträger Gesellschaft m.b.H.	VIENNA	EUR 37,000	Merged on 24/06/2017		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	
Shopping Palace Bratislava, v.o.s.	BRATISLAVA		42.30		Added to scope of consolidation on 01/11/2017	
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 Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,336	100.00		100.00	
Stewe Grundstücksverwaltungs-Gesellschaft m.b.H.	VIENNA	EUR 36,337	100.00		100.00	
Success 2015 B.V.	AMSTERDAM		100.00		100.00	
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 Beteiligungsgesellschaft m.b.H. u. Co. Arbeiterheim Favoriten Revitalisierungs KG	VIENNA		Liquidated on 09/09/2017		94.80	
Treuconsult Property Epsilon GmbH	VIENNA	EUR 35,000	94.95		94.95	
U2 Aspern Bauplatz 1 Beteiligungs-GmbH	VIENNA	EUR 35,000	Sold on 12/04/2017		100.00	
U2 Aspern Bauplatz 1 GmbH & Co KG	VIENNA	EUR 10,000	Sold on 12/04/2017		100.00	
UCLA Immo-Beteiligungsholding Gmbh & Co KG	VIENNA	EUR 10,000	100.00		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 Austria AG	VIENNA	EUR 1,681,033,521	100.00		100.00	
UniCredit Center am Kaiserwasser GmbH	VIENNA	EUR 35,000	100.00		100.00	
UniCredit Garagen Errichtung und Verwertung GmbH	VIENNA	EUR 57,000	100.00		100.00	
UniCredit Ingatlanlízing Zrt.	BUDAPEST	HUF 82,000,000	100.00		100.00	
UniCredit KFZ Leasing GmbH	VIENNA	EUR 648,000	100.00		100.00	
UniCredit Leasing (Austria) GmbH	VIENNA	EUR 17,296,134	100.00		100.00	
UniCredit Leasing Alpha Assetvermietung GmbH	VIENNA	EUR 35,000	100.00		Founded on 18/05/2017	
UniCredit Leasing Fuhrparkmanagement GmbH	VIENNA	EUR 364,000	100.00		100.00	
UniCredit Leasing ImmoTruck Zrt.	BUDAPEST	HUF 52,500,000	100.00		100.00	
UniCredit Leasing Kft.	BUDAPEST	HUF 3,100,000	100.00		100.00	
UniCredit Leasing Mars Kft.	BUDAPEST	HUF 3,000,000	80.00		80.00	
UniCredit Leasing Technikum GmbH	VIENNA	EUR 35,000	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 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 Pegasus Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
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 Zega Leasing GmbH	VIENNA	EUR 36,500	100.00		100.00	
UniCredit-Leasing Hospes Ingatlanhasznosító Kft.	BUDAPEST	HUF 3,000,000	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	2017 HOLDING %	2017 VOTING RIGHTS %*)	2016 HOLDING %	2016 VOTING RIGHTS %*)
UniCredit-Leasing Luna Ingatlanhasznosító Kft.	BUDAPEST	HUF 3,000,000	80.00		80.00	
UniCredit-Leasing Neptunus Ingatlanhasznosító Kft.	BUDAPEST	HUF 3,010,000	96.35		96.35	
UNIVERSALE International Realitäten 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 36,500	100.00		100.00	
VIENNA DC Bauträger GmbH	VIENNA	EUR 18,168	Merged on 27/09/2017		100.00	
VIENNA DC Tower 1 Liegenschaftsbesitz GmbH	VIENNA	EUR 17,500	Merged on 27/09/2017		100.00	
WED Donau-City Gesellschaft m. b. H.	VIENNA	EUR 726,728	Merged on 05/10/2017		100.00	
Wohnpark Brandenburg-Görden GmbH	BRANDENBURG	EUR 51,150	100.00		100.00	
WÖM Grundstücksverwaltungs-Gesellschaft m. b. H.	VIENNA	EUR 36,336	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 36,500	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 36,500	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	
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	
Zapadni Trgovacki Centar d. o. o.	RIJEKA	HRK 20,000	100.00		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. 2017	31 DEC. 2016
card complete Service Bank AG	48	76
DC Bank AG	11	11
Other entities	20	17
Consolidation adjustments	–17	–16
TOTAL	**62**	**88**

A – Accounting policies (CONTINUED)

Investments in subsidiaries with material non-controlling interests, 2017

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	698,696	1	598,301	100,394	223,093	96,282	48,044	49.90

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

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 DISCONTINUED OPERATIONS	NET PROFIT OR LOSS (1)	OCI (2)	COMPREHENSIVE INCOME (3) = (1) + (2)	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	DIVIDENDS PAID TO NON-CONTROLLING INTERESTS
7,122	89,740	−53,381	35,252	35,252	–	35,252	4,444	39,696	17,591	48,157

(€ 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 DISCONTINUED OPERATIONS	NET PROFIT OR LOSS (1)	OCI (2)	COMPREHENSIVE INCOME (3) = (1) + (2)	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE 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

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]
ARWAG Holding-Aktiengesellschaft	At equity	VIENNA	5	30/09/2014 [1]
Bank für Tirol und Vorarlberg Aktiengesellschaft	At equity	INNSBRUCK	1	30/09/2017
BKS Bank AG	At equity	KLAGENFURT	1	30/09/2017
CBD International Sp.z.o.o.	At equity	WARSCHAU	5	31/12/2017
Fides Leasing GmbH	Joint Venture	VIENNA	2	31/12/2017
Glamas Beteiligungsverwaltungs GmbH & Co "Beta" KG	At equity	VIENNA	5	30/09/2014 [2]
Heta BA Leasing Süd GmbH	Joint Venture	KLAGENFURT	2	31/12/2017
HSG Zander GmbH	At equity	VIENNA	5	30/09/2014 [2]
LiSciV Muthgasse GmbH & Co KG	At equity	VIENNA	5	30/09/2014 [2]
MARINA CITY Entwicklungs GmbH	Joint Venture	VIENNA	5	30/06/2015 [1]
MARINA TOWER Holding GmbH	Joint Venture	VIENNA	5	30/06/2015 [1]
Megapark OOD	At equity	SOFIA	5	30/09/2017
Muthgasse Alpha Holding GmbH	Joint Venture	VIENNA	5	30/09/2014 [1]
NOTARTREUHANDBANK AG	At equity	VIENNA	1	30/09/2017
Oberbank AG	At equity	LINZ	1	30/09/2017
Objekt-Lease Grundstücksverwaltungsgesellschaft m.b.H.	Joint Venture	VIENNA	2	31/12/2017 [4]
Oesterreichische Kontrollbank Aktiengesellschaft	At equity	VIENNA	1	30/09/2017
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H.	At equity	VIENNA	1	31/12/2016
Österreichische Wertpapierdaten Service GmbH	At equity	VIENNA	3	31/12/2016
Palatin Grundstückverwaltungs Gesellschaft m.b.H.	Joint Venture	STOCKERAU	2	31/12/2017 [4]
PSA Payment Service Austria GmbH	At equity	VIENNA	2	31/12/2016
Purge Grundstücksverwaltungs-Gesellschaft m.b.H.	Joint Venture	VIENNA	2	31/12/2017 [4]
UNI Gebäudemanagement GmbH	At equity	LINZ	5	30/09/2017
WKBG Wiener Kreditbürgschafts- und Beteiligungsbank AG	At equity	VIENNA	1	31/12/2016
WWE Wohn- und Wirtschaftspark Entwicklungsgesellschaft m.b.H.	At equity	VIENNA	5	30/09/2014 [2]
ZS Einkaufszentren Errichtungs- und Verm.-Aktiengesellschaft	Joint Venture	VIENNA	5	30/09/2014 [2]

1) Reclassification in accordance with IFRS 5 as investments classified as held for sale.
2) Data for 2016 (disposal in 2017).
3) The most recent financial statements used for consolidation.
4) In 2016 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)

2017				2016			
ISSUED CAPITAL	HOLDING %	VOTING RIGHTS %	CARRYING AMOUNT € THSD	ISSUED CAPITAL	HOLDING %	VOTING RIGHTS %	CARRYING AMOUNT € THSD
EUR 3,000,000	34.38		22,603	EUR 3,000,000	34.38		22,603
EUR 61,875,000	47.39	46.79	604,623	EUR 55,000,000	47.39	46.71	531,480
EUR 79,279,200	29.78	30.35	263,428	EUR 79,279,200	29.78	30.35	242,676
PLN 100,500	49.75		5,928	PLN 100,500	49.75		5,671
EUR 36,000	50.00		69	EUR 57,229	50.00		50
	Sold on 12/04/2017			EUR 10,000	30.00		130
EUR 36,500	50.00		1,568	EUR 36,500	50.00		1,416
	Sold on 12/04/2017			EUR 363,364	36.00		5,607
	Sold on 12/04/2017			EUR 10,000	30.00		2
EUR 120,000	25.00			EUR 120,000	25.00		
EUR 35,000	25.00		383	EUR 35,000	25.00		383
BGN 50,936,362	49.24			BGN 50,936,362	49.24		
EUR 35,000	52.94		20	EUR 35,000	52.94	50.00	20
EUR 8,030,000	25.00		6,870	EUR 8,030,000	25.00		6,846
EUR 105,873,525	27.17	27.29	646,194	EUR 105,869,525	27.17	30.15	590,042
EUR 36,336	50.00		16	EUR 36,336	50.00		79
EUR 130,000,000	49.15		379,250	EUR 130,000,000	49.15		369,869
EUR 11,628,000	50.00		15,018	EUR 11,628,000	50.00		14,621
EUR 36,336	29.30		24	EUR 36,336	29.30		22
EUR 36,336	50.00		109	EUR 36,336	50.00		267
EUR 285,000	24.00		6,335	EUR 285,000	24.00		6,206
EUR 36,336	50.00			EUR 36,336	50.00		
EUR 18,168	50.00		9	EUR 18,168	50.00		
EUR 15,550,309	21.54		6,246	EUR 15,550,309	21.54		7,161
	Sold on 12/04/2017			EUR 36,336	25.00		697
	Sold on 24/02/2017			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 2016 (disposal in 2017).
3) The most recent financial statements used for consolidation.
4) In 2016 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 2017

NAME	TOTAL ASSETS	CASH AND CASH EQUIVALENTS	FINANCIAL ASSETS	NON-FINANCIAL ASSETS	FINANCIAL LIABILITIES
Under significant influence					
BANK FUER TIROL UND VORARLBERG AKTIENGESELLSCHAFT	10,460,583	325,276	9,625,655	509,652	8,827,465
BKS BANK AG	7,545,270	491,751	6,905,904	147,615	6,329,711
NOTARTREUHANDBANK AG	2,061,495	2	2,059,931	1,562	2,031,612
OBERBANK AG	20,094,773	977,316	18,398,370	719,087	16,863,541
OESTERREICHISCHE HOTEL- UND TOURISMUSBANK GESELLSCHAFT M.B.H.	972,543	990	967,017	4,536	935,352
OESTERREICHISCHE KONTROLLBANK AKTIENGESELLSCHAFT	27,121,319	1,234,747	25,707,719	178,853	24,374,017

A – Accounting policies (CONTINUED)

(€ thousand)

NON-FINANCIAL LIABILITIES	NET EQUITY	TOTAL REVENUES	NET INTEREST MARGIN	OPERATING COSTS	TAX EXPENSE (INCOME)	PROFIT (LOSS)	PROFIT (LOSS) AFTER REVALUATION RESERVE	DIVIDENDS RECEIVED
304,998	1,328,120	271,329	159,881	−171,954	−15,014	72,528	67,928	3,910
192,704	1,022,855	215,595	155,537	−126,734	−5,586	60,940	67,423	2,715
2,408	27,475	14,277	15,229	−6,338	−1,608	4,595	4,595	1,125
801,628	2,429,604	528,429	382,451	−264,249	−40,406	205,527	209,159	6,237
7,154	30,037	7,862	4,476	−4,679	−821	2,295	2,295	750
1,975,683	771,619	120,192	85,044	−71,206	−9,879	39,107	39,107	9,840

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	OPERATING COSTS *)	TAX EXPENSE (INCOME)	PROFIT (LOSS)	PROFIT (LOSS) AFTER REVALUATION RESERVE *)	DIVIDENDS RECEIVED
306,415	1,173,762	286,509	140,994	−187,102	−27,412	52,775	14,146	3,910
200,476	942,206	219,747	164,140	−119,240	−4,879	46,513	45,845	2,715
2,165	27,380	11,590	12,319	−4,083	−1,896	7,739	7,739	1,500
733,306	2,222,965	505,247	365,385	−278,331	−29,362	170,074	208,296	5,277
6,407	29,242	7,328	4,077	−4,194	−801	6,527	2,333	750
1,719,343	752,532	141,645	89,164	−88,353	−11,409	41,823	41,823	9,840

*) Figures corrected due to printing error.

A – Accounting policies (CONTINUED)

Consolidated companies and changes in consolidated companies of the Bank Austria Group in 2017

	CONSOLIDATED COMPANIES	COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD	TOTAL
Opening balance	**283**	**26**	**309**
Additions	**6**	**–**	**6**
Newly established companies	3	–	3
Acquired companies	–	–	–
Other changes	3	–	3
Changes in UniCredit Group	–	–	–
Disposals	**–41**	**–5**	**–46**
Companies sold or liquidated	–30	–5	–35
Mergers	–11	–	–11
Transfer of CEE companies	–	–	–
Changes in UniCredit Group	–	–	–
CLOSING BALANCE	**248**	**21**	**269**

Changes in the consolidation scope 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.

The sales profit from disposals from the group of consolidated companies in the 2017 financial year amounts to €125 million and mainly concerns the sale of companies from Immoholding Group with €123 million.

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
BA WORLDWIDE FUND MANAGEMENT LTD	Tortola	94.95
BACA Investor Beteiligungs GmbH	Vienna	89.26
Bank Austria Real Invest Asset Management GmbH	Vienna	94.95
Bank Austria-CEE BeteiligungsgmbH	Vienna	100.00
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H.	Vienna	30.61
ELINT Gesellschaft m.b.H. u. Co OG.	Vienna	89.26
ELINT Gesellschaft m.b.H..	Vienna	89.26
FONTANA Hotelverwaltungsgesellschaft m.b.H.	Vienna	100.00
GELAND Alpha Beteiligungs GmbH.	Vienna	89.26
GEWOG Gemeinnützige Wohnungsbau-Gesellschaft m.b.H.	Vienna	25.00
Glamas Beteiligungsverwaltung GmbH	Vienna	30.00
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(e)value Immobilien BewertungsGmbH	Vienna	100.00
RE-St.Marx Holding GmbH	Vienna	100.00
Treuconsult Property Alpha GmbH	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 2017			31 DECEMBER 2016		
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE	FAIR VALUE	BOOK VALUE	NOMINAL VALUE	FAIR VALUE
Units in investment funds	Fair value option	6	6	6	14	14	14
	Available for sale	21	1	21	33	1	33
	Held for trading	–	–	–	–	–	–
TOTAL		**27**	**7**	**27**	**47**	**15**	**47**

Other exposure towards unconsolidated investment funds

Assets (€ million)

		31 DECEMBER 2017		31 DECEMBER 2016	
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	NOMINAL VALUE	BOOK VALUE	NOMINAL VALUE
Loans	Loans and receivables	174	175	155	155
Credit derivatives	Held for trading	4	359	7	408
Other derivatives	Held for trading			–	–
Guarantees	Off-balance sheet			–	–
Credit lines revocable	Off-balance sheet		1,660	–	1,624
Credit lines irrevocable	Off-balance sheet		503	–	661
TOTAL		**178**	**2,696**	**161**	**2,848**

Liabilities (€ million)

		31 DEC. 2017	31 DEC. 2016
EXPOSURE TYPE	IAS 39 CATEGORY	BOOK VALUE	BOOK VALUE
Derivatives	Held for trading	–	–
Deposits	Liabilities	986	1,222
Other derivatives (no credit risk)	Liabilities	–	–
TOTAL		**986**	**1,222**

Income from unconsolidated structured entities

Fees and commissions earned by the Bank Austria Group in 2017 from unconsolidated investment funds amounted to €32 million in 2017 (2016: €30 million).

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.

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 2017, the related revenue reserves amounted to €30 million.

B – Notes to the income statement

B – Notes to the income statement (CONTINUED)

B.1 – Interest income / Interest expense

Interest income and similar revenues

(€ million)

	2017				2016
	DEBT SECURITIES	LOANS	OTHER TRANSACTIONS	TOTAL	TOTAL
Financial assets held for trading	–	–	1	1	6
Financial assets at fair value through profit or loss	–	–	–	–	–
Available-for-sale financial assets	200	–	–	200	212
Held-to-maturity investments	4	–	–	4	6
Loans and receivables with banks	2	36	–	38	49
Loans and receivables with customers	6	1,054	–	1,060	1,084
Hedging derivatives	X	X	242	242	326
Other assets	X	X	2	2	6
TOTAL	**212**	**1,090**	**245**	**1,547**	**1,689**

Within this item, total interest income from financial assets that are not at fair value through profit or loss was €1,304 million (previous year: €1,357 million).

The income contains negative interest of –€31 million (previous year: –€23 million).

The total amount of interest income from impaired financial assets was €30 million (previous year: €28 million). Of which €12 million (previous year: €16 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)

	2017				2016
	DEPOSITS	SECURITIES	OTHER TRANSACTIONS	TOTAL	TOTAL
Deposits from central banks	–10	X	–	–10	–6
Deposits from banks	–109	X	–	–109	–136
Deposits from customers	–99	X	–	–99	–141
Debt securities in issue	X	–343	–	–343	–438
Financial liabilities held for trading	–	–	–3	–3	–3
Financial liabilities at fair value through profit or loss	–	–2	–	–2	–3
Other liabilities and funds	X	X	–1	–1	–
Hedging derivatives	X	X	–	–	–
TOTAL	**–218**	**–345**	**–4**	**–567**	**–727**

Within this item, total interest expense for liabilities that are not at fair value through profit or loss was –€562 million (previous year: –€721 million).

The expenses contain negative interest of €21 million (previous year: €4 million).

B – Notes to the income statement (CONTINUED)

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

Fee and commission income

(€ million)

	2017	2016
Guarantees given	**41**	**30**
Credit derivatives	**2**	**2**
Management, brokerage and consultancy services:	**372**	**360**
securities trading	–	–
currency trading	3	5
portfolio management	223	209
custody and administration of securities	55	53
custodian bank	34	34
placement of securities	5	4
reception and transmission of orders	20	19
advisory services	2	–
distribution of third party services	30	36
Collection and payment services	**276**	**254**
Securitisation servicing	**–**	**–**
Factoring	**3**	**3**
Tax collection services	**–**	**–**
Management of multilateral trading facilities	**–**	**–**
Management of current accounts	**135**	**138**
Other services	**78**	**88**
TOTAL	**907**	**876**

Fee and commission expense

(€ million)

	2017	2016
Guarantees received	**–17**	**–68**
Credit derivatives	**–**	**–**
Management, brokerage and consultancy services:	**–65**	**–63**
trading in financial instruments	–3	–2
currency trading	–	–
portfolio management	–13	–12
custody and administration of securities	–28	–31
placement of financial instruments	–	–
off-site distribution of financial instruments, products and services	–20	–18
Collection and payment services	**–110**	**–107**
Other services	**–3**	**39**
TOTAL	**–195**	**–200**

B – Notes to the income statement (CONTINUED)

B.3 – Dividend income and similar revenue

(€ million)

	2017			2016		
	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	6	8	14	7	–	7
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Other	4	X	4	1	X	1
TOTAL	**10**	**8**	**18**	**8**	**–**	**8**

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

(€ million)

	2017					2016
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets held for trading	**1**	**2**	**–1**	**–**	**2**	**2**
Debt securities	–	2	–1	–	1	1
Equity instruments	–	–	–	–	–	–
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**	**34**	**28**
Derivatives	**32**	**–**	**–2**	**–**	**30**	**22**
Financial derivatives	32	–	–2	–	30	22
on debt securities and interest rates	*32*	–	*–2*	–	*30*	*24*
on equity securities and share indices	–	–	–	–	–	*–7*
on currency and gold	*X*	*X*	*X*	*X*	–	*5*
other	–	–	–	–	–	–
Credit derivatives	–	–	–	–	–	–
TOTAL	**33**	**2**	**–3**	**–**	**66**	**52**

B.5 – Fair value adjustments in hedge accounting

(€ million)

	2017	2016
Gains on:		
Fair value hedging instruments	301	1,916
Hedged asset items (in fair value hedge relationship)	30	27
Hedged liability items (in fair value hedge relationship)	59	58
Cash-flow hedging derivatives	–	–
Total gains on hedging activities	**390**	**2,001**
Losses on:		
Fair value hedging instruments	–392	–1,992
Hedged asset items (in fair value hedge relationship)	–	–
Hedged liability items (in fair value hedge relationship)	–	–
Cash-flow hedging derivatives	–	–
Total losses on hedging activities	**–392**	**–1,992**
NET HEDGING RESULT	**–2**	**9**

B – Notes to the income statement (CONTINUED)

B.6 – Gains and losses on disposals/repurchases

(€ million)

	2017			2016		
	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	–2	17	19	–11	8
Debt securities	*16*	*–2*	*14*	*18*	*–11*	*7*
Equity instruments	–	–	–	–	–	–
Units in investment funds	*3*	–	*3*	–	–	–
Loans	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
TOTAL ASSETS	**19**	**–2**	**17**	**19**	**–11**	**8**
Financial liabilities						
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Debt securities in issue	–	–5	–5	8	–	8
TOTAL LIABILITIES	**–**	**–5**	**–5**	**8**	**–**	**8**
TOTAL	**19**	**–7**	**12**	**27**	**–11**	**16**

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

(€ million)

	2017					2016
	UNREALISED PROFITS	REALISED PROFITS	UNREALISED LOSSES	REALISED LOSSES	NET PROFIT	NET PROFIT
Financial assets	**–**	**–**	**–**	**–**	**–**	**2**
Debt securities	–	–	–	–	–	–
Equity securities	–	–	–	–	–	–
Units in investment funds	–	–	–	–	–	2
Loans	–	–	–	–	–	–
Financial liabilities	**–**	**–**	**–9**	**–1**	**–9**	**1**
Debt securities	–	–	–9	–1	–9	1
Deposits from banks	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–
Credit and financial derivatives	**19**	**–**	**–9**	**–**	**10**	**9**
TOTAL	**19**	**–**	**–18**	**–1**	**1**	**11**

For the last financial year, changes in fair values resulting from changes in UniCredit Bank Austria AG's own credit rating were –€9 million (previous year: €1 million).

B – Notes to the income statement (CONTINUED)

B.8 – Impairment losses

(€ million)

	2017						2016
		WRITE-DOWNS		WRITE-BACKS			
	WRITE-OFFS	SPECIFIC	PORTFOLIO	SPECIFIC	PORTFOLIO	TOTAL	TOTAL
Impairment losses on loans and receivables	**–19**	**–209**	**–30**	**239**	**42**	**23**	**–36**
Loans and receivables with banks	–	–	–	–	–	–	–
Loans and receivables with customers	–19	–209	–30	239	42	23	–36
Impairment losses on available-for-sale financial assets	**–2**	**–**	**X**	**–**	**X**	**–2**	**–12**
Debt securities	–	–	X	–	X	–	–
Equity instruments	–	–	X	–	X	–	–11
Units in investment funds	–2	–	X	–	X	–2	–1
Impairment losses on held-to-maturity investments	**–**	**–**	**–**	**6**	**–**	**6**	**–**
Debt securities	–	–	–	6	–	6	–
Impairment losses on other financial transactions	**–**	**–79**	**–**	**60**	**4**	**–15**	**42**
Guarantees given	–	–59	–	42	–	–17	43
Credit derivatives	–	–	–	–	–	–	–
Commitments to disburse funds	–	–20	–	18	4	2	–
Other transactions	–	–	–	–	–	–	–
TOTAL	**–21**	**–288**	**–30**	**305**	**46**	**13**	**–5**

“Write-backs” also include interest from impaired loans in the amount of €18 million (previous year: €13 million). Details of impairment losses on loans and receivables with customers are given in the risk report.

B.9 – Payroll

(€ million)

	2017	2016
Employees	**–673**	**–1,061**
Wages and salaries	–524	–509
Social charges	–140	–161
Provision for retirement payments and similar provisions	–75	–242
Defined contribution	–	–
Defined benefit	*–75*	*–242*
Payments to external pension funds	–15	–20
Defined contribution	*–14*	*–20*
Defined benefit	*–1*	–
Costs related to share-based payments	–2	–6
Other employee benefits	–29	–248
Reimbursement for delegated employees*)	112	125
Others	**–8**	**–32**
TOTAL	**–681**	**–1,093**

*) 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)

	2017	2016
Pension and similar funds allowances – with defined benefits		
Current service cost	–14	–26
Settlement	–	–
Past service cost	–1	–140
Interest cost on the DBO	–60	–76
Interest income on plan assets	–	–
TOTAL RECOGNISED IN PROFIT OR LOSS	**–75**	**–242**

Other employee benefits

(€ million)

	2017	2016
Seniority premiums	-2	-5
Compensation for entitlements of employees	-14	-225
Other	-12	-18
TOTAL	**-29**	**-248**

B.10 – Other administrative expenses

(€ million)

	2017	2016
Indirect taxes and duties	**–39**	**–139**
Ex-ante contributions to resolution funds and deposit guarantee schemes	**–57**	**–54**
Contributions based on harmonised EU regulations	–57	–54
Contributions based on existing local regulations	–	–
Miscellaneous costs and expenses	**–611**	**–779**
Advertising, marketing and communication	–36	–46
Expenses related to credit risk	–4	–4
Expenses related to personnel	–9	–11
Information and communication technology expenses	–239	–238
Consulting and professional services	–22	–69
Real estate expenses	–96	–101
Other functioning costs	–204	–310
TOTAL	**–707**	**–972**

Ex-ante contributions to resolution funds and deposit guarantee schemes include contributions based on harmonised EU regulations and contributions based on existing local regulations.

B.11 – Net provisions for risks and charges

(€ million)

	2017			2016
	PROVISIONS	REALLOCATION SURPLUS	TOTAL	TOTAL
Legal disputes	–14	15	1	–189
Staff costs	–	–	–	–
Other	–3	6	3	44
TOTAL	**–17**	**21**	**4**	**–145**

B – Notes to the income statement (CONTINUED)

B.12 – Impairment on property, plant and equipment

(€ million)

	2017				2016
	DEPRECIATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
Property, plant and equipment					
Owned	**–53**	**–9**	**4**	**–58**	**–95**
used in the business	–45	–	–	–45	–84
held for investment	–8	–9	4	–13	–11
Finance lease	**–**	**–**	**–**	**–**	**–**
used in the business	–	–	–	–	–
held for investment	–	–	–	–	–
Non-current assets and disposal groups classified as held for sale	**–**	**–20**	**4**	**–16**	**–**
used in the business	–	–20	–	–20	–
held for investment	–	–	4	4	–
TOTAL	**–53**	**–29**	**8**	**–74**	**–95**

B.13 – Impairment on intangible assets

(€ million)

	2017				2016
	AMORTISATION	IMPAIRMENT LOSSES	WRITE-BACKS	NET PROFIT	
Intangible assets					
Owned	**–4**	**–**	**–**	**–4**	**–6**
generated internally by the company	–	–	–	–	–
other	–4	–	–	–4	–6
Finance leases	**–**	**–**	**–**	**–**	**–**
TOTAL	**–4**	**–**	**–**	**–4**	**–6**

B.14 – Other net operating income

Other operating expenses

(€ million)

	2017	2016
Costs for operating leases	–	–
Non-deductible tax and other fiscal charges	–1	–2
Write-downs on improvements of goods owned by third parties	–21	–14
Costs related to the specific service of financial leasing	–1	–2
Other	–35	–37
TOTAL OTHER OPERATING EXPENSES	**–58**	**–54**

Other operating income

(€ million)

	2017	2016
Recovery of costs	**1**	**1**
Other gains	**143**	**218**
Revenue from administrative services	42	39
Revenues from rentals of investment property (net of operating direct costs)	5	6
Revenues from operating leases	32	31
Recovery of miscellaneous costs paid in previous years	5	1
Revenues on financial leases activities	1	1
Others	59	140
TOTAL OTHER OPERATING INCOME	**144**	**218**
OTHER NET OPERATING INCOME	**86**	**164**

B – Notes to the income statement (CONTINUED)

B.15 – Profit (Loss) on equity investments

(€ million)

	2017	2016
Joint ventures		
Income	**–**	**–**
Profits of joint ventures	–	–
Net profit	**–**	**–**
Associates		
Income	**136**	**122**
Profits of associates	136	117
Gains on disposal	–	5
Write-backs	–	–
Other gains	–	–
Expense	**–**	**–75**
Losses of associates	–	–
Impairment losses *)	–	–60
Losses on disposal	–	–15
Other expenses	–	–
Net profit	**136**	**47**
TOTAL	**136**	**47**

*) No value adjustments were made in 2017. Impairment losses in 2016 include depreciations for OeKB of €13.7 million and €46.0 million for the Bank für Tirol und Vorarlberg.

B.16 – Gains and losses on disposal of investments

(€ million)

	2017	2016
Property		
Gains on disposal	9	12
Losses on disposal	–	–1
Other assets		
Gains on disposal	3	8
Losses on disposal	–	–1
TOTAL	**12**	**17**

B – Notes to the income statement (CONTINUED)

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

(€ million)

	2017	2016
Current tax (–)	–15	–18
Adjustment to current tax of prior years (+/–)	8	–16
Reduction of current tax for the year (+)	52	23
Changes to deferred tax assets (+/–)	–113	–75
Changes to deferred tax liabilities (+/–)	55	28
TAX EXPENSE FOR THE YEAR (–)	**–12**	**–58**

At UniCredit Bank Austria AG, deferred tax assets of –€20 million (previous year: €72 million) were offset against equity in the period under review, mainly due to the recognition of actuarial gains and losses from pension and severance payments in the current year.

Reconciliation of theoretical tax charge to actual tax charge

(€ million)

	2017	2016
Total profit or loss before tax from continuing operations	**571**	**–354**
Applicable tax rate	25%	25%
Theoretical tax	**–142**	**89**
Different tax rates	–	–
Non-taxable income	56	79
Non-deductible expenses	–12	–82
Different tax laws	6	–19
Prior years and changes in tax rates	78	12
a) effects on current tax	78	12
b) effects on deferred tax	–	–
Valuation adjustments and non-recognition of deferred taxes	1	–130
Other differences	1	–6
RECOGNISED TAXES ON INCOME	**–12**	**–58**

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

(€ million)

	2017	2016
Income	45	5,710
Expenses	–22	–4,387
Valuation of discontinued operations	–	–
Profit (Loss) on disposal	123	12
Tax	–32	–194
Profit (Loss)	114	1,141

B – Notes to the income statement (CONTINUED)

B.19 – Earnings per share

Earnings per share

	2017	2016
Net profit or loss attributable to the ordinary shareholders of UniCredit Bank Austria AG in € million	653	640
from continuing operations	539	–476
from discontinued operations	114	1,116
Weighted average number of ordinary shares (in million) outstanding in the reporting period	231.2	231.2
Basic/diluted earnings per share in €	**2.82**	**2.77**
from continuing operations	2.33	–2.06
from discontinued operations	0.49	4.83

Comprehensive earnings per share

	2017	2016
Comprehensive income attributable to the ordinary shareholders of UniCredit Bank Austria AG in € million	534	589
from continuing operations	420	–699
from discontinued operations	114	1,287
Weighted average number of ordinary shares (in million) outstanding in the reporting period	231.2	231.2
Basic/diluted comprehensive earnings per share in €	**2.31**	**2.55**
from continuing operations	1.82	–3.02
from discontinued operations	0.49	5.57

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 (2017: 231.2 million units; 2016: 231.2 million units).

B.20 – Appropriation of profits

The net income for the financial year from 01 January 2017 to 31 December 2017 for UniCredit Bank Austria AG was €380,475,289.65. After the release of the reserve of €5,691.74, the net retained profits amount to €380,480,981.39. The Management Board proposes to the Annual General Meeting that a dividend amounting to €1.64 per qualifying share be paid out on the share capital of €1,681,033,521.40. The distribution is therefore 231,228,820 unit shares giving an amount of €379,215,264.80. In addition, the Management Board proposes the remainder of €1,265,716.59 be carried forward to new account.

C – Notes to the statement of financial position

Assets

Liabilities and equity

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

C.1 – Cash and cash balances

(€ million)

	31 DEC. 2017	31 DEC. 2016
Cash	100	112
Demand deposits with central banks	131	54
TOTAL	**230**	**165**

C.2 – Financial assets held for trading

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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)	**–**	**2**	**–**	**2**	**1**	**1**	**–**	**2**
Debt securities	–	2	–	2	1	1	–	2
Structured securities	–	–	–	–	–	–	–	–
Other debt securities	–	*2*	–	*2*	*1*	*1*	–	*2*
Equity instruments	–	–	–	–	–	–	–	–
Derivative instruments	**–**	**975**	**31**	**1,006**	**–**	**1,074**	**37**	**1,111**
Financial derivatives	–	975	29	1,004	–	1,074	37	1,111
Credit derivatives	–	–	2	2	–	–	–	–
TOTAL	**–**	**977**	**31**	**1,008**	**1**	**1,075**	**37**	**1,113**

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

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	–	–	–	–	–	–	–	–
Equity instruments	–	–	–	–	–	–	–	–
Units in investment funds	–	–	6	6	–	–	14	14
Loans	–	–	–	–	–	–	–	–
TOTAL	**–**	**–**	**6**	**6**	**–**	**–**	**14**	**14**
COST	**–**	**–**	**6**	**6**	**–**	**–**	**14**	**14**

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

Financial assets at fair value through profit or loss: annual changes

(€ million)

	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**
	2017			
	DEBT SECURITIES	EQUITY INSTRUMENTS	UNITS IN INVESTMENT FUNDS	TOTAL
Opening balance	**–**	**–**	**14**	**14**
Increases	**–**	**–**	**–**	**–**
Purchases	–	–	–	–
Positive changes in fair value	–	–	–	–
Other increases	–	–	–	–
Decreases	**–**	**–**	**–8**	**–8**
Sales	–	–	–	–
Redemptions	–	–	–6	–6
Negative changes in fair value	–	–	–	–
Other decreases	–	–	–1	–1
CLOSING BALANCE	**–**	**–**	**6**	**6**

C.4 – Available-for-sale financial assets

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	13,677	1,202	49	14,928	14,342	1,233	98	15,673
Structured securities	–	–	*15*	*15*	–	–	*14*	*14*
Other	*13,677*	*1,202*	*34*	*14,913*	*14,342*	*1,233*	*84*	*15,659*
Equity instruments	–	36	72	108	–	27	58	85
Measured at fair value	–	*36*	*48*	*84*	–	*27*	*33*	*60*
Carried at cost	–	–	*24*	*24*	–	–	*25*	*25*
Units in investment funds	–	1	20	21	–	–	33	33
TOTAL	**13,677**	**1,239**	**141**	**15,057**	**14,342**	**1,260**	**189**	**15,791**

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

C.5 – Held-to-maturity investments

(€ million)

	31 DEC. 2017					31 DEC. 2016				
	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	216	219	3	179	37	236	245	7	224	14
Loans	–	–	–	–	–	–	–	–	–	–
TOTAL	**216**	**219**	**3**	**179**	**37**	**236**	**245**	**7**	**224**	**14**

Held-to-maturity investments: annual changes

(€ million)

	2017	2016
Opening balance	**236**	**484**
Increases	**9**	**–**
Purchases	2	–
Write-backs	6	–
Transfers from other portfolios	–	–
Other changes and positive exchange differences	1	–
Decreases	**–29**	**–248**
Sales	–8	–
Redemptions	–20	–26
Write-downs	–	–
Transfers to other portfolios	–	–
Other changes and negative exchange differences	–	–222
CLOSING BALANCE	**216**	**236**

C.6 – Loans and receivables with banks

(€ million)

	31 DEC. 2017	31 DEC. 2016
Loans to central banks	**8,366**	**3,055**
Time deposits	–	–
Compulsory reserves	8,364	3,026
Reverse repos	–	–
Other	2	29
Loans to banks	**11,322**	**17,707**
Current accounts and demand deposits	654	1,187
Time deposits	7,541	4,568
Other loans	2,377	9,472
Reverse repos	*1,037*	*7,812*
Other	*1,340*	*1,660*
Debt securities	750	2,480
TOTAL (CARRYING AMOUNT)	**19,688**	**20,762**
TOTAL (FAIR VALUE)	**19,758**	**20,814**
Fair value – Level 1	–	–
Fair value – Level 2	11,022	16,809
Fair value – Level 3	8,736	4,005
Loan loss provisions deducted from loans and receivables	3	4

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

C.7 – Loans and receivables with customers

(€ million)

	31 DEC. 2017			31 DEC. 2016		
	NOT IMPAIRED	IMPAIRED	TOTAL	NOT IMPAIRED	IMPAIRED	TOTAL
Loans	**58,639**	**1,208**	**59,847**	**59,478**	**1,151**	**60,629**
Current accounts	6,574	439	7,013	6,465	298	6,763
Reverse repos	–	–	–	–	–	–
Mortgages	12,324	28	12,352	11,678	44	11,722
Credit cards and personal loans, including wage assignment loans	968	8	976	1,037	10	1,047
Finance leases	2,396	81	2,477	2,799	119	2,918
Factoring	1,451	28	1,479	1,537	6	1,543
Other loans	34,926	624	35,550	35,962	673	36,635
Debt securities	**172**	**13**	**185**	**278**	**19**	**297**
TOTAL (CARRYING AMOUNT)	**58,811**	**1,221**	**60,032**	**59,756**	**1,170**	**60,926**
TOTAL (FAIR VALUE)	**59,093**	**1,228**	**60,320**	**60,303**	**1,204**	**61,507**
Fair value – Level 1			–	–	–	–
Fair value – Level 2			22,422	–	–	23,169
Fair value – Level 3			37,898	–	–	38,338
Loan loss provisions deducted from loans and receivables	416	1,395	1,811	428	1,732	2,160

Finance leases: customers

(€ million)

	31 DEC. 2017		31 DEC. 2016	
	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	460	383	544	544
From 1 to 5 years	1,333	1,101	1,299	1,299
Over 5 years	1,222	992	1,074	1,074
GROSS/NET INVESTMENT IN THE LEASE	**3,015**	**2,477**	**2,918**	**2,918**
Of which: unguaranteed residual value	*126*	*112*	*114*	*114*
Unearned finance income	–539	X	–	X
PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE (NET INVESTMENT IN THE LEASE)	**2,477**	**2,477**	**2,918**	**2,918**

C.8 – Hedging derivatives (assets)

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	**–**	**2,082**	**2**	**2,084**	**–**	**2,661**	**–**	**2,661**
Fair value hedge	–	1,944	2	1,946	–	2,577	–	2,577
Cash flow hedge	–	138	–	138	–	84	–	84
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**2,082**	**2**	**2,084**	**–**	**2,661**	**–**	**2,661**

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

(€ million)

	31 DEC. 2017	31 DEC. 2016
Positive changes	312	136
Negative changes	–69	–171
TOTAL	**243**	**–36**

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

C.10 – Investments in associates and joint ventures

(€ million)

	2017	2016
Opening balance	**1,777**	**4,741**
Increases	**160**	**117**
Purchases	–	–
Write–backs	–	–
Profit/loss for the year	136	117
Other changes	24	
Decreases	**–**	**–3,081**
Sales	–	–3
Write–downs	–	–60
Other changes	**–**	**–3,018**
CLOSING BALANCE	**1,937**	**1,777**

C.11 – Property, plant and equipment

(€ million)

	31 DEC. 2017	31 DEC. 2016
Assets for operational use	**406**	**392**
Owned	**406**	**392**
Land	27	38
Buildings	99	130
Office furniture and fittings	86	66
Electronic systems	16	18
Others	178	140
Leased	**–**	**–**
Land	–	–
Buildings	–	–
Office furniture and fittings	–	–
Electronic systems	–	–
Others	–	–
Held-for-investment assets	**223**	**303**
Owned	**223**	**303**
Land	128	148
Buildings	95	155
TOTAL	**629**	**695**

Property, plant and equipment held for investment

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	**209**	**15**	**49**	**151**	**280**	**–**	**45**	**227**
Owned	**209**	**15**	**49**	**151**	**280**	**–**	**45**	**227**
Land	128	6	11	111	148	–	12	136
Buildings	81	9	38	40	132	–	33	91
Assets measured at fair value	**14**	**–**	**–**	**14**	**23**	**–**	**–**	**23**
Owned	**14**	**–**	**–**	**14**	**23**	**–**	**–**	**23**
Land	–	–	–	–	–	–	–	–
Buildings	14	–	–	14	23	–	–	23
TOTAL	**223**	**15**	**49**	**165**	**303**	**–**	**45**	**250**

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

Property, plant and equipment used in the business

(€ million)

	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 to	−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**

	2017					
	LAND	BUILDINGS	OFFICE FURNITURE AND FITTINGS	ELECTRONIC SYSTEMS	OTHER	TOTAL
Gross opening balance	**38**	**223**	**228**	**139**	**197**	**825**
Total net reduction in value	–	−93	−163	−122	−56	−434
Net opening balance	**38**	**130**	**66**	**18**	**140**	**392**
Increases	**–**	**1**	**28**	**6**	**83**	**118**
Purchases	–	1	28	6	82	117
Capitalised expenditure on improvements	–	–	–	–	–	–
Write-backs	–	–	–	–	–	–
Positive exchange differences	–	–	–	–	–	–
Transfer from property, plant and equipment held for investment	–	–	–	–	–	–
Other changes	–	–	–	–	1	1
Reductions	**−11**	**−33**	**−8**	**−8**	**−46**	**−106**
Disposals	−2	−11	–	–	−21	−34
Depreciation	–	−7	−6	−8	−25	−46
Impairment losses	–	–	–	–	–	–
Negative exchange differences	–	–	–	–	–	–
Transfers to	−9	−15	–	–	–	−24
property, plant and equipment held for investment	*−8*	*−9*	–	–	–	*−17*
assets held for sale	*−1*	*−6*	–	–	–	*−7*
Other changes	–	–	−2	–	−1	−3
NET FINAL BALANCE 31 DEC. 2017	**27**	**99**	**86**	**16**	**178**	**406**
Total net reduction in value	–	−94	−163	−128	−56	−441
GROSS CLOSING BALANCE	**27**	**193**	**249**	**144**	**234**	**847**

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

Tangible assets held for investment: annual changes

(€ million)

	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**
	2017		
	LAND	BUILDINGS	TOTAL
Gross opening balances	**148**	**246**	**394**
Total net reduction in value	–	–91	–91
Opening balances	**148**	**155**	**303**
Increases	**16**	**15**	**31**
Purchases	–	1	1
Capitalised expenditure on improvements	–	–	–
Increases in fair value	–	–	
Write-backs	3	–	3
Positive exchange differences	1	1	2
Transfer from property, plant and equipment used in the business	7	9	16
Other changes	5	4	9
Reductions	**–36**	**–75**	**–111**
Disposals	–7	–18	–25
Depreciation	–	–8	–8
Reductions in fair value	–	–1	–1
Impairment losses	–5	–4	–9
Negative exchange differences	–	–	–
Transfers to	–24	–44	–68
properties used in the business	–	–	–
non-current assets classified as held for sale	*–24*	*–44*	*–68*
Other changes	–	–	–
CLOSING BALANCES	**128**	**95**	**223**
Total net reduction in value	**–**	**–86**	**–86**
Gross closing balances	**128**	**181**	**309**
MEASURED AT FAIR VALUE	**128**	**101**	**229**

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

C.12 – Intangible assets

(€ million)

	31 DEC. 2017	31 DEC. 2016
Goodwill	**–**	**–**
Other intangible assets	**9**	**11**
Assets carried at cost	9	11
Intangible assets generated internally	*–*	*–*
Other assets	*9*	*11*
Assets valued at fair value	–	–
TOTAL	**9**	**11**

Intangible assets – annual changes

(€ million)

	2016		
	OTHER INTANGIBLE ASSETS		
	GENERATED INTERNALLY	OTHER	TOTAL
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**
	2017		
Gross opening balance	**–**	**530**	**530**
Net reductions	–	–519	–519
Net opening balance	**–**	**11**	**11**
Increases	**–**	**2**	**2**
Purchases	–	2	2
Increases in intangible assets generated internally	–	–	–
Write-backs	–	–	–
Positive exchange differences	–	–	–
Other changes	–	1	1
Reductions	**–**	**–4**	**–4**
Disposals	–	–	–
Write-downs	–	–4	–4
Amortisation	–	–4	–4
Write-downs	–	–	–
Transfers to non-current assets held for sale	–	–	–
Negative exchange differences	–	–	–
Other changes	–	–	–
NET CLOSING BALANCE	**–**	**9**	**9**
Total net write down	–	–522	–522
CLOSING BALANCE	**–**	**531**	**531**

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

C.13 – Deferred tax assets

(€ million)

	31 DEC. 2017	31 DEC. 2016
Deferred tax assets deriving from tax losses	6	14
Deferred tax assets deriving from temporary differences	795	918
Financial assets and liabilities (different from Credits and Debts)	135	197
Credits and debts with banks and clients	29	35
Hedging and hedged item revaluation	–	–
Intangible assets different from goodwill	1	1
Goodwill and equity investments	–	–
Assets and liabilities held for disposal	–	–
Other assets and Other liabilities	73	107
Provisions, pension finds and similar	557	573
Other	–	5
Accounting offsetting	–575	–667
TOTAL	**226**	**265**

The assets include deferred tax assets arising from the carryforward of unused tax losses in the amount of €6 million (2016: €14 million). Most of the tax losses carried forward can be used without time restriction.

In addition, tax losses carried forward in the amount of 2,165 million € (previous year: 1,912 million €) will not be positioned as deferred tax assets because the tax benefit does not seem feasible in the near future from today's perspective. Tax loss carryforwards that are to be assigned to the spun-off CEE area are also no longer considered in the previous year's figures. As at 31 December 2017, there is a new calculation for a proper factoring of the loss carryforwards which considered an outflow of loss carryforwards to the extent of approximately 7%. This new factoring is already included in the loss carryforwards as at 31 December 2017.

No active deferred taxes were accounted for tax losses carried forward that are subject to loss allocation limits because the use of those is not likely due to future positive tax results.

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

(€ million)

	31 DEC. 2017	31 DEC. 2016
Tax losses carried forward	2,165	1,912
Deductible temporary differences	1	148
TOTAL	**2,166**	**2,060**

Of the tax loss carryforwards for which no deferred tax assets were recognised, €41 million (2016: €47 million) will cease to be usable in the period to 2022.

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. 2017	31 DEC. 2016
Individual assets		
Financial assets	1	–
Equity investments	–	–
Tangible assets	233	193
Intangible assets	–	–
Non current – Other	3	1
Total	**237**	**194**
of which at cost	*169*	*161*
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*68*	*33*
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	–	–
Loans and receivables with customers	–	–
Equity investments	–	–
Tangible assets	–	–
Intangible assets	–	–
Other assets	93	706
Total	**93**	**706**
of which at cost	–	–
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*93*	*706*
ASSETS	**330**	**900**

Individual assets
The item essentially includes companies which are held for sale: Lassallestraße Bau-, Planungs-, Erricht.- u. Verw. ges. m. b. H. (€ 99 million) and RAMSES Immobilien Gesellschaft m. b. H. & Co OG (€ 39 million), BA Betriebsobjekte Praha, Spol. s. r. o. (€ 19 million) as well as individual assets of UNIVERSALE International Realitäten GmbH (€ 13 million) and of Zapadni Trgovacki Centar d. o. o. (€ 56 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 € 93 million which have not yet been sold and liabilities of € 54 million).

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

C.15 – Other assets

(€ million)

	31 DEC. 2017	31 DEC. 2016
Gold, silver and precious metals	10	11
Accrued income other than capitalised income	5	3
Interest and charges to be debited	5	5
Items in processing	184	189
Items deemed definitive but not attributable to other items	–	–
Adjustments for unpaid bills and notes	4	9
Other taxes	5	8
Inventories	4	6
Leasehold improvements	41	53
Other items	133	166
TOTAL	**391**	**450**

C.16 – Deposits from banks

(€ million)

	31 DEC. 2017	31 DEC. 2016
Deposits from central banks	**4,050**	**1,340**
Deposits from banks	**11,076**	**12,599**
Current accounts and demand deposits	1,618	1,012
Time deposits	2,012	3,967
Loans	7,009	7,246
Repos	*120*	–
Other	*6,890*	*7,246*
Other liabilities	437	374
TOTAL	**15,126**	**13,939**
TOTAL FAIR VALUE	**15,237**	**14,073**
Fair value – Level 1	–	–
Fair value – Level 2	7,517	5,244
Fair value – Level 3	7,720	8,829

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

C.17 – Deposits from customers

(€ million)

	31 DEC. 2017	31 DEC. 2016
Current accounts and demand deposits	41,306	40,244
Time deposits	7,525	9,907
Loans	6,581	6,031
Repos	*832*	*425*
Other	*5,749*	*5,606*
Liabilities in respect of commitments to repurchase treasury shares	–	–
Other liabilities	52	57
TOTAL	**55,463**	**56,239**
TOTAL FAIR VALUE	**55,790**	**56,577**
Fair value – Level 1	–	–
Fair value – Level 2	1,892	5,722
Fair value – Level 3	53,898	50,855

C.18 – Debt securities in issue

(€ million)

	31 DEC. 2017					31 DEC. 2016				
	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	14,575	*14,978*	6,983	7,995	–	17,242	*18,170*	7,888	10,282	–
Structured	*721*	*720*	–	*720*	–	*693*	*673*	–	*673*	–
Other	*13,854*	*14,258*	*6,983*	*7,275*	–	*16,549*	*17,497*	*7,888*	*9,609*	–
Other securities	148	*148*	–	148	–	152	*160*	–	146	14
Structured	–	–	–	–	–	–	–	–	–	–
Other	*148*	*148*	–	*148*	–	*152*	*160*	–	*146*	*14*
TOTAL	**14,722**	**15,126**	**6,983**	**8,143**	**–**	**17,394**	**18,329**	**7,888**	**10,427**	**14**

C.19 – Financial liabilities held for trading

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Deposits from banks	–	–	–	–	–	–	–	–
Deposits from customers	–	–	–	–	–	–	–	–
Derivative instruments	**–**	**1,000**	**4**	**1,004**	**–**	**1,088**	**19**	**1,107**
Financial derivatives	–	1,000	3	1,003	–	1,088	11	1,099
Credit derivatives	–	–	1	1	–	–	8	8
TOTAL	**–**	**1,000**	**4**	**1,004**	**–**	**1,088**	**19**	**1,107**

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

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

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	–	300	1	301	–	397	2	399
Structured	–	*300*	–	*300*	–	*397*	–	*397*
Other	–	–	*1*	*1*	–	–	*2*	*2*
TOTAL	**–**	**300**	**1**	**301**	**–**	**397**	**2**	**399**

Of the changes in fair values in 2017, income of €9 million (2016: an income of €1 million) related to changes in UniCredit Bank Austria AG's own credit risk. In the valuation as at 31 December 2017, the portion relating to changes in the bank's own credit risk included cumulative expenses of €2 million (31 December 2016: cumulative income of €6 million). The repayable amount of liabilities as at 31 December 2017 approximates the recorded fair value.

C.21 – Hedging derivatives (liabilities)

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	**–**	**1,655**	**–**	**1,655**	**–**	**2,153**	**–**	**2,153**
Fair value hedge	–	1,615	–	1,615	–	2,051	–	2,051
Cash flow hedge	–	40	–	40	–	102	–	102
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TOTAL	**–**	**1,655**	**–**	**1,655**	**–**	**2,153**	**–**	**2,153**

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

(€ million)

	31 DEC. 2017	31 DEC. 2016
Positive changes to financial liabilities	1,086	2,580
Negative changes to financial liabilities	–1,034	–2,776
TOTAL	**52**	**–196**

C.23 – Deferred tax liabilities

(€ million)

	31 DEC. 2017	31 DEC. 2016
Deferred tax liabilities deriving from temporary differences	575	688
Financial assets and liabilities (different from Credits and Debts)	220	322
Credits and debts with banks and clients	21	28
Hedging and hedged item revaluation	177	185
Tangible assets and intangible assets different from goodwill	3	4
Goodwill and equity investments	–	–
Assets and liabilities held for disposal	–	–
Other assets and Other liabilities	154	149
Other	–	–
Accounting offsetting	–568	–667
TOTAL	**7**	**21**

Pursuant to IAS 12.39, no deferred tax liabilities were recognised for temporary differences in connection with investments in domestic subsidiaries amounting to €969 million (2016: €990 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. 2017	31 DEC. 2016
Liabilities associated with assets classified as held for sale		
Deposits	–	–
Securities	–	–
Other liabilities	2	1
Total	**2**	**1**
of which at cost	*2*	*1*
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	–	–
Deposits from customers	–	–
Debt securities in issue	–	–
Financial liabilities held for trading	–	–
Financial liabilities designated at fair value	–	–
Reserve	–	–
Other liabilities	54	122
Total	**54**	**122**
of which at cost	–	–
of which Fair Value Level 1	–	–
of which Fair Value Level 2	–	–
of which Fair Value Level 3	*54*	*122*
LIABILITIES	**56**	**123**

C.25 – Other liabilities

(€ million)

	31 DEC. 2017	31 DEC. 2016
Liabilities in respect of financial guarantees issued	–	–
Impairment of financial guarantees issued, of credit derivatives, of irrevocable commitments to distribute funds	175	113
Accrued expenses other than those to be capitalised for the financial liabilities concerned	42	33
Share-based payments classified as liabilities under IFRS 2	–	–
Other liabilities due to employees *)	508	790
Other liabilities due to other staff	1	1
Other liabilities due to directors and statutory auditors	–	–
Interest and amounts to be credited to customers and banks	14	15
Items in transit between branches and not yet allocated to destination accounts	–	–
Available amounts to be paid to others	2	795
Items in processing	439	467
Entries related to securities transactions	–	–
Items deemed definitive but not attributable to other lines	40	45
Liabilities for miscellaneous entries related to tax collection service	–	–
Tax items different from those included in tax liabilities	5	17
Other entries	106	193
TOTAL	**1,332**	**2,469**

*) For employees who concluded a termination agreement as part of the “BA-Reloaded” project, an amount of €312 million is included. This payout shall be made by 2026.

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

C.26 – Provisions for risks and charges

(€ million)

	31 DEC. 2017	31 DEC. 2016
Pensions and other post-retirement benefit obligations	**3,625**	**3,855**
Other provisions for risks and charges	**337**	**357**
Legal disputes	218	246
Staff expenses	42	35
Other	77	76
TOTAL	**3,962**	**4,212**

As part of the spin-off of CEE Business, UniCredit S. p. A. provided a guarantee for the banks pension obligations until 31 December 2028.

Provisions for risks and charges: annual changes

(€ million)

	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	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	–355	–363	–718
Remeasurements	–	X	–
Other decreases	–20	–754	–774
CLOSING BALANCE	**3,855**	**357**	**4,212**
	2017		
	PENSIONS AND POST-RETIREMENT BENEFIT OBLIGATIONS	OTHER PROVISIONS	TOTAL
Opening balance	**3,855**	**357**	**4,212**
Increases	**76**	**38**	**114**
Current service cost	14	X	14
Interest cost	60	X	60
Past service cost	1	X	1
Remeasurements	–	X	–
Provisions for the reporting period	X	31	31
Other increases	1	7	7
Decreases	**–306**	**–58**	**–364**
Settlement	–1	X	–1
Payments/uses in the reporting period	–223	–20	–243
Remeasurements [1]	–82	X	–82
Other decreases	–	–38	–38
CLOSING BALANCE	**3,625**	**337**	**3,962**

1) Calculated insurance gains due to changing financial assumptions for UniCredit Bank Austria AG in the amount of 88 million € respectively losses in the amount of 8 million due to assumptions based on experience.

The restructuring provisions of UniCredit Bank Austria AG were included in other provisions with an initial amount of €49 million, a balance of €37 million from additions and liquidation and consumption of €8 million. The balance at the end of the year was €79 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

D – Segment reporting (CONTINUED)

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

	2017	2016
Net interest	980	962
Dividends and other income from equity investments	154	126
Dividend income and similar revenue	18	8
Profit (loss) of associates – of which: income (loss) from equity investments valued at net equity	136	117
Net fees and commissions	711	676
Net trading, hedging and fair value income	77	89
Gains (losses) on financial assets and liabilities held for trading	66	52
Fair value adjustments in hedge accounting	–2	9
Gains (losses) on disposal and repurchase of available-for-sale financial assets	17	8
Gains (losses) on disposal and repurchase of held-to-maturity investments	0	0
Gains (losses) on disposal or repurchase of financial liabilities	–6	8
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss	1	11
Net other expenses/income	81	152
Gains (losses) on disposals/repurchases on loans and receivables – not impaired	0	0
Other net operating income	86	164
less: other operating income – of which: recovery of expenses	*–1*	*–1*
plus: impairment on tangible assets – other operating leases	*–25*	*–25*
less: other operating expenses – amortisation on leasehold improvements	*12*	*14*
less: other operating expenses – amortisation on leasehold improvements – Integration/restructuring costs	*9*	*0*
OPERATING INCOME	**2,004**	**2,004**
Payroll costs	–667	–733
Administrative costs – staff expenses	–681	–1,093
less: integration/restructuring costs	*14*	*360*
Other administrative expenses	–596	–698
Administrative costs – other administrative expenses	–707	–972
less: Integration/restructuring costs	*21*	*105*
less: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*102*	*182*
plus: other operating expenses – amortisation on leasehold improvements	*–12*	*–14*
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	–30	–71
Impairment/write-backs on property, plant and equipment	–74	–95
less: impairment losses/write-backs on property owned for investment	*2*	*4*
less: impairment on tangible assets – other operating leases	*25*	*25*
less: Integration/restructuring costs	*21*	*0*
Impairment/write-backs on intangible assets	–4	–6
OPERATING COSTS	**–1,292**	**–1,502**
OPERATING PROFIT	**711**	**501**

D – Segment reporting (CONTINUED)

	2017	2016
Net write-downs of loans and provisions for guarantees and commitments	9	6
Gains (losses) on disposal and repurchase of loans	0	0
Impairment losses on loans	23	–36
Impairment losses on other financial assets	–15	42
NET OPERATING PROFIT	**720**	**507**
Provisions for risks and charges	3	–201
Net provisions for risks and charges	3	–145
less: integration/restructuring costs	*0*	*–56*
Systemic charges	–102	–182
plus: ex-ante contributions to resolution funds and deposit guarantee schemes and bank levies	*–102*	*–182*
Integration/restructuring costs	–65	–409
Net income from investments	14	–69
Impairment losses on available-for-sale financial assets	–2	–12
Impairment losses on held-to-maturity investments	6	0
plus: impairment losses/write-backs on property owned for investment	*–2*	*–4*
Profit (loss) of associates	136	47
less: profit (loss) of associates – income (loss) from equity investments valued at net equity	*–136*	*–117*
Gains and losses on tangible and intangible assets	–1	–1
Gains (losses) on disposal of investments	12	17
PROFIT BEFORE TAX	**571**	**–354**
Income tax for the period	–12	–58
Total profit or loss after tax from discontinued operations	114	1,141
PROFIT OR LOSS FOR THE PERIOD	**673**	**729**
Non-controlling interests	–19	–87
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**653**	**641**

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.

The CEE Division was classified as held for sale in 2016, and the demerger and subsequent transfer to UniCredit SpA was carried out on 1 October 2016. The CEE Division is therefore no longer reported as a separate segment in the segment reporting retroactively from 2016. The CEE Division (including the effects associated with the demerger) is, however, still included in the results in Bank Austria's comprehensive income statement (unadjusted) until September 2016 and therefore also in the comparison period for the full-year 2016. The CEE result is reported in the column "IFRS 5 reclassification/ recast differences" and declares reconciliation from the "Bank Austria Group recast" result to the comprehensive income of Bank Austria.

In order to ensure that the 2017 data is compared with the data for 2016, recasting was required at segment level in the previous year. The reference interest-rate system was further refined in accordance with market conditions and the cost allocation was changed as a result of restructurings in the Corporate Center in the course of the CEE demerger, as well as conditionally by the strategic reorientation of Bank Austria (Project BA Reloaded).

Segment reporting covers the following business segments:

Retail Banking
The Retail Banking business segment includes the previous "Retail", "independent professionals" and "business customers" customer segments (with an annual turnover of up to €3 million). 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 allocated to the Corporate Center. Also included are inter-segment eliminations and other items.

The Immobilien Holding Group companies 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)

D.3 – Segment reporting 1–12 2017/1–12 2016

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	AUSTRIA GROUP (RECAST) [1]	IFRS 5 RECLASSIFICATION/ RECAST DIFFERENCES	BANK AUSTRIA GROUP [2]
Net interest	1–12 2017	397	419	51	294	–181	980	0	980
	1–12 2016	409	417	53	287	–126	1,040	–78	962
Dividends and other income from equity investments	1–12 2017	6	26	0	8	114	154	0	154
	1–12 2016	3	26	0	0	96	126	0	126
Net fees and commissions	1–12 2017	378	129	118	89	–3	711	0	711
	1–12 2016	371	120	113	80	–9	675	1	676
Net trading, hedging and fair value income/loss	1–12 2017	7	34	3	36	–4	77	0	77
	1–12 2016	8	22	4	44	10	87	1	89
Net other expenses/income	1–12 2017	28	4	0	1	47	81	0	81
	1–12 2016	103	14	–1	2	33	152	–1	152
OPERATING INCOME	**1–12 2017**	**817**	**612**	**173**	**427**	**–26**	**2,004**	**0**	**2,004**
	1–12 2016	**894**	**599**	**169**	**414**	**4**	**2,081**	**–77**	**2,004**
OPERATING COSTS	**1–12 2017**	**–679**	**–213**	**–121**	**–181**	**–98**	**–1,292**	**0**	**–1,292**
	1–12 2016	**–754**	**–260**	**–122**	**–207**	**–162**	**–1,504**	**2**	**–1,502**
OPERATING PROFIT	**1–12 2017**	**138**	**400**	**52**	**246**	**–124**	**711**	**0**	**711**
	1–12 2016	**140**	**340**	**47**	**207**	**–157**	**577**	**–75**	**501**
Net write-downs of loans and provisions for guarantees and commitments	1–12 2017	30	–16	–1	–24	19	9	0	9
	1–12 2016	–52	14	0	38	7	6	0	6
NET OPERATING PROFIT	**1–12 2017**	**168**	**384**	**50**	**223**	**–104**	**720**	**0**	**720**
	1–12 2016	**88**	**353**	**47**	**245**	**–151**	**583**	**–75**	**507**
Provisions for risks and charges	1–12 2017	–4	–7	0	–3	17	3	0	3
	1–12 2016	–8	–81	–3	–75	–34	–201	0	–201
Systemic charges	1–12 2017	–28	–26	–5	–23	–19	–102	0	–102
	1–12 2016	–38	–40	–6	–36	–62	–182	0	–182
Integration/restructuring costs	1–12 2017	0	0	0	0	–65	–65	0	–65
	1–12 2016	0	–4	0	0	–405	–409	0	–409
Net income/loss from investments	1–12 2017	0	8	0	–5	11	14	0	14
	1–12 2016	–7	–14	0	–1	–46	–69	0	–69
PROFIT OR LOSS BEFORE TAX	**1–12 2017**	**136**	**358**	**46**	**192**	**–160**	**571**	**0**	**571**
	1–12 2016	**35**	**214**	**38**	**133**	**–698**	**–279**	**–75**	**–354**
Income tax for the period	1–12 2017	–24	–79	–12	–48	150	–12	0	–12
	1–12 2016	–1	–48	–11	–32	33	–58	0	–58
Total profit or loss after tax from discontinued operations	1–12 2017	0	2	0	0	113	114	0	114
	1–12 2016	0	0	0	0	38	38	1,104	1,141
PROFIT OR LOSS FOR THE PERIOD	**1–12 2017**	**112**	**281**	**34**	**144**	**102**	**673**	**0**	**673**
	1–12 2016	**34**	**165**	**27**	**101**	**–627**	**–300**	**1,028**	**729**
Non-controlling interests	1–12 2017	–18	–1	0	0	0	–19	0	–19
	1–12 2016	–62	0	0	0	0	–62	–25	–87
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**1–12 2017**	**94**	**280**	**34**	**144**	**102**	**653**	**0**	**653**
	1–12 2016	**–28**	**165**	**27**	**101**	**–627**	**–362**	**1,003**	**641**

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 2017**	**7,958**	**8,592**	**578**	**8,056**	**8,295**	**33,478**	**0**	**33,478**
(RWA) (avg.)	**1–12 2016**	**8,519**	**8,786**	**600**	**7,792**	**13,007**	**38,704**	**n.a.**	**n.a.**
Loans to customers	**1–12 2017**	**17,756**	**25,957**	**650**	**15,066**	**603**	**60,032**	**0**	**60,032**
(end of period)	**1–12 2016**	**18,128**	**26,818**	**640**	**13,514**	**1,827**	**60,926**	**0**	**60,926**
Deposits from customers	**1–12 2017**	**22,517**	**15,118**	**8,958**	**9,580**	**–711**	**55,463**	**0**	**55,463**
(end of period)	**1–12 2016**	**22,535**	**16,664**	**8,817**	**9,432**	**–1,209**	**56,239**	**0**	**56,239**
Cost/income ratio in %	*1–12 2017*	*83.2*	*34.7*	*70.1*	*42.3*	*n.m.*	*64.5*	*n.m.*	*64.5*
	1–12 2016	*84.3*	*43.3*	*72.1*	*50.0*	*n.m.*	*72.3*	*n.m.*	*75.0*

1) For segment reporting purposes, the comparative figures for 2016 have been recast to reflect the consolidation perimeter and the segment structure used in segment reporting for 2017.

2) Reconciliation to accounting figures is shown in the column IFRS 5 reclassification/recast differences and is due to CEE which in 1–12 2016 is still included in BA Group Financial results (profit or loss after tax from discontinued operations and with IC effects in different P&L lines).

n.m. = not meaningful

n.a. = not available

D – Segment reporting (CONTINUED)

D.4 – Segment reporting Q1–Q4 2017/Q1–Q4 2016

(€ million)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Net interest	Q4 2017	98	101	13	81	–46	246
	Q3 2017	98	116	13	74	–48	253
	Q2 2017	101	103	13	70	–45	242
	Q1 2017	100	99	13	69	–42	240
	Q4 2016	100	103	14	66	–53	231
	Q3 2016	100	103	15	76	–21	273
	Q2 2016	102	108	12	71	–28	264
	Q1 2016	106	103	13	74	–23	272
Dividends and other income from equity investments	Q4 2017	0	9	0	0	29	38
	Q3 2017	0	4	0	0	36	40
	Q2 2017	1	6	0	8	30	45
	Q1 2017	5	6	0	0	19	30
	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
Net fees and commissions	Q4 2017	98	32	34	24	–1	188
	Q3 2017	92	32	26	21	2	172
	Q2 2017	92	34	28	22	–1	176
	Q1 2017	97	30	29	22	–3	175
	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
Net trading, hedging and fair value income/loss	Q4 2017	2	12	1	8	3	26
	Q3 2017	2	4	1	9	0	16
	Q2 2017	2	8	1	8	–1	18
	Q1 2017	2	10	1	11	–6	17
	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
Net other expenses/income	Q4 2017	4	1	0	0	11	15
	Q3 2017	2	3	0	0	10	15
	Q2 2017	21	3	0	0	12	37
	Q1 2017	2	–2	0	0	14	14
	Q4 2016	30	3	0	1	6	39
	Q3 2016	2	3	0	0	13	18
	Q2 2016	70	4	–1	1	5	80
	Q1 2016	2	4	0	0	10	16
OPERATING INCOME	**Q4 2017**	**201**	**155**	**48**	**113**	**–4**	**513**
	Q3 2017	**193**	**160**	**39**	**104**	**0**	**495**
	Q2 2017	**217**	**155**	**43**	**109**	**–4**	**519**
	Q1 2017	**206**	**143**	**43**	**102**	**–17**	**477**
	Q4 2016	**226**	**159**	**49**	**112**	**–25**	**521**
	Q3 2016	**196**	**151**	**41**	**103**	**31**	**522**
	Q2 2016	**267**	**148**	**38**	**101**	**–1**	**554**
	Q1 2016	**206**	**141**	**41**	**98**	**–1**	**484**
OPERATING COSTS	**Q4 2017**	**–164**	**–52**	**–30**	**–41**	**–30**	**–316**
	Q3 2017	**–162**	**–51**	**–29**	**–41**	**–25**	**–307**
	Q2 2017	**–178**	**–55**	**–31**	**–51**	**–16**	**–330**
	Q1 2017	**–176**	**–55**	**–32**	**–48**	**–28**	**–339**
	Q4 2016	**–187**	**–60**	**–30**	**–51**	**–69**	**–397**
	Q3 2016	**–182**	**–62**	**–30**	**–47**	**–30**	**–351**
	Q2 2016	**–191**	**–61**	**–31**	**–48**	**–31**	**–362**
	Q1 2016	**–194**	**–77**	**–31**	**–61**	**–31**	**–394**

1) Quarterly figures based on recast data. CEE demerger effect considered.

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 2017**	**38**	**103**	**18**	**72**	**–34**	**197**
	Q3 2017	**31**	**108**	**10**	**63**	**–25**	**188**
	Q2 2017	**39**	**100**	**12**	**57**	**–19**	**189**
	Q1 2017	**30**	**88**	**11**	**54**	**–46**	**138**
	Q4 2016	**39**	**99**	**19**	**60**	**–94**	**123**
	Q3 2016	**14**	**89**	**11**	**56**	**1**	**171**
	Q2 2016	**75**	**87**	**7**	**53**	**–32**	**192**
	Q1 2016	**11**	**64**	**10**	**37**	**–32**	**90**
Net write-downs of loans and provisions for guarantees and commitments	Q4 2017	6	–40	–1	–39	–1	–74
	Q3 2017	–20	6	0	–1	0	–15
	Q2 2017	22	–2	0	18	10	48
	Q1 2017	22	20	0	–2	10	50
	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
NET OPERATING PROFIT	**Q4 2017**	**44**	**63**	**17**	**33**	**–35**	**122**
	Q3 2017	**12**	**114**	**10**	**62**	**–25**	**173**
	Q2 2017	**60**	**98**	**12**	**75**	**–9**	**237**
	Q1 2017	**52**	**108**	**11**	**52**	**–35**	**188**
	Q4 2016	**–12**	**94**	**19**	**66**	**–97**	**69**
	Q3 2016	**19**	**105**	**12**	**56**	**0**	**191**
	Q2 2016	**75**	**91**	**7**	**86**	**–25**	**236**
	Q1 2016	**6**	**63**	**10**	**37**	**–29**	**86**
Provisions for risks and charges	Q4 2017	–2	–6	0	–3	3	–7
	Q3 2017	–1	0	0	0	0	–1
	Q2 2017	–1	–1	0	0	14	12
	Q1 2017	–1	0	0	0	0	–1
	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
Systemic charges	Q4 2017	–1	–1	0	–1	–2	–5
	Q3 2017	–1	–1	0	–1	20	17
	Q2 2017	–1	–1	0	–1	–2	–5
	Q1 2017	–25	–23	–4	–20	–36	–108
	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
Integration/restructuring costs	Q4 2017	0	0	0	0	–39	–39
	Q3 2017	0	0	0	0	–26	–26
	Q2 2017	0	0	0	0	0	0
	Q1 2017	0	0	0	0	0	0
	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
Net income/loss from investments	Q4 2017	0	1	0	–5	9	5
	Q3 2017	0	0	0	0	0	0
	Q2 2017	0	1	0	0	1	2
	Q1 2017	0	6	0	0	0	6
	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

1) Quarterly figures based on recast data. CEE demerger effect considered.

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 2017**	**41**	**57**	**17**	**24**	**–63**	**76**
	Q3 2017	**10**	**113**	**10**	**61**	**–31**	**163**
	Q2 2017	**59**	**97**	**12**	**75**	**4**	**246**
	Q1 2017	**26**	**91**	**7**	**32**	**–71**	**85**
	Q4 2016	**–19**	**–6**	**14**	**–16**	**–405**	**–432**
	Q3 2016	**8**	**89**	**11**	**49**	**–9**	**148**
	Q2 2016	**59**	**84**	**7**	**80**	**–26**	**203**
	Q1 2016	**–14**	**46**	**7**	**21**	**–259**	**–198**
Income tax for the period	Q4 2017	–7	–10	–3	–6	35	9
	Q3 2017	–1	–26	–3	–15	49	4
	Q2 2017	–13	–22	–4	–19	43	–13
	Q1 2017	–4	–21	–2	–8	22	–12
	Q4 2016	0	1	–4	5	–23	–21
	Q3 2016	0	–21	–3	–12	24	–12
	Q2 2016	0	–19	–2	–20	29	–13
	Q1 2016	0	–9	–2	–5	4	–12
Total profit or loss after tax from discontinued operations	Q4 2017	0	0	0	0	–1	–1
	Q3 2017	0	0	0	0	58	58
	Q2 2017	0	2	0	0	32	33
	Q1 2017	0	0	0	0	24	24
	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
PROFIT OR LOSS FOR THE PERIOD	**Q4 2017**	**34**	**47**	**14**	**18**	**–28**	**84**
	Q3 2017	**9**	**87**	**7**	**46**	**76**	**224**
	Q2 2017	**46**	**77**	**9**	**56**	**79**	**266**
	Q1 2017	**23**	**71**	**5**	**24**	**–24**	**98**
	Q4 2016	**–19**	**–4**	**10**	**–11**	**–409**	**–433**
	Q3 2016	**7**	**68**	**8**	**37**	**17**	**137**
	Q2 2016	**59**	**65**	**4**	**60**	**13**	**201**
	Q1 2016	**–14**	**37**	**5**	**16**	**–248**	**–204**
Non-controlling interests	Q4 2017	–8	0	0	0	0	–9
	Q3 2017	–3	0	0	0	0	–4
	Q2 2017	–3	0	0	0	0	–3
	Q1 2017	–4	0	0	0	0	–4
	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
NET PROFIT OR LOSS ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY	**Q4 2017**	**26**	**46**	**14**	**18**	**–29**	**76**
	Q3 2017	**6**	**87**	**7**	**46**	**76**	**221**
	Q2 2017	**42**	**77**	**9**	**56**	**79**	**263**
	Q1 2017	**19**	**70**	**5**	**24**	**–24**	**94**
	Q4 2016	**–36**	**–4**	**10**	**–11**	**–409**	**–450**
	Q3 2016	**3**	**68**	**8**	**37**	**17**	**133**
	Q2 2016	**23**	**64**	**4**	**60**	**13**	**164**
	Q1 2016	**–18**	**37**	**5**	**16**	**–248**	**–208**
Risk-weighted assets (RWA) (avg.)	**Q4 2017**	**7,463**	**8,734**	**547**	**8,922**	**7,604**	**33,270**
	Q3 2017	**7,901**	**8,635**	**579**	**8,065**	**7,933**	**33,113**
	Q2 2017	**8,153**	**8,448**	**587**	**7,652**	**8,296**	**33,136**
	Q1 2017	**8,314**	**8,549**	**600**	**7,584**	**9,347**	**34,395**
	Q4 2016	**8,523**	**8,608**	**585**	**7,536**	**11,107**	**36,360**
	Q3 2016	**8,524**	**8,538**	**588**	**7,683**	**12,807**	**38,140**
	Q2 2016	**8,476**	**8,882**	**602**	**7,970**	**13,677**	**39,607**
	Q1 2016	**8,551**	**9,117**	**625**	**7,979**	**14,436**	**40,708**

1) Quarterly figures based on recast data. CEE demerger effect considered.

D – Segment reporting (CONTINUED)

		RETAIL	CORPORATES (INCL. FACTORING AND LEASING)	PRIVATE BANKING	CORPORATE & INVESTMENT BANKING (CIB)	CORPORATE CENTER	BANK AUSTRIA GROUP (RECAST) [1]
Loans to customers (end of period)	Q4 2017	17,756	25,957	650	15,066	603	60,032
	Q3 2017	17,811	26,084	659	14,899	893	60,346
	Q2 2017	17,887	26,563	638	14,067	1,002	60,158
	Q1 2017	18,225	26,645	642	13,109	1,266	59,888
	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
Deposits from customers (end of period)	Q4 2017	22,517	15,118	8,958	9,580	–711	55,463
	Q3 2017	22,428	15,583	9,100	7,598	–799	53,909
	Q2 2017	22,966	15,148	8,970	7,529	–1,041	53,571
	Q1 2017	22,604	16,059	9,110	7,080	–1,451	53,401
	Q4 2016	22,535	16,664	8,817	9,432	–1,209	56,239
	Q3 2016	22,316	16,606	9,248	8,881	–1,246	55,805
	Q2 2016	22,338	16,366	9,162	9,399	–1,214	56,051
	Q1 2016	22,005	17,425	8,953	8,677	–1,554	55,506
Cost/income ratio in %	*Q4 2017*	*81.3*	*33.4*	*62.6*	*36.2*	*n.m.*	*61.6*
	Q3 2017	*83.7*	*32.3*	*73.2*	*39.2*	*n.m.*	*62.0*
	Q2 2017	*82.2*	*35.4*	*71.4*	*47.1*	*n.m.*	*63.6*
	Q1 2017	*85.4*	*38.2*	*74.1*	*47.2*	*n.m.*	*71.1*
	Q4 2016	*82.6*	*37.7*	*61.5*	*46.0*	*n.m.*	*76.3*
	Q3 2016	*92.7*	*41.0*	*72.7*	*45.5*	*n.m.*	*67.2*
	Q2 2016	*71.7*	*41.1*	*80.6*	*47.3*	*n.m.*	*65.4*
	Q1 2016	*94.5*	*54.6*	*76.3*	*62.2*	*n.m.*	*81.4*

1) Quarterly figures based on recast data. CEE demerger effect considered.
n.m. = not meaningful

E – Risk report

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. Credit decisions that exceed the competence limits of the relevant business areas, as well as restructuring management, are the responsibility of the two operative credit risk departments ("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.

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. Risk appetite describes the key principles of the bank's risk orientation, in qualitative terms 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 comprise 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 bank's entire Management Board: the Risk Committee (RICO), which holds meetings on a monthly basis, is responsible for cross-divisional risk management issues arising between sales units and the overall bank management;

E – Risk report (CONTINUED)

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 Pillar 1 regulatory capital rules and liquidity requirements, 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. The bank also determines internal capital adequacy under a "gone concern" assumption on a half-yearly basis. As a result, 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 and migration risk), including potential exposure from counterparty 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.

E – Risk report (CONTINUED)

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 counter-party-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 by Market Risk.

The macro risk has been concentrated in Austria since the spin-off of the CEE subsidiaries. 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. Risk appetite thresholds/limit violations follow the planned 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 tests

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

E – Risk report (CONTINUED)

performed at defined intervals (capital stress tests at least on a half-yearly basis, individual stress tests on a quarterly basis in most cases) and also form a fixed part of the annual budgeting and risk appetite planning process. 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.

General information: The information in the tables provided in this section with “Bank Group” in the table title complies with the consolidation requirements of Circular 262 of the Bank of Italy. The consolidation amount shown may differ from that in the other tables. The Bank Group’s scope of consolidation corresponds to the CRR Scope of Consolidation.

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. A sound analysis of credit exposure forms the basis of every credit decision. Following the initial loan application, the bank’s credit 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 customer payment practices resulting in monthly updated customer scoring. 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 validation on a regular, 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 impact of turbulence on 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.

E – Risk report (CONTINUED)

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). The refinement and further development of local and Group-wide models and, to a lesser extent, the introduction of additional Group-wide models, are carried out on an ongoing basis or in accordance with a multi-year plan (Model Road Map).

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.

Group standards are integrated into the business units, both from a procedural and organisational point of view, taking into account, in particular, local peculiarities and legal requirements in ensuring compliance with Basel 3.

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” (defaulted loans):** credit exposures that are considered uncollectable 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” (low likelihood of repayment):** risk exposures that do not qualify as “bad loans”, but where it is unlikely that the borrower will meet its obligations (capital and/or interest) arising from the loan in full without measures being taken, such as the disposal of collateral, regardless of any days in arrears. For a loan placed in the category “unlikely to pay”, there are not necessarily specific default criteria in place (non-performance of the payment obligation); rather, there are indications that a borrower may default. The impairment loss assessment is performed in general on an analytical basis. Detailed information is given in the “Provisioning process” section.
- **“Past due” (overdue loans):** on-balance sheet exposures other than those classified as “bad loans” or “unlikely to pay” which at the reference date have amounts that are more than 90 days past due or over limits. Such amounts are determined at the level of the individual debtor.

Performing loans include:
- Overdue but not impaired loans: risk exposures that are between 1 and 90 days overdue.
- Other exposures: borrowers that are not included in the other categories.

E – Risk report (CONTINUED)

Breakdown of financial assets by portfolio and credit quality (carrying value)

(€ million)

PORTFOLIO/QUALITY	BANKING GROUP: BAD EXPOSURES	BANKING GROUP: UNLIKELY TO PAY	BANKING GROUP: NON-PERFORMING PAST-DUE	BANKING GROUP: PERFORMING	OTHER COMPANIES: NON-PERFORMING EXPOSURES	OTHER COMPANIES: PERFORMING	TOTAL
Available-for-sale financial assets	–	–	–	14,928	–	–	14,928
Held-to-maturity financial instruments	–	7	–	209	–	–	216
Loans and receivables with banks	–	–	–	19,673	–	15	19,688
Loans and receivables with customers	190	1,001	27	58,808	4	2	60,032
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	1	–	–	1
TOTAL 31 DECEMBER 2017	**190**	**1,008**	**27**	**93,619**	**4**	**17**	**94,864**
TOTAL 31 DECEMBER 2016	**198**	**956**	**20**	**96,408**	**3**	**10**	**97,596**

Breakdown of financial assets by portfolio and credit quality – foreborne exposures (carrying value)

(€ million)

PORTFOLIO/QUALITY	BANKING GROUP: BAD EXPOSURES	BANKING GROUP: UNLIKELY TO PAY	BANKING GROUP: NON-PERFORMING PAST-DUE	BANKING GROUP: PERFORMING	OTHER COMPANIES: NON-PERFORMING EXPOSURES	OTHER COMPANIES: PERFORMING	TOTAL
Available-for-sale financial assets	–	–	–	–	–	–	–
Held-to-maturity financial instruments	–	–	–	–	–	–	–
Loans and receivables with banks	–	–	–	–	–	1	1
Loans and receivables with customers	43	333	1	248	–	–	626
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–	–	–
TOTAL 31 DECEMBER 2017	**43**	**333**	**1**	**248**	**–**	**1**	**626**
TOTAL 31 DECEMBER 2016	**40**	**254**	**1**	**221**	**1**	**–**	**518**

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	475	19	9	–	503
Financial assets at fair value through profit or loss	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	–	–
TOTAL 31 DECEMBER 2017	**475**	**19**	**9**	**–**	**503**
TOTAL 31 DECEMBER 2016	**637**	**32**	**23**	**–**	**692**

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	–	–	–	14,928	–	14,928	14,928
Held-to-maturity financial instruments	8	1	7	209	–	209	216
Loans and receivables with banks	3	3	–	19,688	–	19,688	19,688
Loans and receivables with customers	2,617	1,395	1,221	59,226	416	58,810	60,032
Financial assets at fair value through profit or loss	–	–	–	–	–	–	–
Financial instruments classified as held for sale	–	–	–	1	–	1	1
TOTAL 31 DECEMBER 2017	**2,627**	**1,399**	**1,228**	**94,052**	**416**	**93,636**	**94,864**
TOTAL 31 DECEMBER 2016	**2,922**	**1,744**	**1,178**	**96,846**	**428**	**96,418**	**97,596**

*) 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	–	–	1,008
Hedging instruments	–	–	2,084
TOTAL 31 DECEMBER 2017	**–**	**–**	**3,092**
TOTAL 31 DECEMBER 2016	**–**	**–**	**3,774**

Banking group – On-balance sheet and off-balance sheet credit exposure by external rating class (book values)

(€ million)

	BALANCE AT 31 DEC. 2017							
	EXTERNAL RATING CLASSES							
	CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6	NO EXTERNAL RATING	TOTAL
On-balance sheet exposures	**12,246**	**7,343**	**6,113**	**700**	**91**	**1,305**	**67,255**	**95,052**
Derivative contracts	**15**	**4**	**2,042**	**3**	**–**	**–**	**1,026**	**3,090**
Financial derivative contracts	15	4	2,041	3	–	–	1,026	3,088
Credit derivative contracts	–	–	2	–	–	–	–	2
Guarantees given	**17**	**108**	**433**	**95**	**18**	**48**	**8,541**	**9,261**
Other commitments to disburse funds	**159**	**527**	**1,564**	**105**	**5**	**106**	**11,258**	**13,725**
TOTAL	**12,437**	**7,982**	**10,153**	**903**	**114**	**1,459**	**88,080**	**121,128**
	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**

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), 73% 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 €27 million (2016: €47 million).

E – Risk report (CONTINUED)

Banking group – On-balance sheet and off-balance sheet exposure by internal rating class (book values) 2017 (€ million)

	BALANCE AT 31 DEC. 2017					
	INTERNAL RATING CLASSES					
	1	2	3	4	5	6
On-balance sheet exposures	**8,873**	**11,514**	**22,790**	**26,075**	**10,842**	**7,363**
Derivative contracts	**–**	**27**	**285**	**2,605**	**65**	**31**
Financial derivative contracts	–	27	285	2,603	65	31
Credit derivative contracts	–	–	–	2	–	–
Guarantees given	**0**	**236**	**1,479**	**5,378**	**726**	**284**
Other commitments to disburse funds	**0**	**644**	**6,248**	**4,601**	**1,060**	**615**
TOTAL	**8,874**	**12,420**	**30,802**	**38,658**	**12,692**	**8,292**

	BALANCE AT 31 DEC. 2017					
	INTERNAL RATING CLASSES			NON-PERFORMING	NO INTERNAL	
	7	8	9	ASSETS	RATING	TOTAL
On-balance sheet exposures	**3,058**	**1,159**	**696**	**1,239**	**1,417**	**95,025**
Derivative contracts	**7**	**1**	**1**	**–**	**70**	**3,090**
Financial derivative contracts	7	1	1	–	70	3,088
Credit derivative contracts	–	–	–	–	–	2
Guarantees given	**102**	**34**	**13**	**46**	**963**	**9,261**
Other commitments to disburse funds	**286**	**51**	**22**	**90**	**108**	**13,725**
TOTAL	**3,452**	**1,245**	**731**	**1,376**	**2,559**	**121,101**

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 derivatives 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 derivatives 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**

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	–	–	–	1	1	–	1	1	–
Financial institutions	6	–	6	36	28	8	42	28	14
Non-financial institutions	142	5	137	561	233	328	703	238	465
Households	108	3	106	90	48	41	198	51	147
TOTAL 31 DEC. 2017	**256**	**8**	**248**	**687**	**310**	**377**	**943**	**318**	**626**
	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**

E – Risk report (CONTINUED)

Credit risk mitigation techniques

UniCredit Bank Austria uses various credit risk mitigation techniques to reduce credit losses in case of borrower default.

With specific reference to credit risk mitigation, the 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 detail, these concern eligibility for recognition as collateral, valuation and monitoring regulations and ensure the value stability, legal enforceability and timely realisation of collateral in accordance with local law.

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 may be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. Physical collateral and guarantees are subject to a specific valuation and analysis regarding their supporting function for the repayment of the outstanding amount.

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. Bank Austria also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

The processes and controls focus on the requirements for legal certainty, hedging and the assessment of the suitability of the physical collateral or guarantee. With personal guarantees, the solvency and risk profile of the guarantors (or, in the case of credit default swaps, of the protection sellers) must be assessed.

With non-cash collateral, market values are reduced by corresponding haircuts in order to take into account any lower revenues and realisation costs, etc. in the case of realisation.

Monitoring processes for credit risk mitigation techniques ensure that general and specific requirements established by credit policies and regulatory rules are met at all times.

E – Risk report (CONTINUED)

Banking group – Secured credit exposures to banks

(€ million)

	BALANCE AT 31 DEC. 2017							
	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	403	343	–	–	4	333	6	–
of which impaired	–	–	–	–	–	–	–	–
Secured off-balance sheet credit exposures:								
totally secured	–	–	–	–	–	–	–	–
of which impaired	–	–	–	–	–	–	–	–
partially secured	1,984	1,092	–	–	1,085	6	1	–
of which impaired	–	–	–	–	–	–	–	–

	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	–	–	–	–	–	–	–	–

E – Risk report (CONTINUED)

Banking group – Secured credit exposures to customers (€ million)

	BALANCE AT 31 DEC. 2017										
	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	1,559	1,559	19	837	32	671	–	–	–	–	–
of which impaired	*62*	*62*	–	*59*	–	*3*	–	–	–	–	–
partially secured	42,510	29,306	19,068	–	558	3,290	–	5,415	27	279	668
of which impaired	*921*	*907*	*445*	–	*6*	*63*	–	*259*	*27*	*12*	*93*
Secured off-balance sheet credit exposures:											
totally secured	15	15	–	–	4	11	–	–	–	–	–
of which impaired	–	–	–	–	–	–	–	–	–	–	–
partially secured	2,383	598	130	–	32	237	–	50	–	29	120
of which impaired	*88*	*28*	*14*	–	–	*7*	–	*6*	–	–	–

	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*	–

Provisioning process

Loan loss provisions are determined by reference to the amount and quality of loans granted. Bank Austria uses the following four methods:

- 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. By decision of the restructuring management, this method can be used for customers belonging to a group of associated customers of more than 2 million, provided that the individual customer exposure does not exceed €1 million. The provisioning requirement 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 in 2017 resulted in a slight decline of €1.4 million.

Provisions for IBNR losses:

Such provisions for performing loans are made on the assumption that losses incurred are taken into account too late, and to an extent that is too low for the current period, 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 individual parameters used for the calculation are validated annually.

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 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 €9.4 million in the provision to a total of €282.6 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)

EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE – NON-PERFORMING ASSETS – 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	3	–	–	–	X	3	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	20,350	X	–	20,350
– of which: forborne exposures	X	X	X	X	–	X	–	–
Total	**3**	**–**	**–**	**–**	**20,350**	**3**	**–**	**20,350**
Off-balance sheet exposure	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Non-performing	–	–	–	–	X	–	X	–
b) Performing	X	X	X	X	3,974	X	–	3,974
Total	**–**	**–**	**–**	**–**	**3,974**	**–**	**–**	**3,974**
TOTAL 31 DECEMBER 2017	**3**	**–**	**–**	**–**	**24,325**	**3**	**–**	**24,325**

Banking group – On-balance sheet and off-balance sheet exposure to customers: gross and net values

(€ million)

EXPOSURE TYPES/AMOUNTS	GROSS EXPOSURE – NON-PERFORMING ASSETS – 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	54	11	31	1,088	X	994	X	190
– of which: forborne exposures	12	6	13	132	X	121	X	43
b) Unlikely to pay	1,273	12	30	118	X	410	X	1,023
– of which: forborne exposures	493	4	14	41	X	212	X	341
c) Non-performing past-due	16	7	5	12	X	12	X	27
– of which: forborne exposures	2	–	–	–	X	–	X	1
d) Performing past-due	X	X	X	X	503	X	4	500
– of which: forborne exposures	X	X	X	X	5	X	–	4
e) Other performing exposures	X	X	X	X	73,348	X	412	72,936
– of which: forborne exposures	X	X	X	X	252	X	8	244
Total	**1,342**	**29**	**66**	**1,218**	**73,851**	**1,415**	**416**	**74,675**
Off-balance sheet exposure	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
a) Non-performing	272	–	–	–	X	136	X	136
b) Performing	X	X	X	X	21,972	X	7	21,965
Total	**272**	**–**	**–**	**–**	**21,972**	**136**	**7**	**22,101**
TOTAL 31 DECEMBER 2017	**1,614**	**29**	**66**	**1,218**	**95,824**	**1,552**	**423**	**96,776**

E – Risk report (CONTINUED)

Banking group – On-balance sheet exposure to customers: gross change in non-performing exposures (€ million)

SOURCE/CATEGORIES	CHANGES IN 2017			
	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	TOTAL
Opening balance – gross exposure	**1,404**	**1,516**	**30**	**2,950**
Sold but not derecognised	–	–	–	–
Increases	**193**	**502**	**35**	**730**
Transfers from performing loans	78	422	30	530
Transfers from other non-performing exposures	94	42	5	141
Other increases	22	38	–	60
Reductions	**414**	**586**	**25**	**1,025**
Transfers to performing loans	1	105	7	113
Derecognised items	144	80	–	224
Recoveries	111	127	1	239
Sales proceeds	–	9	–	9
Losses on disposals	–	–	–	–
Transfers to other non-performing exposures	38	97	5	140
Other reductions	121	167	12	300
Closing balance – gross exposure	**1,183**	**1,432**	**39**	**2,654**

Banking group – On-balance sheet exposure to customers: changes in overall impairment (€ million)

SOURCE/CATEGORIES	CHANGES IN 2017			
	BAD EXPOSURES	UNLIKELY TO PAY	NON-PERFORMING PAST-DUE	TOTAL
Opening gross write-downs	**1,206**	**516**	**10**	**1,732**
Sold but not derecognised	–	–	–	–
Increases	**177**	**178**	**7**	**362**
Write-downs	86	135	5	226
Losses on disposal	–	–	–	–
Transfers from other non-performing exposures	68	11	1	80
Other increases	22	32	1	55
Reductions	**389**	**285**	**4**	**678**
Write-backs from assessments	47	3	1	51
Write-backs from recoveries	111	125	1	237
Gains on disposal	–	–	–	–
Write-offs	144	80	–	224
Transfers to other non-performing exposures	10	69	1	80
Other reductions	77	8	1	86
Final gross write-downs	**994**	**410**	**12**	**1,416**

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	1	1	X	33	23	X
– of which: forborne exposures	–	–	X	–	–	X	0	0	X
Unlikely to pay	158	4	X	11	2	X	14	11	X
– of which: forborne exposures	–	–	X	0	1	X	0	7	X
Non-performing past-due exposures	1	–	X	–	–	X	0	0	X
– of which: forborne exposures	–	–	X	–	–	X	–	–	X
Performing exposures	16,323	X	0	3,657	X	0	3,926	X	11
– of which: forborne exposures	–	X	–	–	X	–	–	X	–
Total	**16,482**	**4**	**0**	**3,669**	**2**	**0**	**3,973**	**33**	**11**
Off-balance sheet exposures									
Bad exposures	–	–	X	–	–	X	–	–	X
Unlikely to pay	1	–	X	–	–	X	0	1	X
Other non-performing exposures	–	–	X	–	–	X	–	–	X
Performing exposures	391	X	0	392	X	0	1,010	X	0
Total	**392**	**–**	**0**	**392**	**–**	**0**	**1,010**	**1**	**0**
TOTAL 31 DEC. 2017	**16,874**	**4**	**1**	**4,061**	**2**	**0**	**4,983**	**34**	**12**
TOTAL 31 DEC. 2016	**17,246**	**4**	**1**	**4,347**	**3**	**0**	**7,190**	**47**	**10**

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
–	–	X	153	957	X	3	14	X	190	994	–
–	–	X	42	116	X	0	5	X	43	121	–
–	–	X	836	385	X	4	8	X	1,023	410	–
–	–	X	336	203	X	4	1	X	341	212	–
–	–	X	23	6	X	3	6	X	27	12	–
–	–	X	1	0	X	0	0	X	1	0	–
38	X	0	48,618	X	401	874	X	2	73,436	–	416
–	X	–	239	X	8	9	X	0	248	–	8
38	**–**	**0**	**49,629**	**1,348**	**401**	**884**	**28**	**2**	**74,675**	**1,415**	**416**
–	–	X	12	13	X	0	–	X	12	13	–
–	–	X	123	122	X	–	0	X	123	123	–
–	–	X	1	1	X	0	0	X	1	1	–
9	X	–	20,144	X	7	20	X	0	21,965	–	7
9	**–**	**–**	**20,279**	**135**	**7**	**20**	**0**	**0**	**22,101**	**136**	**7**
47	**–**	**0**	**69,908**	**1,483**	**408**	**904**	**28**	**2**	**96,776**	**1,552**	**423**
70	**0**	**0**	**65,921**	**1,692**	**440**	**1,263**	**73**	**2**	**96,035**	**1,819**	**454**

E – Risk report (CONTINUED)

Development of non-performing credit exposures and credit risk costs

Bank Austria's credit exposure fell €1.2 billion against the previous year to €61.8 billion, before the deduction of credit provisions totalling €1.8 billion. The volume of non-performing loans fell by around 10% to €2.6 billion in the same period, therefore reducing its share of total credit exposures to 4.2% (previous year: 4.6%). The reversal of impairments and the loss of some major customers towards the end of the year in Corporate Banking and Corporate & Investment Banking CIB reduced Bank Austria's coverage ratio (not considering collateral) for non-performing loans to 53.4% (previous year: 59.7%). For non-performing loans to private customers, the coverage ratio reached 67.8% (previous year: 66.7%).

Risk costs once again allowed for a net surplus of €8.6 million in 2017. The comparative figure for 2016 was net income of €6.0 million.

This surplus was achieved due to the reversal of provisions relating to **private customers**, including private banking, with a net surplus totalling €28.8 million (expense in 2016: €52.4 million) and due to contributions from the **Corporate Centre** amounting to €19.5 million (including proceeds from the release of IBNR for the live portfolio of €10.4 million).

As a result of the aforementioned defaults of larger individual customers towards the end of the year, risk costs in the Corporate Banking segment increased to €15.9 million (net income in 2016: €13.8 million) and in the **Corporate & Investment Banking** segment to €23.8 million (net income in 2016: €37.9 million).

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.

E – Risk report (CONTINUED)

Strategic Funding, Transactions & Pricing

The Strategic Funding, Transactions & Pricing department performs the following tasks related to credit risk:
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.

On the other hand, the department is responsible for transactions throughout Bank Austria that serve 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.

The senior tranche of "Amadeus" was retained in Bank Austria'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 papers;
- watching the market fundamentals of the underlying credit and
- making contact with the representatives of the collateral manager where further information is required.

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 consistent with other market risk sources and enables us to estimate the potential effects of diversification and to calculate the VaR together with other parts 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	926,025,685 €	41,997,282 €
Security subscribers	UniCredit Bank Austria AG	hedged by protection seller

E – Risk report (CONTINUED)

Originator: UniCredit Bank Austria AG **(Continued from page 176)**

NAME	AMADEUS 2015
ISIN	n.m.
Type of security	**Junior**
Class	C
Rating	–
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	81,997,677 €
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:	9 November 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	–
Quotation	listed Luxembourg Stock Exchange	not listed
Issue date	9 November 2015	9 November 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.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 addition to the aforementioned regulatory requirements, Bank Austria AG defines its internal risk appetite much more conservatively; the liquidity coverage ratio therefore had to exceed at least 107% in 2017. In the medium-term and long-term range, compliance with the net stable funding ratio (NSFR 100%) is expected to 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 necessary 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. The regulatory liquidity coverage ratio as at 31 December 2017 is approximately 165.6% for UniCredit Bank Austria AG; the liquidity coverage ratio based on internal liquidity risk systems for Bank Austria as at 31 December 2017 is approximately 177% (2016: 134%).

The new liquidity requirements have been integrated into 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)

The Bank Austria Group and its individual institutions had a comfortable liquidity position throughout 2017. The excess liquidity at the end of 2016 was reduced to a solid and sustainable level in 2017 thanks to moderate incline in consumer credit, a reduction of the capital market activities and an actively managed decline in customer deposits.

Liquidity management methods and control

In medium-term and long-term liquidity management, assets must be covered by liabilities over a period of 1/3/5 years at a minimum level of 105% (>1Y), 95% (>3Y) and 100% (>5Y). This limit must be observed at Group level and at individual bank level. In addition, absolute limits are defined for major currencies - that is the US dollar and other currencies for the Bank Austria; cross-currency refinancing is therefore only permitted within the limits listed. Following a change in the UC group approach, the calculation method to determine the structural liquidity position of UniCredit Bank Austria AG was adjusted in 2017; internal models to determine the mapping of balance sheet items with with an unlimited term (mainly demand deposits and parts of savings deposits) were replaced by regulatory regulations. At the end of 2017, UniCredit Bank Austria AG had the following long-term liquidity ratios: 116% for the >1-year segment (2016: 122%), 126% for the >3-year segment (2016: 120%) and 141% for the >5-year segment (2016: 130%).

For the purpose of short-term liquidity management, volume limits have been implemented at Bank Austria at Group level and at individual bank level for maturities up to nine 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 breakdown of Bank Austria's liquidity reserve:

(€ million)

BANK AUSTRIA – COMPOSITION OF LIQUIDITY RESERVE[1]	31 DEC. 2017	31 DEC. 2016
Cash and balances with central banks	8,039	2,626
Level 1 assets	12,513	18,404
Level 2 assets	67	123
Other assets eligible as collateral for central bank borrowings	603	5,330
Liquidity reserve	**21,222**	**26,484**

1) The liquidity reserve only includes freely available assets; the minimum reserve requirement is not included.

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 2017

(€ million)

	31 DEC. 2017								
	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	**9,793**	**1,567**	**1,266**	**3,704**	**12,088**	**2,036**	**2,922**	**25,088**	**36,542**
Government securities	–	–	633	–	155	492	620	9,014	2,080
Other debt securities	–	–	–	751	4	5	96	582	1,633
Units in investment funds	1	–	–	–	–	–	–	–	–
Loans	9,792	1,567	633	2,953	11,929	1,539	2,207	15,492	32,829
Banks	*1,478*	*1,453*	*4*	*1,112*	*10,484*	*682*	*375*	*2,516*	*822*
Customers	*8,314*	*114*	*629*	*1,841*	*1,444*	*857*	*1,832*	*12,976*	*32,007*
Liabilities	**47,201**	**727**	**111**	**1,514**	**6,514**	**2,394**	**3,143**	**15,724**	**8,300**
Deposits and current accounts	43,084	528	111	1,018	1,669	1,954	2,049	1,668	541
Banks	*1,172*	*316*	*10*	*215*	*318*	*45*	*386*	*825*	*342*
Customers	*41,912*	*212*	*100*	*803*	*1,351*	*1,909*	*1,664*	*843*	*199*
Debt securities	2	94	–	372	489	403	982	8,313	4,227
Other liabilities	4,115	105	1	124	4,356	38	112	5,743	3,531
Off-balance sheet transactions	**1,087**	**–**	**–**	**10**	**97**	**167**	**242**	**411**	**11,729**
Physically settled financial derivatives									
long positions	1,119	2,367	133	254	71	247	176	68	–
short positions	1,119	2,367	133	254	71	247	176	68	–
Cash settled financial derivatives									
long positions	1,359	346	146	2,000	2,756	379	403	2,552	6,315
short positions	1,359	346	146	2,000	2,756	379	403	2,552	6,315
Deposits to be received									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Irrevocable commitments to disburse funds									
long positions	156	200	10	478	515	185	702	7,801	3,084
short positions	156	200	10	478	515	185	702	7,801	3,084
Written guarantees	252	–	–	–	45	142	163	241	978
Financial guarantees received	835	–	–	10	52	25	78	170	10,752
Physically settled credit derivatives									
long positions	–	–	–	–	–	–	–	–	–
short positions	–	–	–	–	–	–	–	–	–
Cash-settled credit derivatives									
long positions	–		–	–	–	–	264	45	60
short positions	–	–	–	–	–	–	264	45	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 recorded using the double entry method: Derivatives with underlying securities are recorded at the settlement value, while derivatives without underlying securities are recorded at the nominal value. Options are represented by the Delta equivalent.

E – Risk report (CONTINUED)

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

Funding

Following the demerger of its subsidiaries in Central and Eastern Europe in 2016, 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 weighting 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.

Bank Austria further optimised the refinancing structure during financial year 2017 and issued bonds. As in 2016, in the past year the capital market played a smaller role in refinancing.

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. 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

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)

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.

Since 2016, the model has helped with the modelling of negative interest rates for both internal risk management and the calculation of regulatory capital requirements for market risk. This further development not only includes the EUR currency, but also other currencies that are, however, considered to have a low impact on Bank Austria.

Risk governance

A new product process (NPP) has been established for the introduction of new products in the market risk department whereby 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 reviewed annually by the Audit department as part of the Group Internal Validation (GIV). 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). Regular and specific stress tests complement the information provided to MACO and the Management Board.

Stress tests

Bank Austria conducts a comprehensive programme of stress testing for market risk and IRC. The test results are reported in the MACO at least quarterly or on an ad-hoc basis in the event of 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. The assumed fluctuations are dependent on currency, region, liquidity and the credit rating, and are determined in the Open Market Risk Forum (OMRF) with the respective experts from other banking segments (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.

Fair value measurement

The principles for determining the fair value set out 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. 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 explanation of results is organised by the Finance department and 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 the 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

By year-end 2017, the total VaR for the trading book and the banking book of Bank Austria was about €27.1 million (year-end 2016: €22.7 million). The SVaR for the regulatory trading book was €2.2 million at the end of 2017 (year-end 2016: €0.5 million). The VaR for the trading book amounted to €0.3 million at the end of 2017 (year-end 2016: €0.2 million). Credit spread risk and interest rate risk account for most of the total risk in the trading

E – Risk report (CONTINUED)

and banking books of Bank Austria. Other risk categories are less significant by comparison.

As of 31 December 2017, 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, 2017

(in €) Granular Market Limits Warning Level

		AS AT 31 DECEMBER 2017						ANNUAL AVERAGE 2017, 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	−8,677	220,229	199,091	77,839	−1,083,505	−595,023	−130,255	−2,187,736	1,139,823
	CHF	100,848	3,794	−24,434	−360,821	−859,730	−1,140,342	77,000	−1,429,896	649,780
	GBP	−1,256	−3,053	3,309	−272	−0	−1,272	548	−5,429	1,260
New EU countries	BGN	385	2,081	146	1,351	–	3,963	3,963	−933	1,714
	HUF	−139	−1	−151	−623	−12	−925	−594	−1,253	965
	PLN	−968	−7,765	−332	139	–	−8,925	−7,518	−18,792	11,253
	RON	−342	4,132	−30	–	–	3,760	4,685	−1,467	1,731
Central and Eastern	RUB	699	−4,576	−1,787	–	–	−5,664	−3,913	−6,644	5,228
Europe incl. Turkey	TRY	94	1,923	342	2,551	–	4,910	6,008	−411	2,372
Overseas – highly	USD	−14,129	27,429	−24,110	16,777	3,513	9,479	26,165	−10,977	9,345
developed countries	JPY	4,289	−1,454	−1,885	−1,220	−3,191	−3,462	5,166	−7,694	4,293
Other countries	CNH	221	985	2,432	–	–	3,638	6,682	3,638	5,179
	BPV<500	−1,023	1,658	−1,629	214	2	−778	4,442	−7,993	3,731
TOTAL		**80,002**	**245,382**	**150,962**	**−264,066**	**−1,942,923**	**−1,730,642**	**−1,335,189**	**−2,146,193**	**1,738,587**

*) Monthly average.

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.

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By analogy to the detailed presentation of basis point positions in the interest rate sector, daily reporting presents details of credit spread by sector and maturity band.

Credit spread basis-point values (CPVs) of Bank Austria in 2017 (excluding CEE) (in €)

CPVS IN €	SECTOR	31 DEC. 2016	31 DEC. 2017	MAXIMUM	MINIMUM	AVERAGE
Main sectors	ABSs	−125,750	−93,698	−93,698	−118,623	−105,158
	Financial	−165,080	−180,539	−180,539	−230,124	−209,673
Corporates	Basic Materials	−1,800	−68	−68	−1,325	−374
	Industrial	−28,520	−25,792	−25,271	−27,491	−26,203
	Consumer Non cyclical	−7,140	−7,200	−6,502	−7,342	−7,149
	Others	−24,830	−8,242	−8,242	−24,419	−14,862
Government	Europe	−4,759,360	−4,092,876	−4,033,766	−4,689,092	−4,394,039
	Others	−112,080	−204,648	−23,747	−304,338	−116,057
TOTAL 2017		**−5,224,560**	**−4,613,063**	**−4,371,834**	**−5,402,753**	**−4,873,516**

Bank Austria's credit spread position in 2017 was between €5.4 million and -€4.4 million as measured by the total base point value.

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 2017, primarily through redemptions.

Backtesting

Bank Austria performs 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 2017, the number of backtesting overshootings (negative change in value larger than model result) for Bank Austria 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.

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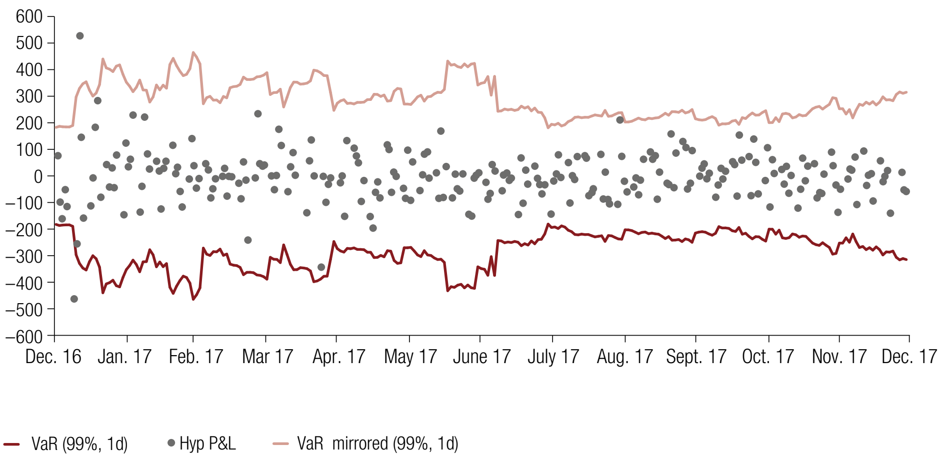
Backtesting time series for the regulatory trading book of Bank Austria, 2017 (€ thousand)



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 31/12/2017, the following capital requirements resulted for Bank Austria in connection with Value at Risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):

- VaR: €2.6 million (€4.1 million at the end of 2016)
- SVaR: €18.9 million (€7.7 million at the end of 2016)
- IRC: 1,0 Mio € (€0.1 million at the end of 2016)

Management of balance sheet structure

The transfer pricing system applied throughout the UniCredit Group enables the bank to determine the application of the principle of causation 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.

1) The underlying equity does not include any retained profits from 2017. Following the resolution on the appropriation of profit by the supervisory board of Bank Austria, changes may still be made.

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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 and for UniCredit Bank Austria AG 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.

At the end of 2017, this 2% interest rate shock used up around 6.59% (2016: 3.17%) of the Group's chargeable net capital resources[1]. This means that the figure for Bank Austria is far below the outlier level of 20%. The increase is attributable to a partial expansion of the risk position and a change in the composition of the risk exposure as a result of the implementation of regulatory measures. Furthermore, the result of a 2% interest rate shock is much more restrictively limited in connection with the risk appetite (15% in relation to Tier 1 capital).

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. 2017		31 DEC. 2016	
DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Debt securities and interest rate indexes	**31,248**	**13,989**	**32,233**	**6,207**
Options	5,256	–	6,890	–
Swaps	24,827	12,824	24,520	5,384
Forward	1,165	1,165	823	823
Futures	–	–	–	–
Others	–	–	–	–
Equity instruments and stock indexes	**2,047**	**–**	**1,712**	**–**
Options	2,047	–	1,712	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Gold and currencies	**10,485**	**–**	**9,868**	**–**
Options	753	–	1,935	–
Swaps	1,390	–	1,142	–
Forward	8,342	–	6,791	–
Futures	–	–	–	–
Others	–	–	–	–
Commodities	**651**	**–**	**348**	**–**
Other underlyings	**–**	**–**	**–**	**–**
TOTAL	**44,430**	**13,989**	**44,161**	**6,207**

Banking book: end of period notional amounts – Hedging derivatives (€ million)

	31 DEC. 2017		31 DEC. 2016	
DERIVATIVE INSTRUMENT TYPES/UNDERLYINGS	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Debt securities and interest rate indexes	**72,096**	**90**	**62,964**	**9,303**

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Options	2,484	–	2,524	–
Swaps	69,612	90	60,440	9,303
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Equity instruments and stock indexes	**–**	**–**	**–**	**–**
Options	–	–	–	–
Swaps	–	–	–	–
Forward	–	–	–	–
Futures	–	–	–	–
Others	–	–	–	–
Gold and currencies	**21,109**	**–**	**17,921**	**–**
Options	–	–	–	–
Swap	11,631	–	13,502	–
Forward	9,478	–	4,420	–
Futures	–	–	–	–
Others	–	–	–	–
Commodities	**–**	**–**	**–**	**–**
Other underlyings	**–**	**–**	**–**	**–**
TOTAL	**93,205**	**90**	**80,885**	**9,303**

For information on the presentation of hedging transactions see section A.5.3.3 Hedge accounting and sections B.5 and C.21.

Banking book: end-of-period notional amounts – Other derivatives

Like in the previous year, UniCredit Bank Austria had no other derivatives.

Financial derivatives – breakdown by product

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE		POSITIVE FAIR VALUE		NEGATIVE FAIR VALUE	
TRANSACTION TYPES/UNDERLYINGS	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE	OVER THE COUNTER	CLEARING HOUSE
Regulatory trading portfolio	**896**	**108**	**912**	**91**	**1,095**	**16**	**1,089**	**9**
Options	131	–	99	–	154	–	127	–
Interest rate swaps	574	108	600	91	668	16	687	9
Cross currency swaps	48	–	58	–	61	–	72	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	143	1	155	0	213	0	203	1
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Banking book – Hedging derivatives	**2,083**	**1**	**1,654**	**1**	**2,660**	**1**	**2,151**	**2**
Options	22	–	183	–	38	–	220	–
Interest rate swaps	1,911	1	1,371	1	2,528	1	1,826	2
Cross currency swaps	133	–	63	–	89	–	98	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	17	–	36	–	4	–	7	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Banking book – Other derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Options	–	–	–	–	–	–	–	–
Interest rate swaps	–	–	–	–	–	–	–	–
Cross currency swaps	–	–	–	–	–	–	–	–
Equity swaps	–	–	–	–	–	–	–	–
Forward	–	–	–	–	–	–	–	–
Futures	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
TOTAL	**2,979**	**109**	**2,566**	**92**	**3,755**	**17**	**3,241**	**11**

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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	**14,812**	**15,105**	**14,514**	**44,430**
Financial derivative contracts on debt securities and interest rates	5,839	12,305	13,104	31,248
Financial derivative contracts on equity securities and stock indexes	303	686	1,058	2,047
Financial derivative contracts on exchange rates and gold	8,236	1,897	352	10,485
Financial derivative contracts on other values	434	217	–	651
Banking book	**35,987**	**32,077**	**25,141**	**93,205**
Financial derivative contracts on debt securities and interest rates	24,337	26,178	21,581	72,096
Financial derivative contracts on equity securities and stock indexes	–	–	–	–
Financial derivative contracts on exchange rates and gold	11,650	5,899	3,560	21,109
Financial derivative contracts on other values	–	–	–	–
TOTAL 31 DEC. 2017	**50,799**	**47,181**	**39,655**	**137,635**

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**

Credit derivatives: end of period notional amounts

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	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	–	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
TOTAL	**13**	**–**	**–**	**–**	**13**	**–**	**–**	**–**
Protection seller's contracts								
Credit default products	357	–	–	–	362	–	–	–
Credit spread products	–	–	–	–	–	–	–	–
Total rate of return swaps	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
TOTAL	**357**	**–**	**–**	**–**	**362**	**–**	**–**	**–**

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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:	**264**	**45**	**60**	**369**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	264	45	60	369
Banking book:	**–**	**–**	**–**	**–**
Credit derivatives with qualified reference obligation	–	–	–	–
Credit derivatives with not qualified reference obligation	–	–	–	–
TOTAL 31 DEC. 2017	**264**	**45**	**60**	**369**

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**

E.6 – Currency risk

Assets and liabilities in foreign currency

(€ million)

	31 DEC. 2017				31 DEC. 2016			
	USD	JPY	CHF	OTHER	USD	JPY	CHF	OTHER
Financial assets	**2,822**	**250**	**7,249**	**1,769**	**3,594**	**327**	**9,637**	**2,447**
Debt securities	–	–	–	41	8	–	–	60
Equity securities	–	–	–	–	–	–	–	–
Loans to banks	552	11	522	896	1,145	12	170	1,328
Loans to customers	2,265	239	6,727	832	2,436	315	9,467	1,058
Other financial assets	5	–	–	–	6	–	–	–
Other assets	**5**	**–**	**5**	**–**	**9**	**–**	**6**	**–**
Financial liabilities	**3,781**	**75**	**216**	**1,427**	**4,833**	**80**	**114**	**1,458**
Deposits from banks	1,586	1	18	569	1,543	1	21	871
Deposits from customers	1,932	16	199	780	2,302	17	92	499
Debt securities in issue	262	57	–	78	984	62	–	88
Other financial liabilities	1	–	–	–	4	–	–	–
Other liabilities	**2**	**–**	**1**	**–**	**4**	**–**	**1**	**–**

CHF risk

As in the previous year, the volume of CHF loans was once again significantly reduced in 2017. Customer receivables decreased by €2.7 billion from €9.5 billion to €6.7 billion. Of the total volume of CHF loans, 86% was attributable to retail.

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 €9.4 million to €282.6 million, mainly as a result of parameter adjustments. As at 31 December 2017, the provision for IBNR losses on CHF loans amounted to €23.7 million (31 December 2016: €32.0 million).

Other currency risks

Customer loans in other foreign currencies (excluding CHF) amounted to €3.3 billion as at 31 December 2017 (31 December 2016: €3.8 billion), of which a large part were loans in USD (primarily to customers in Corporate & Investment Banking and Corporate Banking).

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 expanded model has been used for internal risk management since the end of 2016, as well as for capital adequacy since mid-2017 following approval from the ECB.

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 spite of the very good average credit rating of our business partners, the 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. The requirements regarding the

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mandatory exchange of collateral in bilateral margining contracts with financial counterparties for variation margins were implemented in Q1 2017 in accordance with the regulations. 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 Bank Austria at the end of the year:

Exposure by sector (€ million)

Sector	2017	2016
Financial services sector	535	723
Trade and industry	558	677
Central clearing counterparties (CCP)	35	349
Real estate	265	306
Energy	68	94
Public sector	42	44
Total	**1,503**	**2,190**

Exposure by rating class (€ million)

Rating class	2017	2016
1	201	535
2	314	975
3	577	215
4	235	215
5	133	172
6	20	53
7	10	14
8	2	4
9	11	3
10	0	8

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, 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. 2017			31 DEC. 2016		
COUNTRY/PORTFOLIO	NOMINAL VALUE	BOOK VALUE	FAIR VALUE	NOMINAL VALUE	BOOK VALUE	FAIR VALUE
Austria	**6,938**	**7,694**	**7,703**	**7,672**	**8,715**	**8,727**
HFT financial assets/liabilities (net exposures)	–	–	–	0	0	0
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	6,842	7,597	7,597	7,570	8,612	8,612
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	96	98	106	102	103	116
Spain	**2,807**	**3,065**	**3,065**	**2,208**	**2,373**	**2,373**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	2,799	3,058	3,058	2,200	2,367	2,367
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	8	7	7	8	6	6
Luxembourg	**686**	**705**	**705**	**783**	**814**	**814**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	686	705	705	783	814	814
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Italy	**775**	**912**	**912**	**750**	**903**	**903**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	775	912	912	750	903	903
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
France	**425**	**431**	**431**	**720**	**746**	**746**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	425	431	431	720	746	746
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Poland	**349**	**398**	**398**	**184**	**200**	**200**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	349	398	398	184	200	200
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–

E – Risk report (CONTINUED)

COUNTRY/PORTFOLIO	31 DEC. 2017 NOMINAL VALUE	31 DEC. 2017 BOOK VALUE	31 DEC. 2017 FAIR VALUE	31 DEC. 2016 NOMINAL VALUE	31 DEC. 2016 BOOK VALUE	31 DEC. 2016 FAIR VALUE
Belgium	**140**	**142**	**142**	**295**	**317**	**317**
HFT financial assets/liabilities (net exposures)	–	–	–	–	–	–
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	140	142	142	295	317	317
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
Other Countries	**461**	**385**	**385**	**436**	**346**	**346**
HFT financial assets/liabilities (net exposures)	115	1	1	115	1	1
Financial assets at FV through P&L	–	–	–	–	–	–
Available for sale	345	385	385	320	346	346
Loans and receivables	–	–	–	–	–	–
Held-to-maturity investments	–	–	–	–	–	–
TOTAL	**12,581**	**13,733**	**13,742**	**13,047**	**14,415**	**14,427**

E – Risk report (CONTINUED)

Breakdown of sovereign debt securities by portfolio

(€ million)

	31 DEC. 2017					
	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	–	13,628	–	105	13,733
Total portfolio of debt securities	2	–	14,928	186	216	15,332
% Portfolio	50.00 %	0.00 %	91.29 %	0.00 %	48.61 %	89.57 %
RECAST	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 %

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. 2017	31 DEC. 2016
Austria	5,052	4,997
Indonesia	219	262
Gabon	158	180
Ghana	96	102
Philippines	96	90
Sri Lanka	74	82
Laos	93	74
Vietnam	70	65
Honduras	59	59
Angola	94	57
Bosnia and Herzegovina	30	35
Serbia	7	6
Other	367	376
TOTAL ON-BALANCE SHEET EXPOSURE	**6,415**	**6,384**

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 financial year 2017, 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 (English version) 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.

Organisationally, UniCredit Bank Austria AG has established decentralised OpRisk management in the form of divisional and subsidiary contact partners ("Divisional OpRisk Managers" (DORM) or "OpRisk Managers" (ORM)) similar to other types of risk and also in accordance with the UniCredit Group approach. 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 2017 focused on:
- Integrating OpRisk strategy issues of 2016 and monitoring by reference to key performance indicators in the Permanent Work Group (a cross-divisional OpRisk work group which holds regular meetings).
- Implementation of risk mitigation measures for the OpRisk strategy (by DORMS and ORMs) and their reporting in the Permanent Work Group and the Operational & Reputational Risk Committee (OpRRiCo).
- Integration of the approach for monitoring OpRisk exposures using the ELOR (Expected Loss for Operational Risk).
- Integration of a risk-sensitive approach to allocating the OpRisk capital requirement within the Bank Austria sub-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 on an ongoing basis for more effective risk measurement.
- Increasing awareness of operational risk issues by attending training sessions and revising online training.

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)

Operational risk issues are dealt with 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.

In 2017, reputational risk activities focused on continued support for subsidiaries in the further implementation and expansion of structures, RepRisk policies and training, on ongoing monitoring and reporting of reputational risk events and trends relating to relevant issues, and on increasing the management's awareness of reputational risk through training activities at UniCredit Bank Austria AG and its subsidiaries.

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

In general, provisions are made for those procedures where imminent losses are probable or certain, but where the amount or timing of the occurrence of such losses is undefined. In such cases, provisions are made in the amount deemed appropriate in view of the circumstances and in accordance with the accounting principles, respecting both the principle of prudence and the principle of reasonable, reliable estimation.

E – Risk report (CONTINUED)

Legal risks for which provisions have been formed

In accordance with the principles described above provisions were formed for the following pending legal disputes and other proceedings in the amount of the assessed risk. In accordance with IAS 37, information does not have to be provided in case it would seriously compromise the position of the company in the legal dispute:

Madoff

Background

UniCredit Bank Austria AG ("Bank Austria") and some of its affiliates and indirect subsidiaries have been sued or investigated as a result of the Ponzi scheme operated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was uncovered in December 2008.

Civil law procedures in Austria

Investors in the Primeo and Herald Madoff feeder funds have filed numerous civil proceedings, of which 44 are still pending with €12.8 million plus interest being claimed. The asserted claims in these proceedings are either claims that Bank Austria committed certain violations in its capacity as prospectus controller or claims that Bank Austria improperly advised certain investors (directly or indirectly) to invest in these funds, or a combination of these claims. The Austrian Supreme Court has issued twenty-three final decisions with regard to the prospectus liability claims asserted in the proceedings. With regard to the proceedings concerning the Primeo feeder funds, thirteen final decisions were issued by the Austrian Supreme Court in favour of Bank Austria. In two proceedings, the Supreme Court rejected Bank Austria's extraordinary appeal and therefore made the decision of the Court of Appeal, which had been issued in favour of the plaintiffs, final. With regard to the Herald feeder fund, the Austrian Supreme Court has ruled on prospectus liability claims five times, twice in favour of Bank Austria and three times in favour of the plaintiffs. In a prospectus liability case where investments were made in Primeo and Herald, the Supreme Court ruled in favour of Bank Austria; in two further prospectus liability cases where investments were made in Primeo and Herald, the Supreme Court rejected the plaintiffs' extraordinary appeals, thereby ruling the decisions of the Court of Appeal to be legally binding in favour of Bank Austria.

The impact of these decisions on the remaining proceedings cannot be predicted with certainty; future decisions could be detrimental to Bank Austria.

With regard to the Austrian civil proceedings pending against Bank Austria in connection with Madoff's fraud, Bank Austria has formed provisions to the extent that it considers appropriate for the current risks.

Criminal proceedings in Austria

Bank Austria is being prosecuted in criminal proceedings in Austria in connection with the Madoff case. The allegations relate, among other things, to the fact that Bank Austria, as the prospectus controller of the Primeo fund, violated provisions of the Austrian Investment Fund Act and certain tax issues. The preliminary proceedings for the tax issues were stopped in September 2016 as the tax authorities confirmed in a final report that all taxes have been duly paid. Investigations into prospectus liability under criminal law in view of the bank's capacity as prospectus controller of the Primeo fund were terminated on 2 August 2017. Private parties have brought motions for continuation. As regards the other allegations, the preliminary proceedings are still at the investigative stage.

Proceedings in the United States

Actions by the SIPA trustee

In December 2010, the insolvency administrator (the "SIPA Trustee") brought an action for the liquidation of BLMIS as well as other actions against dozens of defendants, including HSBC, UniCredit S.p.A., Bank Austria and certain affiliates, to a United States Federal Court (the "HSBC Proceedings").

In the HSBC Proceedings, the SIPA Trustee filed civil claims and avoidance claims (also known as "clawback claims") worth several billion US dollars. The civil claims were dismissed in 2011 and no further appeals are pending against this decision. In 2015, the SIPA Trustee dropped the avoidance claims against UniCredit S.p.A and the Alternative Investments Division of Pioneer ("PAI") in the HSBC Proceedings, waiving the claims, as well as the avoidance claims against Bank Austria, without waiving the claims; this was done following claim adjustments that did not concern UniCredit S.p.A., PAI or Bank Austria and were considered by the SIPA trustee to satisfy the relevant claims. A judgment was issued by the Bankruptcy Court on 22 November 2016 which ordered the avoidance claims against BA Worldwide Fund Management Ltd ("BAWFM") to be rejected. On 9 March 2017, the SIPA Trustee commented on the rejection of the avoidance claims against BAWFM in writing. On 16 March 2017, the SIPA Trustee filed an appeal against the rejection of the claims. The appeal is currently pending. Even if this appeal were successful, there is no significant potential claim for damages and therefore no significant risk profile for the UniCredit Group. Certain current or former related persons named as defendants in the HSBC Proceedings may be granted rights to indemnification by UniCredit S.p.A. and its affiliates.

E – Risk report (CONTINUED)

Action by SPV OSUS Ltd.
Bank Austria and some of its affiliates – UniCredit S.p.A., BAWFM, PAI – were named as defendants, together with some 40 other defendants, in an action filed with the Supreme Court of the State of New York, County of New York on 12 December 2014 by SPV OSUS Ltd. The action pursues civil claims in connection with the Madoff Ponzi scheme, namely that the defendants generally supported or assisted the Madoff Ponzi scheme and/or knowingly participated therein. The action was filed on behalf of investors in BLMIS and seeks damages of an unspecified amount. The action brought by SPV OSUS Ltd. is in the initial stages. The statement of claim has been provided to Bank Austria, however no substantive court proceedings have yet taken place.

Possible ramifications
In addition to the aforementioned proceedings and investigations against UniCredit Bank Austria AG, its affiliates and some of their employees and former employees in connection with the Madoff case, additional actions may be brought in connection with this case in the future in the United States, Austria or other countries. Such possible future actions could be brought against UniCredit Bank Austria AG, its affiliates and their employees and former employees. The pending proceedings and possible future actions may have a negative impact on UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its affiliates intend to use all available means to defend themselves against the claims and allegations in connection with the Madoff case. Apart from the aforementioned issues, it is currently not possible to reliably estimate the time horizon and the outcomes of the various actions or to determine the level of responsibility – should responsibility be proven.

Alpine Holding GmbH
Alpine Holding GmbH issued one bond in 2010, one in 2011 and one in 2012. In 2010 and 2011, UniCredit Bank Austria AG acted as joint lead manager together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings followed. Numerous bondholders then wrote to the banks involved in the bond issues to assert claims. At least as far as UniCredit Bank Austria AG is concerned, the bondholders largely based their claims on the prospectus liability of the joint lead managers and, in fewer cases, also on flawed investment advice provided by the banks that sold the bonds to their customers. Investors have filed civil proceedings, including three class actions by the Federal Chamber of Labour (with claims amounting to some €20.3 million), in which UniCredit Bank Austria AG is named as a defendant in addition to other banks. The significant aspect is the prospectus liability. These civil proceedings are predominantly still pending at first instance. To date, no final decisions have been issued against UniCredit Bank Austria AG. In addition to the aforementioned proceedings against UniCredit Bank Austria AG resulting from the insolvency of Alpine, there are threats of further actions in connection with Alpine which could be brought in the future. Pending or future actions may negatively affect UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to use all available means to defend itself against these claims. At present, it is not possible to estimate the timing and outcome of the various proceedings or to assess the level of responsibility, if any is proven.

Criminal proceedings in Austria
A number of accused persons are being prosecuted in Austria in connection with the Alpine bankruptcy case. UniCredit Bank Austria AG has joined the criminal proceedings as a private party. The criminal proceedings are in the investigative stages. The preliminary proceedings were conducted by the Public Prosecutor's Office also against unknown responsible persons of the issuing banks. In May 2017, the Public Prosecutor's Office against Economic Crimes and Corruption terminated this part of the investigative proceedings. Appeals against this decision were rejected in January 2018.

Financial sanctions
Recently, violations of US sanctions and certain practices involving USD payments at specific financial institutions resulted in the conclusion of settlements and the payment of significant fines, depending on the specific circumstances of the case, to various US authorities, notably 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").

UniCredit Bank Austria AG has launched a voluntary investigation into its compliance with applicable US financial sanctions in the past and has identified certain non-transparent practices undertaken in the past. The scope, duration and outcome of such a review or investigation will depend on the individual facts and circumstances of each case. UniCredit Bank Austria AG shall inform the competent authorities accordingly and has started to implement various measures to reduce risk. Although we are currently unable to determine the nature, extent or timing of any decision by the relevant authorities, the costs of the investigation, any necessary redress and/or payments or any other legal liability could result in cash outflows and may adversely affect the financial position and net result of UniCredit Bank Austria AG over certain periods of time.

E – Risk report (CONTINUED)

Initiation of administrative penalty proceedings in connection with measures to combat money laundering
During an on-site audit carried out in 2014, the FMA identified four weaknesses in the strategies and procedures used by UniCredit Bank Austria AG to combat money laundering and the financing of terrorism. In connection with two of these weaknesses, the FMA has initiated proceedings in which it accuses UniCredit Bank Austria AG of not having had the appropriate strategies and procedures in place until the relevant corrective measures were completed. At first instance, the FMA imposed a fine of EUR 66,000 on UniCredit Bank Austria AG for one of the two weaknesses identified. The proceedings have been suspended as regards the second weakness. As the FMA did not consider all the arguments put forward by UniCredit Bank Austria AG, UniCredit Bank Austria AG filed an appeal against the FMA's decision.

Legal risks for which no provisions have previously been formed

In accordance with the principles described above, no provisions have been formed for the below pending legal disputes. Due to the uncertain circumstances surrounding legal disputes, we cannot rule out that the following proceedings will result in losses for the bank:

Valauret S.A.
In 2001, plaintiffs Valauret S.A. and Hughes de Lasteyrie du Saillant acquired shares in the French company Rhodia S.A. The plaintiffs allege that they suffered losses as a result of a decline in the Rhodia share price between 2002 and 2003. This was allegedly caused by fraudulent activity on the part of the members of the company's Board of Directors, which the plaintiffs claim resulted in false and misleading annual financial statements.

In 2004, the plaintiffs lodged an action for damages against the Board of Directors, the auditors and Aventis S.A. (the supposed majority shareholder of Rhodia S.A.). They subsequently extended their claim to include other parties – a total of 14 defendants – including UniCredit Bank Austria AG as the legal successor of Creditanstalt AG, against which an action was filed towards the end of 2007. The plaintiffs allege that Creditanstalt AG was involved in the alleged fraudulent activity mentioned above because it served as the bank of one of the companies involved in said activity. Valauret S.A. demands compensation in the amount of €129.8 million in addition to legal costs, and Hughes de Lasteyrie du Saillant seeks compensation in the amount of €4.39 million.

According to UniCredit Bank Austria AG, the allegation of Creditanstalt AG's involvement in fraudulent activity is wholly without foundation. The civil proceedings were suspended following the initiation of criminal proceedings in 2006, even before the action was extended to include UniCredit Bank Austria AG. In December 2008, the Commercial Court of Paris also suspended the civil proceedings against UniCredit Bank Austria AG.

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 audit committee oversees the efficacy of the internal control and risk management system in addition to the accounting process as a whole; it may, if required, issue recommendations and suggestions to ensure the reliability of the accounting process.

E – Risk report (CONTINUED)

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 into the UniCredit Group, the Italian “Saving Law”, Section 262 (detailed descriptions of processes, risks and controls for minimising risk in the preparation of annual and consolidated financial statements) in particular, must be complied with in addition to the existing internal control system.

Pursuant to the “262 Saving Law”, the CEO and the CFO are liable, under civil and criminal law, for any violation of 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 and the audit committee with quarterly reports.

Control environment

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 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 continuously reviewed by Internal Audit.

Risk assessment

In connection with the “262 Saving Law”, the responsible persons 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 to ensure they are up to date at least once every six months. The focus is on those risks which are typically considered to be material.

To meet the “262 Saving 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. The reconciliation measures 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 the “262 Saving Law” and are audited by external auditors pursuant to the “International Standards for Assurance Engagements (ISAE) No. 3402”.

E – Risk report (CONTINUED)

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 counteract 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 Saving 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 responsible persons are required to carry out tests to check that descriptions are up to date and controls are effective. 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 responsible persons confirm by means of certification that the 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 Saving Law" in the context of the financial statements for the first six months and the annual financial statements.

F – Additional disclosures

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 2017:
Chairman and Chief Executive Officer: Robert ZADRAZIL
Deputy Chairman: Romeo COLLINA
Members: Dieter HENGL, Gregor HOFSTÄTTER-POBST, Jürgen KULLNIGG, Doris TOMANEK

The following persons were members of the Supervisory Board of UniCredit Bank Austria AG in 2017:
Chairman: Erich HAMPEL
Deputy Chairman: Ranieri De MARCHIS, MBA
Members: Mirko D. BIANCHI, Paolo CORNETTA (from 19 April 2017), Massimiliano FOSSATI (until 31 October 2017), Olivier Nessime KHAYAT, Alfredo MEOCCI, Marina NATALE (until 13 March 2017), Gianni Franco PAPA, Karl SAMSTAG, Eveline STEINBERGER-KERN, Ernst THEIMER, Andrea VARESE (from 27 November 2017), Adolf LEHNER, Christine BUCHINGER (from 23 January 2017), Alfred FÜRLER (until 22 January 2017) Mario PRAMENDORFER, Barbara TITZE, Wolfgang TRUMLER, Barbara WIEDERNIG (until 30 November 2017), Karin WISAK-GRADINGER (from 01 December 2017)

As at 31 December 2017, 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 2017 (€ million)

	PARENT COMPANY	UNCONSOLIDATED SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT OF ENTITY OR ITS PARENT	OTHER RELATED PARTIES	TOTAL
Loans and advances	1,759	5,663	607	120	1	93	8,243
Equity instruments	–	–	–	–	–	0	0
Other receivables	–	49	0	–	–	–	49
TOTAL ASSETS	**1,759**	**5,712**	**607**	**120**	**1**	**93**	**8,292**
Deposits	424	1,191	6,534	3	10	58	8,220
Other financial liabilities	–	170	–	–	–	–	170
Other liabilities	13	6	0	–	–	–	18
TOTAL LIABILITIES	**436**	**1,366**	**6,534**	**3**	**10**	**58**	**8,408**
Guarantees issued by the group	92	721	3	1	–	0	817
Guarantees received by the group	301	190	–	–	–	–	492

F – Additional disclosures (CONTINUED)

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

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 €4,796 million:

Items in the statement of financial position

(€ million)

	31 DEC. 2017	31 DEC. 2016
Deposits from banks	257	310
Deposits from customers	427	476
Debt securities in issue	975	1,666
of which: subordinated	*962*	*1,648*
Other liabilities	59	134
Provisions for post-retirement benefit obligations	3,078	3,122
Total	**4,796**	**5,708**

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 2017 financial year (excluding payments into pension funds) totalled €2,130,898.71 (comparable emoluments in the previous year totalled €2,357 thousand). Of this total, €1,573,307.00 (2016: €1,571 thousand) related to fixed salary components and €557,591.71 (2016: €786 thousand) were variable salary components. Moreover, a provision was made for variable remuneration for 2016 (subject to malus) in the amount of €1,226,012.00, 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 2017 financial year amounted to €1,615,960.51 (2016: €3,296 thousand) and are partly (2017: €1,335,210.00; 2016: €777 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.

F – Additional disclosures (CONTINUED)

Payments to former members of the Management Board and their surviving dependants (excluding payments into pension funds) totalled €7,483,908.25. (Of this total, €4,051,677.37 was paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,645,030.56 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 the previous year was €8,009 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €17,133.64 (2016: €10 thousand).

The emoluments of the Supervisory Board members active in the 2017 business year totalled €318,404.53 (2016: €306 thousand) for UniCredit Bank Austria AG, and €1,430.00 (2016: €1 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 €304,732.30 (2016: €332 thousand), utilised overdraft facilities were €25,028.93 (2016: €34 thousand). Repayments during the business year totalled €34,120.92 (2016: €34 thousand).

Loans to members of the Supervisory Board amounted to €681,094.77 (2016: €954 thousand). Overdraft facilities utilised by Supervisory Board members totalled €62,408.36 (2016: €37 thousand). Repayments during the business year totalled €63,082.57 (2016: €63 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.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 2017, 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 2017, 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, "AVZ Stiftung" and "Betriebsratsfonds". In the ReBORA, "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 concluded in 2006, "AVZ 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 "AVZ Stiftung" and the Municipality of Vienna.

F – Additional disclosures (CONTINUED)

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.2.3 – Other information on related party relationships

Under Section 92 (9) of the Austrian Banking Act, "Privatstiftung zur Verwaltung von Anteilsrechten" ("AVZ 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 ("AVZ 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.

As part of the spin-off of the CEE Business, UniCredit S.p.A. provided a guarantee for the banks pension obligations until 31 December 2028.

F.3 – Share-based payments

Description of payment agreements based on own equity instruments

Group Medium & Long Term Incentive Plans for selected employees include the following:
- **Stock Options** allocated to selected top & senior managers and key talents of the Group and represented by subscription rights of UniCredit shares;
- **Group Executive Incentive System** that offers to eligible Group executive a variable remuneration for which payment will be made within five years. The beneficiary will receive the payment in cash and/or in UniCredit shares; the payment is related to the achievement of performance conditions (other than market conditions) stated in the plan rules;
- **Group Executive Incentive System** (Bonus Pool) that offer to eligible Group executives and relevant employees identified following regulatory rules, a bonus structure composed by 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. This payment structure will guarantee the alignment to shareholder interest and will be subjected to malus (which applies in case specific profitability, capital and liquidity thresholds are not met at both Group and country/division level) and claw back 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 opportunity to buy UniCredit ordinary shares with the advantages to foresee the 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 the plan rules;
- **Long Term Incentive 2017–2019** that offers to eligible executives and key players of the Group an incentive 100% based on ordinary UniCredit shares, subject to 3-years deferral and to malus and claw-back conditions, as legally enforceable, as defined in plan rules. The plan is structured on 3-years performance period, aligned to the new UniCredit strategic plan and provides for the allocation of one award based on gateway conditions on profitability, liquidity, capital and risk position and a set of performance conditions focused on Group targets, aligned with Transform 2019;

F – Additional disclosures (CONTINUED)

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, may be used for the settlement of severance payments 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 recognized on a basis of instrument vesting period.

Any new stock options' plans haven't been granted during 2017.

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. 2017 IN EUR 2)
Management Board	2004	0	0	4.018	112.35	03 Sept. 08	9 Years	1)	No	0.00
Management Board	2005	113,000	4,041	4.817	134.69	25 Nov. 09	9 Years	1)	No	119,192.40
Management Board	2006	111,000	3,970	5.951	166.40	28 June 10	9 Years	1)	No	140,859.00
Management Board	2007	0	0	7.094	198.36	13 July 11	6 Years	1)	No	0.00
Management Board	2008	361,671	12,935	4.185	117.02	25 June 12	6 Years	1)	No	236,966.84
Management Board	2009	0	0	0	0.00	–	–	–	–	0.00
Management Board	2010	0	0	1.807	11.90	31 July 14	–	–	–	0.00
Management Board	2011	0	0	4.01	4.01	01 July 16	6 Years	1)	–	0.00
Management Board	2012	0	0	0	0.00	–	–	–	–	0.00
Management Board	2013	0	0	0	0.00	–	–	–	–	0.00
Management Board	2014	0	0	0	0.00	–	–	–	–	0.00
Management Board	2015	0	0	0	0.00	–	–	–	–	0.00
Management Board	2016	0	0	0	0.00	–	–	–	–	0.00
Management Board	2017	0	0	0	0.00	–	–	–	–	0.00
Total Management Board	**2004–2017**	**585,671**	**20,946**	**–**	**–**	**–**	**–**	**–**	**–**	**497,018.24**

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 2017:

No new Stock Options were issued to executives and other employees in 2017; no Stock Options were exercised by members of the management board.

F – Additional disclosures (CONTINUED)

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. 2017 IN EUR 2)
Executives	2007	0	0	7.094	198.36	13 July 11	6 Years	1)	No	0.00
Executives	2008	1,504,195	269,100	4.185	117.02	25 June 12	6 Years	1)	No	985,548.56
Executives	2010	0	0	–	–	–	–	–	–	0.00
Total Executives	**2007–2010**	**1,504,195**	**269,100**	**–**	**–**	**–**	**–**	**–**	**–**	**985,548.56**
Other employees	2007	0	0	7.094	198.36	13 July 11	6 Years	1)	No	0.00
Other employees	2008	451,947	80,853	4.185	117.02	25 June 12	6 Years	1)	No	296,115.67
Other employees	2010	0	0	–	–	–	–	–	–	0.00
Total other employees	**2007–2010**	**451,947**	**80,853**	**–**	**–**	**–**	**–**	**–**	**–**	**296,115.67**
Total Stock Options	**2004–2010**	**2,541,813**	**370,899**	**–**	**–**	**–**	**–**	**–**	**–**	**1,778,682.48**

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 2017:

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 is expressed 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 a basis of 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 and accured over the term of the instrument's vesting period during the year.

Group Executive Incentive System "Bonus Pool 2016" – Shares
The plan is divided into clusters, each of which can have three or four installments of share-based payments spread over a period defined according to plan rules.

	SHARES GRANTED GROUP EXECUTIVE INCENTIVE SYSTEM – BONUS POOL 2016			
	INSTALMENT (2019)	INSTALMENT (2020)	INSTALMENT (2021)	INSTALMENT (2022)
Date of Bonus Opportunity Economic Value granting	9 Feb. 2016	9 Feb. 2016	9 Feb. 2016	9 Feb. 2016
Date of Board resolution (to determine number of shares)	13 March 2017	13 March 2017	13 March 2017	13 March 2017
Vesting Period start-date	1 Jan. 2016	1 Jan. 2016	1 Jan. 2016	1 Jan. 2016
Vesting Period end-date	31 Dec. 2016	31 Dec. 2018	31 Dec. 2019	31 Dec. 2020
UniCredit Share market price (€)	13.057	13.057	13.057	13.057
Economic value of vesting conditions (€)	–0.231	–0.562	–0.993	–1.421
Performance Shares' fair value per unit at the grant date (€) *)	**12.826**	**12.495**	**12.064**	**11.636**

*) 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 2017 (Bonus Pool)
The new Group Incentive System 2017 is based on a bonus pool approach, aligned with regulatory requirements and market practices, which defines:
- sustainability, through direct link with entity results and alignment with relevant risk categories, utilizing specific indicators linked to risk-appetite framework;
- link between bonuses and organization structure, defining the pool at country/division level with further review at Group level;bonuses allocated to Executives and other relevant employee, identified on a basis of European Bank Authority (EBA) rules, according to 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 and loss and net equity effects related to the plan will be booked during the vesting period.

Employee Share Ownership Plan (Let's Share for 2017)
The following tables show the measurements and parameters used in relation to free shares (or rights to receive them) connected to the "Employee Share Ownership Plan" approved in 2016.

F – Additional disclosures (CONTINUED)

Measurement of Free Shares ESOP for 2017

	FREE SHARES
Date of Free Shares delivery to Group employees	31 July 2017
Vesting Period start-date	31 July 2017
Vesting Period end-date	31 July 2018
Discount Shares' fair value per unit (€)	**17.00**

All profit and loss and net equity effects referred 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 vesting period).

The plan Let's share for 2017 plan provides for the use of shares to be purchased on the market.

Long Term Incentive 2017–2019

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, based on the beneficiary position, each of which can have from one to four installments of share-based payments spread over a period defined according to plan rules.

	SHARES GRANTED LONG TERM INCENTIVE 2017–2019			
	INSTALMENT 2020	INSTALMENT 2021	INSTALMENT 2022	INSTALMENT 2023
Date of Bonus Opportunity Economic Value granting	9 Jan. 2017	9 Jan. 2017	9 Jan. 2017	9 Jan. 2017
Date of Board resolution (to determine number of shares)	9 Jan. 2017	9 Jan. 2017	9 Jan. 2017	9 Jan. 2017
Vesting Period start-date	1 Jan. 2017	1 Jan. 2017	1 Jan. 2017	1 Jan. 2017
Vesting Period end-date	31 Dec. 2019	31 Dec. 2020	31 Dec. 2021	31 Dec. 2022
UniCredit Share Market Price (€)	13.816	13.816	13.816	13.816
Economic Value of Vesting conditions (€)	–0.563	–0.995	–1.425	–1.853
Performance Shares' Fair Value per unit at Grant Date (€)	**13.253**	**12.821**	**12.391**	**11.963**

Other information

Effects on profit and loss

All share-based remuneration guaranteed after 7 November 2002 and whose vesting period ended after 1 Jan. 2005 fall within the scope of application of IFRS 2.

Financial statement presentation related to share-based payments (€ thousand)

	2017	2016
Costs/revenues	**–2,023**	**–2,874**
connected to equity-settled plans	–2,023	–2,874
connected to cash-settled plans	–	–
Debts for cash-settled plans	**–**	**–**

F – Additional disclosures (CONTINUED)

F.4 – Employees

In 2017 and 2016, the Bank Austria Group employed the following average numbers of staff (full-time equivalents):

Employees

	2017	2016
Salaried staff	5,874	27,863
Other employees	–	4
TOTAL*)	**5,874**	**27,867**
of which: in Austria	*5,775*	*6,587*
of which: abroad	*99*	*21,279*

*) Average full-time equivalents of staff employed in the Bank Austria Group, excluding employees on maternity/paternity leave.

The decline in the number of employees is due to the spin-off of CEE operations in 2016.

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 2017 financial year in the following categories:

Auditors' fees (€ thousand)

	2017	2016
Fees for the audit of the financial statements and the consolidated financial statements	**5,339**	**6,095**
Deloitte Network	4,165	4,617
Austrian Savings Bank Auditing Association	1,174	1,478
Other services involving the issuance of a report	**2,227**	**1,178**
Deloitte Network	2,209	1,132
Austrian Savings Bank Auditing Association	18	46
Tax consulting services	**204**	**214**
Deloitte Network	204	214
Austrian Savings Bank Auditing Association	–	–
Other services	**1,147**	**1,160**
Deloitte Network	35	35
Austrian Savings Bank Auditing Association	1,112	1,125
TOTAL	**8,917**	**8,646**

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.8. 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	976	1,776	564	–11	5,439
Hungary	3	3	1	–1	30
Slovakia	1	4	0	0	37
Poland	0	4	–1	0	25
Czech Republic	0	0	4	–1	0
Other countries	–1	0	2	0	1
TOTAL	**980**	**1,787**	**571**	**–12**	**5,532**

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. 2017					
	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	2,989	–	2,989	−2,564	−361	65
2) Repos	1,037	–	1,037	–	–	1,037
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2017	**4,026**	**–**	**4,026**	**−2,564**	**−361**	**1,102**
Liabilities						
1) Derivatives	2,573	–	2,573	−2,573	0	0
2) Repos	951	–	951	−951	–	–
3) Securities lending	–	–	–	–	–	–
4) Others	–	–	–	–	–	–
TOTAL 31 DEC. 2017	**3,525**	**–**	**3,525**	**−3,524**	**0**	**0**

	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**	**−3,111**	**−457**	**–**

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. 2017	31 DEC. 2016
Financial instruments held for trading	–	–
Financial instruments designated at fair value	–	–
Financial instruments available for sale	5,719	5,622
Financial instruments held to maturity	184	51
Loans and receivables with banks	754	1,237
Loans and receivables with customers	24,034	26,317
Property, plant and equipment	–	–
TOTAL	**30,691**	**33,227**

The assets include loans and receivables that are not derecognised as collateral for own liabilities. Our own liabilities, for which we provided such collateral, primarily include cover pools of public and mortgage bonds as well as well-founded UCBA bonds, refinancing transactions with the European Central Bank and other collateral arrangements. The terms and conditions for these transactions correspond to the usual market terms.

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.

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. 2017										
	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	**–**	**–**	**1,496**	**–**	**–**	**–**	**–**	**–**	**303**	**–**	**1,799**
Debt securities	–	–	1,496	–	–	–	–	–	–	–	1,496
Loans and receivables	–	–	–	–	–	–	–	–	303	–	303
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Associated financial liabilities	**–**	**–**	**951**	**–**	**–**	**–**	**–**	**–**	**231**	**–**	**1,182**
Deposits from customers	–	–	832	–	–	–	–	–	–	–	832
Deposits from banks	–	–	120	–	–	–	–	–	–	–	120
Debt securities in issue	–	–	–	–	–	–	–	–	231	–	231
TOTAL 31 DEC. 2017	**–**	**–**	**544**	**–**	**–**	**–**	**–**	**–**	**72**	**–**	**617**
	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**

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. 2017	31 DEC. 2016
Financial assets held for trading	–	–
Financial assets designated at fair value	–	–
Available-for-sale financial assets	39	39
Held to maturity investments	–	–
Loans and receivables with banks	338	254
Loans and receivables with customers	22	240
Non-current assets and disposal groups classified as held for sale	–	–
Subordinated assets	**400**	**533**
Deposits from banks	–	–
Deposits from customers	89	96
Debt securities in issue	1,079	1,928
Liabilities included in disposal groups classified as held for sale	–	–
Subordinated liabilities	**1,167**	**2,024**

The total amount of expenses for subordinated liabilities in 2017 was €27 million (2016: €176 million).

Cash and non-cash changes in subordinated pledged liabilities

(€ million)

	SUMME
Carrying amount as at 01 JAN.2017	1,928
Proceeds from issues of subordinated liabilities	–
Payments for repayment of subordinated liabilities	–748
Total changes as a result of cash flow in financing	–748
Effect of changes in exchange rate	–90
Change of fair value	–11
Carrying amount as at 31 DEC. 2017	1,079

F.11 – Trust assets and trust liabilities

(€ million)

	31 DEC. 2017	31 DEC. 2016
Loans and receivables with banks	–	1,943
Loans and receivables with customers	278	318
Equity securities and other variable-yield securities	–	–
Debt securities	–	–
Other assets	–	30
TRUST ASSETS	**278**	**2,292**
Deposits from banks	87	105
Deposits from customers	191	214
Debt securities in issue	–	1,935
Other liabilities	–	38
TRUST LIABILITIES	**278**	**2,292**

F – Additional disclosures (CONTINUED)

F.12 – Guarantees given and commitments

(€ million)

	31 DEC. 2017	31 DEC. 2016
Financial guarantees given to:	**1,295**	**1,327**
Banks	187	186
Customers	1,108	1,141
Commercial guarantees given to:	**7,436**	**7,972**
Banks	360	2,672
Customers	7,076	5,300
Other irrevocable commitments to disburse funds	**13,125**	**12,875**
Banks	622	850
Usage certain	*622*	*850*
Usage uncertain	–	–
Customers	12,503	12,025
Usage certain	*12,457*	*11,922*
Usage uncertain	*46*	*103*
Underlying obligations for credit derivatives: sales of protection	**–**	**–**
Assets used to guarantee others' obligations	**–**	**–**
Other commitments	**595**	**17**
TOTAL	**22,451**	**22,191**

F.13 – Return on assets

Disclosure pursuant to Section 64 (1) 19 of the Austrian Banking Act

	2017	2016
Net profit in € million	673	729
Total assets in € million	102,128	105,785
Return on assets	0.66%	0.69%

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

F – Additional disclosures (CONTINUED)

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 Jan. 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%.

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 Jan. 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 2017, capital ratios could be increased compared to the previous year. This can overwhelmingly be attributed to the addition of UniCredit Bank Austria AG's year-end result after dividend payment to reserves. 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 2017. After approval from the relevant officials, in the 4th quarter of 2017 tier 2 issues in the amount of €134.5 million were prematurely reduced.

Consolidated capital resources (€ million)

	31 DEC. 2017	31 DEC. 2016
Paid-in capital instruments (excl. own Common Equity Tier 1 instruments)	1,681	1,681
Reserves (incl. profit) and minority interests	6,330	6,139
Adjustments to Common Equity Tier 1	–1,485	–1,578
Transitional adjustments to Common Equity Tier 1*)	97	157
Common Equity Tier 1 (CET1)	**6,623**	**6,398**
Additional Tier 1 capital and qualifying Additional Tier 1 instruments issued by subsidiaries	0	119
Adjustments to Additional Tier 1	45	0
Transitional adjustments to Additional Tier 1*)	–45	–119
Additional Tier 1 (AT1)	**0**	**0**
Tier 1 capital (T1=CET1+AT1)	**6,623**	**6,398**
Tier 2 capital and qualifying Tier 2 instruments issued by subsidiaries	867	1,106
Adjustments to Tier 2 capital	69	46
Transitional adjustments to Tier 2 capital*)	–80	–167
Tier 2 capital (T2)	**856**	**986**
Total regulatory capital (TC=T1+T2)	**7,479**	**7,383**

*) according to the Austrian CRR Supplementary Regulation (CRR-Begleitverordnung) of 11 Dec. 2013

F – Additional disclosures (CONTINUED)

Total risk exposure amount

(€ million)

	31 DEC. 2017	31 DEC. 2016
a) Credit risk pursuant to standardised approach	8,818	10,862
b) Credit risk pursuant to internal ratings-based (IRB) approach	20,896	20,557
c) Other (contribution to default fund of a central counterparty [CCP])	3	2
Credit risk	29,717	31,421
Position. foreign exchange and commodity risk	302	147
Operational risk	3,196	3,852
Risk positions for credit value adjustments (CVA)	28	27
TOTAL RISK EXPOSURE AMOUNT	**33,243**	**35,446**

Capital ratios

	31 DEC. 2017	31 DEC. 2016
Common Equity Tier 1 ratio*)	19.9%	18.0%
Tier 1 ratio*)	19.9%	18.0%
Total capital ratio*)	22.5%	20.8%

*) based on all risks

The calculation of consolidated regulatory capital and consolidated regulatory capital requirements as at 31 December 2017 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)

	2017	2016
Securities (carrying amount)	3	6
Money market instruments	–	–
Derivatives (notional amount)	54,623	46,449

F.16 – Non-financial performance indicators

As a member of the UniCredit Group, Bank Austria does not prepare its own non-financial statements in accordance with §243b UGB, as it is in accordance with §243b (7) UGB included in the non-financial statement of UniCredti S.p.a. It is available on the UniCredit website (https://www.unicreditgroup.eu/en.html).

F.17 – 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 2017 and ending on 31 December 2017 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, 16 February 2018

Robert Zadrazil
CEO Business Areas &
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 Capital

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 31 December 2017, 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 31 December 2017, 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.

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 29.78 % in BKS Bank AG (BKS) and 47.38 % in Bank für Tirol und Vorarlberg AG (BTV). 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 method and their carrying amount before impairments as of 31 December 2017 was EUR 868 mn. The market value of the exchange-listed companies BKS and BTV was clearly below the sum of book values as at 31 December 2017.

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 as of 31 December 2017 UniCredit Bank Austria AG did not impair its shares neither in BTV nor in BKS. 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 the Notes to the Consolidated Financial Statements, E.2)

Description and issue

To account for the risk of losses in credit portfolios, risk provisions are recognized via impairment allowances for loans and

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Report of the Auditors (CONTINUED)

advances. At 31 December 2017, gross loans and advances (to customers and credit institutions) before impairments amounted to EUR 81,533.3 mn, against which loan impairment provisions of EUR 1,813.7 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 and the determination of parameters, 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 Group'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 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 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 recognizes 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 recognized and valued at 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 recognition of provisions and evaluated the effectiveness of 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 accounted for.

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.

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Report of the Auditors (CONTINUED)

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. Other information comprises 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.

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 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.
- Take into consideration as we conduct the audit in accordance with the applicable auditing standards, the legal and other regulatory frameworks of the company. However, we are not responsible for detecting or preventing violations of laws or other regulations by the company. Audits are subject to inherent limits. Thus, there is an inevitable risk of not detecting material misstatements even if the audit was designed and performed in due form. The risk of not detecting a material misstatement is higher for violations of other laws which is at least partially due to the fact that there are many laws and other regulations that are mainly focused on the operational aspects of companies and that are not captured by

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Report of the Auditors (CONTINUED)

the financial-reporting based information systems of these companies. Violations concerning other laws can thus be connected to conduct that is directed at concealing such violations.
- 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.

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.

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.

Additional information in accordance with article 10 of the EU regulation

According to sections 23 and 24 of the Austrian Savings Banks Act (SpG), the Savings Bank Auditing Association (Sparkassen-Prüfungsverband) acts as statutory auditor of UniCredit Bank Austria AG.

Under section 23 para 3 SpG in conjunction with sections 60 and 61 of the Austrian Banking Act (BWG), the audit requirement also includes the consolidated financial statements.

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Report of the Auditors (CONTINUED)

By resolution of Bank Austria's annual general shareholders' meeting on 5 August 2016, Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, was appointed as additional auditor for the fiscal year ending on 31 December 2017. In accordance with the above, the Supervisory Board of Bank Austria engaged Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, by letter dated 5 August 2016 as additional auditor.

Deloitte Audit Wirtschaftsprüfung GmbH has consecutively been the additional auditor since the group financial statements as of 31 December 2013.

We confirm that the audit opinion in the section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

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 2017
UniCredit Bank Austria AG, Vienna

Vienna, 20 February 2018

Austrian Savings Bank Auditing Association
Auditing Board

Herwig Hierzer
Certified Accountant

Reinhard Gregorich
Auditor

Deloitte Audit Wirtschaftsprüfungs GmbH

Peter Bitzyk
Certified Accountant

Gottfried Spitzer
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 2017

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 2017, the Supervisory Board held five meetings and passed four 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. In line with the Supervisory Examination Plan 2017 members of the Joint Supervisory Team of the ECB attended three meetings of the Supervisory Board in order to communicate results of assessments and to be able to enter into a dialogue with the Supervisory Board members. The functioning of the Supervisory Board and its committees was analysed and special attention was given to discussion and the decision-making process.

Focus of the Supervisory Board's activity

In the 2017 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.

In the past financial year the Supervisory Board received reports on the "BA Reloaded" project as well as the implementation of the multi-year plan, the IFRS 9 conversion project and the MiFID II topic. Furthermore information was provided on large exposures pursuant to Section 28b of the Austrian Banking Act, on issued letters of comfort and quarterly on Internal Audit. The Supervisory Board was informed on two SWIFT malfunction events around the turn of the year. An update was given concerning the transfer of employees to the state scheme managed by the Austrian Pension Insurance Institution (Pensionsversicherungsanstalt – PVA) as well as on new provisions regarding the composition of Supervisory Board and its committees. Moreover the Supervisory Board was informed on the development of the Madoff case.

The Strategic Plan 2017 – 2019 including the Budget 2018 was subject of highly intensive deliberations, and resolutions were passed in this context.

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 2017 and 2018 and the issuance of letters of comfort 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

As far as equity interests are concerned, the reporting period saw the disposal of DC Tower 1 to Deka Immobilien GmbH and the participation in the capital increase 2017 of Bank für Tirol und Vorarlberg.

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 2016 including the audit reports, and the proposal concerning the election of the auditors of the separate financial statements and the consolidated financial statements for the 2018 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 2016 as defined in Section 28 (1) and (4) of the Austrian Banking Act, and with advance approval for 2018.

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 four meetings and passed thirteen resolutions by written circular vote. Members of the Joint Supervisory Team of the ECB attended one meeting. In the context of a deep dive analysis the supervisory authorities focus on changes in governance as a result of BA Reloaded and the demerger of CEE business.

All loans approved under the Management Board's approval authority were brought to the Credit/Risk Committee's notice and

Report of the Supervisory Board for 2017 (CONTINUED)

the Committee passed resolutions on loan applications requiring its approval. The Committee regularly discussed the risks that were discernible in the context of the loan portfolio, market risk and liquidity risk. The presentations were supplemented by reports on operational risk, reputational risk and ICAAP. Resolution was passed concerning risk strategy and risk appetite 2017. The activities of the Committee moreover included timely reports on specific risk exposures and current information on regulatory capital, funding and liquidity management. Furthermore the Committee was informed about loans provided to political organization. Finally, the Committee also dealt with the recovery and resolution plan 2017 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 and once by the Joint Supervisory Team of the ECB. Three times decision was passed by circular vote in writing. The Committee closely discussed the separate financial statements and the consolidated financial statements 2016 as well as the audit reports, and provided the Supervisory Board with information on these topics. The auditors informed on the audit planning and focus areas for the full-year audit 2017. The Committee decided on the engagements of the audit company for non-audit consulting services. Information on Deloitte quarterly reviews 2017 was provided. The Committee was regularly informed by Compliance of compliance-related activity and in this context received project reports, the annual report 2016 of the Anti-Money Laundering Officer and of the Securities Compliance Officer as well as the 2017 Compliance Plan. Internal Audit presented comprehensive and detailed quarterly reports as well as the annual report 2016. Furthermore the Committee dealt with the Internal Audit Strategy and the Audit Plan 2017 including budget and resources of Internal Audit. Other activities by the Audit Committee included the Complaint Management analysis of 2016 and the results of the 2016 Managerial ICS Assessment. Furthermore, the Committee dealt with findings by the supervisory authorities, the Supervisory Affairs reports, the monitoring of the financial reporting process with due regard to the "262 Savings Law", and the report on risk management. The Committee was informed about the appointment of a new Head of Internal Audit, the Governance Monitor Report as well as the Financial Sanctions Compliance Program.

The Audit Committee also dealt with the proposal concerning the election of the auditors for the 2018 financial year and with the management letter of the auditors as well as giving its approval to the engagement letter.

The **Strategic and Nomination Committee** held one meeting and passed twice resolutions by written circular vote, in connection with replacement of members who left the Supervisory Board. In addition to the Fit&Proper re-evaluation of members of the Management Board and Supervisory Board, the Committee focused on the gender balance in the bank and monitored the course of the Management Board concerning the senior management appointments.

The **Remuneration Committee** held one meeting and passed one resolution by written circular vote. In addition to general information on the implementation of the regulatory framework, the Committee focused on the Roll out of Group Policies 2016, the presentation of the new type of variable payments, the extension of the functions with a 2:1 bonus cap, the Entry Conditions for the 2016 Group Incentive System, Incentive Payout from previous Years Plans as well as the 2016 Bonus payments and defined the population in scope. The Committee decided on the next steps for the Group Policies 2017 and the Group Incentive System 2017. The Remuneration Committee proposes a resolution at the Annual general Meeting regarding the ratio between the variable and fixed components of remuneration.

Supervisory Board and Management Board changes

The following members of the Supervisory Board resigned in 2017: Marina Natale with effect from 13 March 2017 and Massimiliano Fossati with effect from 31 October 2017. At the Ordinary General Meeting on 19 April 2017, Paolo Cornetta was elected to the Supervisory Board with immediate effect. At the Extraordinary General Meeting on 27 November 2017, Andrea Varese was elected as a new member of the Supervisory Board with immediate effect.

Alfred Fürler and Barbara Wiedernig left the Supervisory Board with effect from 22 January 2017 and 30 November 2017, respectively. In accordance with a decision taken by the Employees' Council, they were replaced by Christine Buchinger and Karin Wisak-Gradinger with effect from 23 January 2017 and 1 December 2017, respectively.

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.

Report of the Supervisory Board for 2017 (CONTINUED)

Audit of the separate financial statements and consolidated financial statements

The accounting records, the 2017 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, the management report and the proposal for the appropriation of profits presented by the Management Board, and approved the 2017 separate financial statements, which were thereby adopted pursuant to Section 96 (4) of the Austrian Joint Stock Companies Act.

The 2017 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 2017, and of the results of the Group's operations and its cash flows for the financial year beginning on 1 January 2017 and ending on 31 December 2017, 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 2017 another successful year for the company.

Vienna, 2 March 2018

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, 16 February 2018

The Management Board

Robert Zadrazil
CEO Business Areas &
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 Capital

Supervisory Board and Management Board

of UniCredit Bank Austria AG

Information regarding the Management Board

Chairman

Robert Zadrazil, born 1970
Chief Executive Officer (CEO)
Business Areas & Support Services
Member from 1 October 2011 and Chairman from 01 March 2016, end of the current term of office: 30 September 2020

Deputy Chairman

Romeo Collina, born 1953
Chief Operating Officer (COO)
Member from 01 March 2016 and Deputy Chairman from 01 October 2016, end of the current term of office: 28 February 2019

Members

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 01 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 Capital
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 01 October 2009 until 02 November 2011, Chairman from 02 November 2011)

Deputy Chairman

Ranieri De Marchis, born 1961
Co-Chief Operating Officer
UniCredit S.p.A.
(Member and Deputy Chairman from 07 November 2016)

Members

Mirko D. Bianchi, born 1962
Chief Financial Officer
UniCredit S.p.A.
(from 08 November 2016)

Paolo Cornetta, born 1961
Head of Group Human Capital
UniCredit S.p.A.
(from 19 April 2017)

Massimiliano Fossati, born 1968
Group Chief Risk Officer
UniCredit S.p.A.
(from 05 August 2016 until 31 October 2017)

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)

Supervisory Board and Management Board (CONTINUED)

Marina Natale, born 1962
Head of Strategy, Business Development & M&A
UniCredit S.p.A.
(from 09 May 2015 until 13 March 2017)

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 04 May 2006)

Eveline Steinberger-Kern, born 1972
Managing Director
The Blue Minds Company GmbH
(from 04 May 2015)

Ernst Theimer, born 1947
Chairman of the Management Board
Privatstiftung zur Verwaltung von Anteilsrechten
(from 07 July 2010)

Andrea Varese, born 1964
Group Chief Lending Officer
UniCredit S.p.A.
(from 27 November 2017)

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 04 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)

Wolfgang Trumler, born 1967
Member of the Central Employees' Council
(from 02 February 2015)

Barbara Wiedernig, born 1961
Chairman of the Employees' Council Styria
(from 24 April 2009 until 30 November 2017)

Karin Wisak-Gradinger, born 1964
Member of the Central Employees' Council
(from 01 December 2017)

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:
Massimiliano Fossati
(Member and Chairman from 05 August 2016 until 31 October 2017)
Andrea Varese (Member and Chairman from 27 November 2017)

Deputy Chairman:
Erich Hampel (Member and Deputy Chairman from 08 May 2015)

Members:
Mirko D. Bianchi (from 08 November 2016)
Olivier Nessime Khayat (from 08 May 2015)
Eveline Steinberger-Kern (from 08 May 2015)

Delegated by the Employees' Council:
Adolf Lehner (from 02 May 2006)
Wolfgang Trumler (from 02 February 2015)
Barbara Wiedernig (from 11 March 2011 until 30 November 2017)
Karin Wisak-Gradinger (from 01 December 2017)

Audit Committee:
Chairman:
Ernst Theimer (Member and Chairman from 08 May 2015)

Deputy Chairman:
Erich Hampel (Member and Deputy Chairman from 2 November 2011)

Members:
Mirko D. Bianchi (from 08 May 2017)
Massimiliano Fossati (from 05 August 2016 until 31 October 2017)
Marina Natale (from 09 May 2015 until 13 March 2017)
Gianni Franco Papa (from 15 January 2016)
Andrea Varese (from 27 November 2017)

Delegated by the Employees' Council:
Christine Buchinger (from 27 April 2017)
Adolf Lehner (from 02 May 2006)
Wolfgang Trumler (from 23 September 2016)
Barbara Wiedernig (from 02 February 2015 until 27 April 2017)

Remuneration Committee:
Chairman:
Erich Hampel (Deputy Chairman from 01 October 2009 until 03 June 2013, Chairman from 03 June 2013)

Deputy Chairman:
Ranieri De Marchis (Member and Deputy Chairman from 07 November 2016 until 08 May 2017)
Paolo Cornetta (from 08 May 2017)

Members:
Gianni Franco Papa (from 15 January 2016)

Delegated by the Employees' Council:
Adolf Lehner (from 06 November 2011)
Barbara Wiedernig (from 23 September 2016 until 30 November 2017)
Karin Wisak-Gradinger (from 01 December 2017)

Strategic & Nomination Committee:
Chairman:
Ranieri De Marchis (Member and Chairman from 07 November 2016)

Deputy Chairman:
Erich Hampel (Member from 04 November 2009 until 21 January 2011, Deputy Chairman from 21 January 2011)

Members:
Mirko D. Bianchi (from 08 November 2016 until 08 May 2017)
Paolo Cornetta (from 08 May 2017)
Gianni Franco Papa (from 15 January 2016)

Delegated by the Employees' Council:
Adolf Lehner (from 02 May 2006)
Barbara Wiedernig (from 23 September 2016 until 30 November 2017)
Karin Wisak-Gradinger (from 01 December 2017)

Supervisory Board and Management Board (CONTINUED)

Vienna, 16 February 2018

The Management Board

Robert Zadrazil
CEO Business Areas &
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 Capital

II. UniCredit Bank Austria AG

Preliminary remarks on the financial statements

of UniCredit Bank Austria AG for 2017

UniCredit Bank Austria Aktiengesellschaft, the parent company of the Bank Austria Group, presents its balance sheet as at 31 December 2017 and its profit and loss account for the year ended 31 December 2017, 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 2017 and ending on 31 December 2017 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

Management Report (CONTINUED)

1. Report on business developments and the economic situation

1.1. Business developments

Global recovery and strong economic cyclical upswing in Europe
Ten years after the beginning of the financial crisis, the global economy is undergoing a substantially synchronous return to growth – i.e. taking place in nearly all regions of the world – for the first time. The revival of the global economy with robust tailwind from the industrial and emerging markets, as well as being solidified across many sectors, has facilitated the framework conditions for the banking business in 2017, which is still required by the escalation of the regulations and the gradual start of the normalisation of monetary policy.

● The global economy was able to use its starting position in 2017, which was characterised by a solid fundamental data set and improved consumer and business sentiment, to accelerate growth of the real economic output to around 3.5 % year-on-year. Therefore, global growth has reached its highest level in seven years, despite the accumulation of potential economic risks, such as the announcement of US protectionist economic policy, Brexit, key election decisions in core EU countries, and the robustness of the emerging economies' recovery. However, the protectionist economic policy measures of Donald Trump in his first year in office as US President largely failed to appear due to strong opposition. Although the negotiations on the United Kingdom's EU exit proved to be difficult as expected, the emerging uncertainty did not unfold its potential for disruption, as it became increasingly clear that negative consequences will only be experienced in the medium term, and largely only for the UK itself. With the election victory of Emmanuel Macron in France and the confirmation of Angela Merkel in Germany, political risks caused by strong populist forces in the EU were reduced, even though the long process of forming a government in Germany and the separation movement in Catalonia created new uncertainty, however, the steady flow of good economic data declined. The upswing in the emerging markets also proved to be sustainable. The combination of robust growth in developed countries, the revival of global trade and the higher commodity prices led to a sustained recovery, spurred on by renewed capital inflows and a renewed rise in stock and bond prices. The Asian emerging markets, especially China and India, were the mainstays of growth, while large parts of Latin America, the Middle East and Africa developed more modestly.

● The US economy continued its recovery in 2017 after a weak period at the beginning of the year. The strong support in particular of consumption, the stimulus received by the positive development on the labour market, saw economic growth rise to 2.3 % (2016: 1.5 %). However, for the second year in a row, the US economy lagged behind the growth rate of the European economy. The euro-zone achieved the strongest economic growth in ten years in 2017, at 2.5 %. Furthermore, for the first time since the financial crisis, the economies of all eurozone countries are growing and the economic upturn is regionally very balanced. Since the introduction of the euro, the range of growth rates between the countries in the eurozone has never been so low as in 2017.

● Domestic demand also continued to be driven by growth in the eurozone in 2017. On the one hand, consumption benefited from a strong growth of employment, which led to a further decline in the unemployment rate to an average of 7.6 % (2016: 8.6 %), as well as continued moderate annual inflation of 1.6 %, despite the upward pressure, due to the rise in oil prices from an average of EUR 41 in 2016 to EUR 48 in 2017. On the other hand, the recovery in investment was supported by the loose monetary policy and the favourable interest rates. Despite the strength of the euro, which saw a rise in value against the US dollar from 1.05 to 1.20 at the start of the year, the rise in global trade reflected a noticeably higher export momentum. After a one year break in 2017, net exports contributed at least slightly to economic growth again.

Slow return to normality in terms of monetary policy
The economic recovery allows central banks to slowly return to normal with regard to monetary policy. In the US, the Fed continued its tightening cycle that began at the end of 2015 and raised a total of three interest rate hikes of 25 basis points in 2017. The US economy will start 2018 with a key interest margin of 1.25 % to 1.5 %. Furthermore, in October 2017, the US Federal Reserve began its efforts to increase the asset purchase program to almost USD 4.5 trillion, to reduce its balance sheet by not supporting government bonds and mortgage-backed securities on maturity, and by gradually reinvesting. Due to the economic upswing in Europe, which was delayed by the euro crisis, the ECB is lagging behind in its path to the normalisation of monetary policy. The asset purchase program was extended until September 2018, however the volume was reduced from EUR 80 billion to EUR 60 billion per month from April 2017 and further reduced to EUR 30 billion

Management Report (CONTINUED)

at the beginning of 2018. The key interest rates in Europe have not changed since March 2016. The interest rate for the main refinancing instrument is 0%. The marginal lending rate is 0.25% and the deposit rate remains minus 0.4%. While in the US, short-term interest rates showed a clear upward trend as a result of monetary tightening – the 3-month LIBOR rose by approximately 70 basis points to 1.7% at the end of 2017 – money-market interest rates remained low in the euro-zone. The 3-month Euribor was stagnant at minus 0.33%. The yields of long-term interest rates, which had already gained momentum following Donald Trump's election victory in November 2016, were also down 2.4% in the US at the end of 2017, and 0.4% for the ten-year German government bond scarcely changed at the beginning of the year. The yield of the Austrian counterpart was stable at just under 20 basis points higher. The global increase in economic growth and the continued favourable economic outlook fuelled the markets in 2017. The equity markets closed 2017 at, or close to, their annual highs. The MSCI world index advanced overall by around 20% in 2017. Germany's DAX stock index rose by more than 12%, and Austria's ATX index rose by over 30%, making it one of the best performers.

Economic situation and market developments in Austria

● With the favourable global environment, the Austrian economy was able to deliver positive surprises in 2017. The economic recovery gained significant momentum and sustainability and spread in all sectors. Economic growth accelerated from 1.5% in 2016 to 2.9%, driven by a remarkably strong investment boom and the continued strength of consumption. In combination with the strong support from the global demand, strong domestic demand has established the highest growth rate for 10 years. For the first time in three years, economic development in Austria was once again characterised by a higher momentum than in the eurozone. The central pillar of growth acceleration in Austria in 2017 was once again attributed to domestic demand. In particular, a very lively investment activity provided momentum. Gross fixed capital formation, which had already increased by 3.7% in 2016, rose by more than 5% in 2017. Both the growth of investment and construction investments gained momentum. The solid combination of increasing profitability and solid liquidity of companies as well as the favourable financing conditions have significantly supported the investment boom, especially given that capacity utilisation has significantly exceeded the long-term average, driven by strong export demand. Consumption was also a driving force of economic development in Austria in 2017. Although the positive effects of the German tax reform ended in 2016, a real increase of almost 1.5% was recorded again. The upward trend was significantly strengthened by the increasing optimism of Austrian consumers over the course of the year. The decisive factor was the significant improvement in the situation on the labour market. The strong employment growth of around 2% was enough to lower the unemployment rate according to national calculations from 9.1% in 2016 to an average of 8.5% in 2017, despite the continuing increase in labour supply. The unemployment rate (in accordance with the Eurostat definition) in Austria was 5.5% on average in 2017. For the first time since 2011, the unemployment rate in Austria was therefore once again down compared to the previous year. In addition to the easing of the labour market, wage increases have turned consumer sentiment into a positive one in Austria. However, high inflation in Europe strained real wage development and put pressure on consumption. After rising 0.9% in 2016, inflation climbed to an annual average of 2.1% in 2017. While the increase in commodity prices also somewhat was subdued by the strong euro, is moderate, there is a noticeable increase in demand for some services, for example in tourism and leisure and cultural activities, due to demand. In addition, rental prices rose sharply. The Austrian economy also benefited from the economic tailwind from abroad in 2017. The revival of global trading led to increasing demand for Austrian export products. Thanks to high export growth, the net contribution of foreign trade to global economic growth took a positive turn and, after one year's break, helped to support a GDP increase again.

● In parallel with the economic recovery, credit demand in Austria increased significantly in 2017. Rising growth over the course of the year was mainly due to corporate loans, but also the volume of loans for consumption and SMEs began to rise again during the course of the year. The demand for housing loans continued to be relatively strong, although growth remained relatively moderate compared to the past, with an annual growth rate below 5%. Despite the increasing momentum in corporate loans, a large part of the strong investment boom in Austria is not financed by bank loans, but rather by internal financing and other forms. The high liquidity of Austrian companies continues to be documented by the strong deposit growth of almost 10% in corporate deposits.

● Private households also saw a further strong build-up of bank deposits in 2017, which continued to remain by far the most important investment class, even if the volume of new business is likely to have decreased slightly compared to 2016. The second most important investment class also continued to be the funds in 2017, while bonds and life insurance again reached a new decline. Direct investments by private households in Austria in shares remained insignificant.

Major events 2017

The strategic realignment "BA Reloaded" was implemented in 2017 as part of the UniCredit Group's "Transform 2019" plan. Despite the transfer of CEE subsidiary banks in the fourth quarter of 2016, Bank Austria remains the largest single financial institution in the country by far. Being part of the UniCredit Group as

Management Report (CONTINUED)

one of the largest banks in Europe allows customers to access all opportunities offered by a large international bank. Bank Austria's customers can thus continue to make use of the high-quality consulting and services in Austria and the UniCredit banking network in Central and Eastern Europe.

With regard to the strategic realignment, there was an additional focus on reducing complexity at Bank Austria. The range of services and organisational processes are continually and sustainably improved for our customers in this context. Following UniCredit's guiding principle "Customers first", there is a focus on pioneering service and customer-focused access, with longer opening hours and consulting via SmartBanking that can be provided also outside of opening hours. Transform 2019 is supported by further digitisation and the streamlining of the product range.

In addition to external processes, efforts are also focused on improving internal processes, which allows for an efficient use of human resources. In addition to natural turnover, the staff has been reduced on the basis of a successful programme introduced already in 2016 in accordance with the principles of voluntariness and social compatibility. Furthermore, work is also continuously undertaken on other initiatives relating both to income and costs. In 2017, the bank focused in particular on preparations for the relocation of all head office employees to the new "Austria Campus" in 2018. The new corporate headquarters of Bank Austria and other UniCredit Group companies in Austria are being constructed as part of the "Austria Campus" at Vienna's former Northern Railway Station, probably the city's most important urban development area. Basing all employees – who previously worked in different office buildings in various districts in Vienna – at a single central location will significantly improve efficiency, together with the modern, contemporary standard at the site.

In connection with Bank Austria's focus on its core function as a leading bank in Austria, the bank successfully continued to reduce its non-operating real estate assets. In accordance with this strategy, additional significant parts of the property portfolio that were pooled primarily in Immobilien Holding were disposed of in 2017, such as the DC Tower, the highest office building in Vienna.

In connection with the move from a defined benefit pension system, which applied to some of the active workforce, to a defined contribution pension system in the context of statutory social security (Austrian General Social Security Act, ASVG) and the associated transfer of the majority of the entitlements for the relevant persons for whom Bank Austria acted as a social insurance agency to the statutory social security system, the Constitutional Court passed its judgment on 12 October 2017 on the amendment to the ASVG adopted by the National Council of the Republic of Austria in March 2016. In this amendment, the National Council decided that an amount of 22.8%, not 7.0%, of the last contribution base would be payable for the transfer of entitlements to the Austrian federal pension fund from employments previously not having a public pension insurance. The associated additional expense was booked already in 2016, hence the highest court's decision in favour of the amendment to the ASVG adopted by the National Council of the Republic of Austria in March 2016 had no effect on income in the 2017 annual financial statements.

Balance sheet development in 2017

Major balance sheet items in comparison

Quite generally, the Bank Austria Group's statement of financial position at 31 December 2017 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. This is reflected in the structure of the balance sheet in which both loans to customers on the asset side and deposits from customers on the liabilities side amount to more than 50% of total assets.

2017 balance sheet – structure and changes
(overview of combined balance sheet items)

	31 DEC. 2017 € BILLION	*PROPORTION %*	CHANGE OVER 2016 +/– € BILLION	+/– %
Assets				
Cash in hand, balances with central banks	8.5	*8.6%*	5.3	170%
Treasury bills and other bills eligible for refinancing at central banks	11.9	*12.0%*	–0.3	–2.8%
Loans and advances to credit institutions	11.8	*11.9%*	–6.0	–33.6%
Loans and advances to customers	59.7	*60.3%*	–0.9	–1.5%
Bonds and other fixed-income securities; shares and other variable-yield securities	2.7	*2.7%*	–1.0	–26.3%
Equity interests and shares in group companies	2.0	*2.0%*	–0.4	–15.8%
Fixed assets, other assets, deferred tax assets	2.4	*2.4%*	–0.4	–14.0%
Total assets	**98.9**	***100.0%***	**–3.6**	**–3.5%**
Liabilities and shareholders' equity				
Amounts owed to credit institutions	18.9	*19.1%*	1.7	9.8%
Amounts owed to customers	52.8	*53.3%*	–1.6	–2.9%
Debts evidenced by certificates	13.9	*14.0%*	–1.9	–11.9%
Provisions	4.3	*4.3%*	0.0	0.0%
Other liabilities items	1.8	*1.8%*	–1.4	–43.3%
Tier 2 capital	1.0	*1.0%*	–0.8	–45.3%
Capital and reserves	5.9	*6.0%*	0.0	0.0%
Net profit of the year	0.4	*0.4%*	0.4	n.m.
Total liabilities and shareholders' equity	**98.9**	***100.0%***	**–3.6**	**–3.5%**

n.m. = not meaningful

Management Report (CONTINUED)

As at 31 December 2017, UniCredit Bank Austria AG's total assets were €98.9 billion, being a small reduction of approx. –3.5% as compared to the end of the year 2016.

On the asset side, loans and receivables with customers are at €59.7 billion, by far the largest item as mentioned. Two-thirds is attributable to the Corporate Banking and Corporate & Investment Banking divisions and highlights the leading position of Bank Austria as an important lender for the Austrian economy, while the bank also plays an important role in granting loans to Austrian retail customers.

Deposits from customers totalled €52.8 billion (31/12/2016: €54.3 billion), with the Retail Banking and Private Banking business segments accounting for the largest share. This gives Bank Austria a strong refinancing base. Direct funding amounted to €66.6 billion at 31/12/2017. This means that loans to non-banks are covered by deposits from non-banks and debt securities in issue to the extent of about 112%. The significant decline in direct funding of –€3.5 billion compared to the end of 2016 is in line with the bank's current liquidity strategy and relates in particular to a decrease in deposits in the CIB and Corporate divisions and a decline in debt securities in issue resulting from lower issue activity in the reporting year over sufficient liquidity. Deposits from banks rose by €1.7 billion to €18.9 billion, reflecting the use of favourable refinancing lines at the European Central Bank.

As of 31/12/2017, provisions for risks and charges amounted to €4.0 billion, of which the majority was for provisions for pensions and similar obligations €3.6 billion. The relevant discount rate had to be adjusted in 2017 from 1.6% to 1.8%, which led to a reduction in this provision.

At the balance sheet date, the equity reported amounted to €5.9 billion. Net profit 2017 amounts to €380.5 million while the proposed dividend payment to the owners of UniCredit Bank Austria AG is €379.2 million.

Major items in the profit and loss account for 2017

			CHANGE	
	2017 € MILLION	2016 € MILLION	+/– € MILLION	+/– %
Operating income	**2,200.0**	**1,992.8**	**207.2**	**10.4%**
Net interest income	875.1	950.3	–75.2	–7.9%
Income from securities and equity interests	569.9	434.8	135.0	31.1%
Net fee and commission income	513.6	486.9	26.6	5.5%
Net profit/loss on trading activities	62.0	73.2	–11.1	–15.2%
Other operating income	179.4	47.5	131.9	277.7%
Operating expenses	**–1,435.2**	**–2,437.4**	**1,002.3**	**–41.1%**
Staff costs	–728.4	–1,428.9	700.5	–49.0%
of which: provisions for wages and salaries	–10.6	–357.0	346.0	–97.0%
of which: allocation to the pension provision	0.0	–304.3	304.3	n.m.
Non-staff operating expenses	–706.8	–1,008.5	301.8	–29.9%
of which: other operating expenses	–88.0	–261.0	173.0	–66.3%
Operating results	**764.8**	**–444.7**	**1,209.5**	**n.m.**
Charge for loan loss provisions	19.9	–111.4	131.3	–117.9%
Operating results less charge for loan loss provisions	**784.7**	**–556.1**	**1,340.8**	**n.m.**
Net income/expenses from disposal and valuation of securities/current assets	*5.0*	*18.3*	*–13.3*	*–72.8%*
Net income/expenses from disposal and valuation of securities/financial fixed assets	28.1	74.5	–46.4	–62.3%
Net income/expenses from the disposal and valuation of shares in group companies and equity interests	–428.8	63.4	–492.1	–776.6%
Results from ordinary business activities	**389.1**	**–399.9**	**789.0**	**–197.3%**
Taxes	–8.6	362.1	–370.6	–102.4%
Annual surplus/annual deficit	**380.5**	**–37.9**	**418.4**	**n.m.**
Movements in reserves	0.0	37.9	–37.9	n.m.
Profit/loss for the year	**380.5**	**0.0**	**380.5**	**n.m.**

n.m. = not meaningful

Management Report (CONTINUED)

Operating income in 2017 was €2,200 million, up by 10.4% on the previous year's figure (€1,992.8 million). Hereby net interest income, with €875.1 million (€–75.2 million), was the largest component of operating income. Significant drivers here were the loss of interest income as a result of the CEE demerger (expiring refinancing lines to previous CEE banking subsidiaries) but also continuing environment of extremely low or negative interest rates.

Dividends and other income from equity investments grew by 31.1% to €569.9 million.

Net fees and commissions (€513.6 million) rose in 2017 by €26.6 million or +5.5% compared to the same period in the previous year. Two-fifths of net fees and commissions were generated by asset management business, which showed improvements overall. Around one-half of net fees and commissions came from payment transactions, a business area which remained a major generator of contributions with income above the previous year's level. Income from financing services also was increased compared to the level of 2016.

Net profit/loss on trading activities (€62 million) was lower than in the previous year (€–11.1 million or –15.2%), where the decline is also due to special effects in the previous year. In terms of segments, the Corporate Banking and Corporate & Investment Banking divisions contributed most of the net trading, hedging and fair value income.

The position Other operating income, at €179.4 million in 2017, showed a significant increase compared to the same period in the previous year (€47.5 million). It includes positions that are not directly related to the banking business. Besides income from the sale of assets, income from rent and releases of provisions for litigation risks, also those P&L-relevant items had to be included in 2017 which resulted from the net release of pension provisions as a consequence of the adjustment of the discount rate for the pension provision.

Costs are still a very important focus of the ongoing restructuring activities undertaken in connection with the UniCredit Group's "Transform 2019" plan. Operating costs fell significantly by €–1,002.3 million or –41.1% to €1.435.2 million (previous year: 2,437.4 million), with reductions achieved in all major cost categories. Payroll costs were €–700.5 million oder –49.0% below the previous year's level (in 2016 special effects in the amount of €661 million related to BA Reloaded were included), which mainly reflected the reduction in staff capacities (FTE) introduced in line with the ongoing strategy. This socially responsible reduction in FTE provided attractive models for employees and led to a reduction in staff capacities of 529 compared to December 2016 across all areas of the bank. Other administrative expenses also fell significantly by €–101.7 million bzw. –14.8% mainly due to strict cost management – a special focus for the bank in the context of the implementation of Transform 2019. The decrease is also due in part to special effects, such as a one-off charge of legal costs in the previous year and a one-time effect from the reversal of a provision in 2017. Depreciation, which at €34.5 million was 44.0% below the previous year, included a special depreciation in the previous year in connection with office buildings. Furthermore, the implementation of the planned cost-cutting measures based on branch closures and other reductions in fixed assets had a positive impact on the development of depreciation.

These developments significantly improved cost/income ratio[1] (65.2%) as compared to the previous year (122.3%); this is a central indicator for the success of the restructuring activities.

As in the previous year, the development of net write-downs of loans and provisions for guarantees and commitments is very satisfactory. Given the currently positive environment and the bank's professional credit risk management, it was possible to reverse provisions formed in previous years and generate a positive amount of €20 million (in 2016 €–111.4 million). 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.

In 2017, net income/expenses from disposal and valuation of financial fixed assets were negative with €400.7 million due to valuation losses (2016: €137.8 million). This amount is due to write-downs on account of distributions (2017: €420 million, 2016: 0).

With €–40.7 million (€–123 million im Vorjahr), the bank levy decreased substantially despite the payment for the stability fund. Out of the total amount, €–18.8 million related to the bank levy, and €–43.6 million to the one-off special payment for the stability fund (due to the new regulation of the Austrian bank levy to be paid in four instalments between 2017 and 2020). The CEE demerger led to a one-off credit of €21.7 million.

In total, the annual surplus in 2017, the first full year after the CEE demerger, amounted to €380.5 million, after €–37.9 million in 2016.

1) cost/income ratio: Operating expenses (incl. depreciation) divided by Operating income (2016 adjusted for a change in the calculation); previously: cost/income ratio: Operating expenses (incl. depreciation) adjusted for other operating expenses divided by Operating income after deduction of other operating expenses

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1.2. Permanent establishments

There are no permanent establishments.

1.3. Financial and non-financial performance indicators

Financial performance indicators

	2017	2016	ADJ. 2015[1]
Eligible capital (until 2013: Tier 1 capital ratio)	20.2%	19.8%	15.3%
Return on equity before taxes	6.6%	–7.3%	15.9%
Return on equity after taxes	6.4%	–0.7%	14.8%
Cost/income ratio	65.2%	122.3%	70.6%
Risk/earnings ratio	–1.4%	8.0%	–3.5%
Risk/earnings ratio (without dividends)	–2.3%	11.7%	–6.5%

1) Comparative figures for 2015 without CEE units
2) Adjustments for 2015 and 2016 according to changed calculation method

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: 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
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

	2017	2016	2015	2014	2013
Domestic branches	123	141	174	217	253
Foreign permanent establishments (without banking business)	0	0	1	1	1
Outlets at companies	1	1	1	1	1
Total	**124**	**142**	**176**	**219**	**255**

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. 2017	AVERAGE FOR 2017	31 DEC. 2016
Headcount 1)	4,845	5,200	5,476
Full-time equivalents 1)	4,311	4,607	4,839

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.

Research and development

Bank Austria is a credit institution and provides banking services. The production process of a bank generally 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, new regulatory provisions necessitate new developments and adjustments on an ongoing basis.

In the area of information and communication technology (ICT), investment at UniCredit level focuses on further developing digitisation while maintaining stringent cost management. The main objective is to enhance the customer experience and expand it to include digital channels. In 2017, some €77 million were invested in IT; a large proportion of this amount went into digitisation and the further development of online channels (mobile banking, online sales, self-service facilities), in addition to regulatory requirements. ICT expenses and investments (investment budgets) are capitalised at the UniCredit subsidiary UBIS and charged to Bank Austria. UBIS provides the entire Group with IT services, enabling UniCredit Bank Austria AG to benefit from Group-wide developments and joint IT 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.

Community

Social commitment is an essential component of our sustain-ability strategy. "Acting together for a respectful society" is an initiative which we have launched to make a broader public familiar with our

Management Report (CONTINUED)

social commitment, and to encourage discussion on such important topics as tolerance, respect and social interaction. With regard to social sponsorship, we focus on initiatives that help children and young people in need and on activities in the area of integration/migration. Every year, we hand out the **Bank Austria Social Prize** in each federal state, which comes with funding of €81,000. Over the eight years that the Bank Austria Social Prize has been awarded, the bank has supported more than 100 projects across Austria with more than €500,000.

Long-term partnerships which we have developed over many years with well-known charitable 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 cooperation in Vienna and throughout Austria for over 25 years. This covers proven projects such as the Integration through Sport initiative, 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 Austrian families who experienced hardship without any fault of their own.

UniCredit Group's **"Gift Matching Programme"** is an annual initiative, probably unique in Austria, which allows Bank Austria to promote the social commitment of its employees. The idea behind the programme is simple: private donations made by employees are increased by funds held by UniCredit Foundation. Creativity knows no bounds, which results in a lively exchange on social issues among employees. The Gift Matching Programme 2017 provided some €143,000 to 61 aid projects; this amount was increased by the Foundation to €225,000.

The promotion of the arts and culture is also an important part of our social commitment. Bank Austria has long been one of the most important private sponsors in Austria. We focus on supporting young talents and long-term partnerships with renowned partners, such as the Bank Austria Art Forum, the Albertina or the Vienna Music Society. The bank has been awarding the Bank Austria Art Prize since 2010, which comes with €218,000. For three years, it has been pursuing an innovative path that is unique in Austria in the field of cultural promotion by using some of the prize money to support crowdfunding campaigns. We received an award in recognition of this in 2017 from the Economy and Arts (Maecenas) initiative.

In the **sporting** field, we also focus on traditional sponsoring activities and on people with special needs. We are proud to have been a partner of the Austrian Paralympic Committee since it was established. We also supported the 2017 Special Olympic Winter Games in Schladming with great enthusiasm.

Our economic responsibility also includes our **financial education** initiative. Our website www.finanz-bildung.at is aimed at young people, students and teachers and provides useful information about money. The topics discussed range from the functions of money and banks to banking products and distributive justice. The objective of the initiatives 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.

Customers

Customer focus and change

A great focus on customers, and therefore customer loyalty, guarantees the long-term success of Bank Austria. The rapid change in our society and our customers' demands for a digital, 24/7, mobile, socially connected, individual and customisable multi-channel bank mean that our business and service model is subject to ongoing change. Nevertheless, our activities always focus on the customer experience, as embodied by our slogan, "We want to be the best for you", and our claim, "We are here for you through the ups and the downs!" The quality of customer relationships depends not least on customers' day-to-day experience with their bank. This may be direct and indirect, significant and less significant, and conscious and subconscious experiences. We use TRI*M on scorecards as a measure of Bank Austria customers' satisfaction in relation to service, reliability and consulting quality to determine our quality score in the long term.

The bank's aggregate TRI*M improved by 1 point in the course of the year (Q1➔Q4) to 69. The TRI*M reached an all-time high of 84 in specific client groups, e.g. Private Banking. In 2017, we carried out customer satisfaction surveys by telephone (approx. 9,000/year). "MyFeedback", a tool that allows customers to give feedback quickly and easily on their smartphones after consultations, services or online usage, was further developed. Our customers make extensive use of this opportunity via digital and mobile channels to express their satisfaction at various contact points within our multi-channel bank. More than 20,000 pieces of feedback were provided in 2017 alone via MyFeedback.

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CoCreation in the digital and real worlds:
Our Bank Austria employee and customer forum is an open social media platform for questions, forum discussions, quick polls and voting that we have used since 2013 to include our customers and employees in company processes. Overall in 2017, around 20,000 questionnaires on more than 30 topics were evaluated and discussed (e.g. bank of the future or cash-free payments). In the real world, we have included customer integration in product and process development (using CoCreation workshops and in-depth interviews).

The BeschwerdeExzellenz project enables us to review all internal and external complaint processes and improve them on an ongoing basis with a view to optimising the handling of complaints for our customers at all points of contact (branch, @ mail, call centre, etc.). We aim to offer the highest standards both with regard to response time (within 48 hours) and solutions. Moreover, we have pooled specific competencies in the ombudsman's office for cases of social hardship, where customers in financial difficulty receive assistance to reduce their debt, or are granted additional time for payment, etc. quickly and without excessive bureaucracy. We maintained close contact with consumer protection organisations, the Chamber of Labour, debtor associations and special interest groups in order to proactively prevent specific issues such as complaints concerning foreign currency loans, for example, 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 since 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 building 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 meters, 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) on this complex will be used by Bank Austria under a long-term rent agreement. The bank's future headquarters account for about 45% of the Austria Campus and are scheduled to be used by about 5,000 employees of the group starting in 2018.

The new headquarters will unlock significant synergies – through shorter distances, better use of space, and lower operating and maintenance costs. The concept of our new headoffice building will allow us to strengthen a sense of togetherness and create attractive working practices for the core bank 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. All employees have been able to see specifically how their working practices have been changing since the fall of 2015 in a test office, the "Campino". This was set up at one of the bank's existing office buildings and fitted out in accordance with the Austria Campus' latest plans. More than 120 employees use about 1,250 square meters 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 personalities of employees as all people in the company are recognised and respected in all their diversity. With the "Job and Family" audit successfully performed at Bank Austria at the end of 2009 for the first time 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 work more compatible; creating equal career opportunities for part-time employees; promoting "Remote Work" – also in relation to the new working environment at the Bank Austria Campus, which will be acquired in 2018 – 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

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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. Pilot projects were carried out in which various options were trialled under the motto "barrier-free banking" to make it easier for people with disabilities to complete banking tasks. Measures that have already been implemented include a special bank card for visually impaired people, 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. With SmartBanking in sign language, since the fall of 2015 our tried and tested Bank Austria consulting services have been available to the deaf via video calling. Employees also undergo training to raise their awareness of and sensitise them to 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 having advantages for the company in the form of cost savings resulting from a more efficient use of resources. The company therefore makes an important contribution 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 specific 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).

With 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 undertaken, through a voluntary agreement on objectives, to reduce CO_2 emissions by 45% and achieve a 51% share of renewable energies. Bank Austria further reduced business travel through the use of video conferencing facilities and the trend towards digitisation 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 relies on continuous measures to raise awareness, such as an interactive film that brings environmental issues closer to its employees. Electricity supplied to Bank Austria comes exclusively 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 use 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.

Bank Austria's environmental performance will be significantly improved by the relocation to the new main building at the Austria Campus in 2018. There, one of the largest private geothermal systems will be used.

Human Resources Austria
All measures for socially responsible and sustainable savings in personnel expenses that were developed in 2016 and agreed with the works council in the context of a social plan were implemented according to plan in the course of 2017. This allowed predefined targets to be reached in full.

In addition, the focus in 2017, in particular in sales, was on investments in the development of executives and employees in order to implement the new business model as well as in targeted measures to streamline workflows and processes.

● **Internal recruiting:** Bank Austria's internal job market is an integral part of the human capital strategy and provides a platform for internal vacancies. The aim is to show employees new prospects within the company. Depending on the individual skills, interests and resources, in future it will be possible to work on projects across the Group in the short and medium term in addition to the opportunity to move to a new position. Finding the right job or an exciting challenge no longer depend on employees' resumes and training alone but also on their personal motivation and initiative.

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The internal job board shows employees new prospects, makes better use of employee potential and boosts employee satisfaction.

● **Assessment of staff performance:** Differentiation, transparency, a feedback culture and commitment are the main drivers of our development and remuneration decisions. Our UniCredit Performance Management is a modern, fair and transparent performance evaluation and development system for all employees of Bank Austria. Each individual always has access to the evaluations and feedback documentation in his/her personal electronic archive. We use this process to strengthen the performance mindset and inclusion within our bank and our Group, always keeping in mind that this is based on our five guiding principles and that this is the most suitable way to implement the Transform 2019 plan.

● **Staff development:** Digital learning media are becoming increasingly important. While advancing digitisation opens up new channels for our customers to do banking business with us, it also offers our employees new ways of cooperating internally 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. One of the areas on which the Academy is focusing is support for divisions in relation to "Transform 2019 – 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 providing 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 area on which the UniCredit Academy Austria's activities are focusing is to encourage learning from and with one another, and learning on the job. The UniCredit Academy Austria is thus following the 70/20/10 principle of what is called "new learning" (70% learning on the job, 20% learning by sharing, and 10% 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.

● **Succession planning:** Our Executive Development Plan (EDP) and Talent Management Review (TMR) programme support our managers in developing the relevant qualities and skills for the future success of Bank Austria. 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 – a focus that starts with our talented staff.

In 2017, we also boosted our pool of junior executives with our forward-looking staff planning to ensure we are prepared for a constantly changing, digitised society and can make a lasting contribution to shaping Bank Austria.

● **Reward and benefits:** Our human resources activities, especially those in the area of rewards and 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 and the five guiding principles, which define 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 on the other hand further strengthens the link between variable remuneration and risk-weighted results of Bank Austria.

● **Diversity and equal opportunities:** Bank Austria sees diversity as one of its key values. Diversity management activities are aimed at enhancing productivity, creativity and innovation (see the Diversity section in the section Corporate Sustainability).

● **Gender balance:** 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 on the Supervisory Board has increased since 2012. This progress reflects the strong commitment of diversity managers who are currently active under global management, supported in Bank Austria by ambassadors at the divisional level. To support women's career planning, female candidates are specifically informed about job offers for management positions and talented women are supported as their careers progress. Specific communication activities focus on women who have already been promoted to managerial positions and act as models for other talents.

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- **IT platform for efficient human resources management:** in 2017, as in previous years, we worked hard to simplify our services. Following the smooth transition of payroll accounting to the new HR IT platform in early 2016, the self-service options introduced in 2016 for employees and managers were extended to include various modules, such as changes in working time models or applications for remote working. This continuous implementation of efficient human capital processes allows us to simplify services in HR management continually as planned.

1.4. Capital resources and capital requirement of UniCredit Bank Austria AG

Capital resources as at 31 December 2017 (€6.465 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 2017.

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.

Tier 1 capital (Common Equity Tier 1 capital + Additional Tier 1 capital) is equal to 83.9 per cent of eligible capital.

Tier 2 capital is equal to 16.1 per cent of eligible capital.

Capital ratios based on all risks

	31 DEC. 2017	31 DEC. 2016
Common Equity Tier 1 capital ratio	17.0%	15.9%
Tier 1 capital ratio	17.0%	15.9%
Total capital ratio	20.2%	19.8%

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 15.9% (as of year-end 2016) to 17.0%. The total capital ratio increased from 19.8% to 20.2%.

In addition to the minimum capital requirement of 8% UniCredit Bank Austria AG is obliged to hold a capital conservation buffer of 1.25%, consisting of Common Equity Tier 1 capital, as well as an institution specific counter-cyclical capital buffer of 0.02%. The SREP notice by ECB for 2017 results in an additional capital requirement of 2.5%, to be held in the form of Tier 1 capital.

The total capital requirement amounts to 11.77%. With 20.2%, the total capital ratio significantly exceeds this value.

1.5. Information on the share capital and the exercise of special rights

The subscribed capital of UniCredit Bank Austria AG as at 31 December 2017 amounted to €1,681,033,521.40 and consisted solely of registered ordinary shares.

As at 31 December 2017, UniCredit S.p.A. held a direct interest of 99.996% in UniCredit Bank Austria AG.

The registered shares with restricted transferability held by "Privat stiftung 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.

1.6. 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. The passively legitimated party in these proceedings is not UniCredit Bank Austria AG, but UniCredit S.p.A. 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.

2. Report on risk management, risks and third-party liabilities

2.1. 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. Credit decisions that exceed the competence limits of the relevant business areas, as well as restructuring management, are the responsibility of the two operative credit risk departments ("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.

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. Risk appetite describes the key principles of the bank's risk orientation, in qualitative terms 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 comprise 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 bank's entire Management Board: the Risk Committee (RICO), which holds meetings on a monthly basis, is responsible for cross-divisional risk management issues arising between sales units and the overall bank manage ment; 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 Pillar 1 regulatory capital rules and liquidity requirements, 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. The bank also determines internal capital adequacy under a "gone concern" assumption on a half-yearly basis. As a result, 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 and migration risk), including potential exposure from counterparty 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 counter-party-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 "Country risk and sovereign risk" in this report). In addition, an overview of sovereign bond positions is regularly provided by Market Risk.

The macro risk has been concentrated in Austria since the spin-off of the CEE subsidiaries. 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. Risk appetite thresholds/limit violations follow the planned 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.

Stress tests

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) and also form a fixed part of the annual budgeting and risk appetite planning process. 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. A sound analysis of credit exposure forms the basis of every credit decision. Following the initial loan application, the bank's credit 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 customer payment practices resulting in monthly updated customer scoring. 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 validation on a regular, 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 impact of turbulence on international financial markets. In this context, credit risk stress tests, which

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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). The refinement and further development of local and Group-wide models and, to a lesser extent, the introduction of additional Group-wide models, are carried out on an ongoing basis or in accordance with a multi-year plan (Model Road Map).

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.

Group standards are integrated into the business units, both from a procedural and organisational point of view, taking into account, in particular, local peculiarities and legal requirements in ensuring compliance with Basel 3.

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 (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.

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 credit losses in case of borrower default.

With specific reference to credit risk mitigation, the 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 detail, these concern eligibility for recognition as collateral, valuation and monitoring regulations and ensure the value stability, legal enforceability and timely realisation of collateral in accordance with local law.

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 may be accepted only to support loans and they cannot serve as a substitute for the borrower's ability to meet obligations. Physical collateral and guarantees are subject to a specific valuation and analysis regarding their supporting function for the repayment of the outstanding amount.

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. Bank Austria also makes use of bilateral netting agreements for OTC derivatives (by means of ISDA and CSA agreements), repos and securities lending.

The processes and controls focus on the requirements for legal certainty, hedging and the assessment of the suitability of the physical collateral or guarantee. With personal guarantees, the solvency and risk profile of the guarantors (or, in the case of credit default swaps, of the protection sellers) must be assessed.

With non-cash collateral, market values are reduced by corresponding haircuts in order to take into account any lower revenues and realisation costs, etc. in the case of realisation.

Monitoring processes for credit risk mitigation techniques ensure that general and specific requirements established by credit policies and regulatory rules are met at all times.

Provisioning process

Loan loss provisions are determined by reference to the size and quality of loans granted. Bank Austria uses the following four methods:

- Specific write-downs (non-performing assets)
- Portfolio-based specific write-downs (non-performing assets)
- Losses which may statistically be expected (performing assets)
- Portfolio-based specific provision for foreign currency loans and loans with repayment vehicles (performing assets)

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 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 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 cash flows.

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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. By decision of the restructuring management, this method can be used for customers belonging to a group of associated customers of more than €2 million, provided that the individual customer exposure does not exceed €1 million. The provisioning requirement 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 in 2017 resulted in a slight decline of €1.4 million.

Losses which may statistically be expected
Such provisions for performing loans are made on the assumption that 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 individual parameters used for the calculation are validated annually.

Portfolio-based specific provision for foreign currency loans and loans with repayment vehicles
This provision is determined at individual loan level for the performing portfolio and takes into account the 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 "Currency risk", page xxx). 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.

Strategic Funding, Transactions & Pricing
The Strategic Funding, Transactions & Pricing department performs the following tasks related to credit risk:
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.

On the other hand, the department is responsible for transactions throughout Bank Austria that serve to reduce credit risk and increase liquidity. The instruments available for these purposes include securitisations, CLNs and CDSs.

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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. As at 31 December 2017, the AMADEUS volume amounts to €1.1 bn.

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 senior tranche was retained in UniCredit Bank Austria AG'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 papers;
- watching the market fundamentals of the underlying credit and
- making contact with the representatives of the collateral manager where further information is required.

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 consistent with other market risk sources and enables us to estimate the potential effects of diversification and to calculate the VaR together with other parts of the portfolio.

Development of credit risk

Risk costs once again allowed for a net surplus of € 19.9 million in 2017. The comparative figure for 2016 was net income of € 40.5 million. This surplus was achieved due to the reversal of provisions relating to private customers with a net surplus totalling €31.4 Mio (expense in 2016: €32.9 million) und des Corporate Centers with a net surplus totalling €19.5 million (surplus 2016: €7.4 million). As a result of defaults of larger individual customers towards the end of the year, risk costs in the Corporate Banking segment increased to €11.0 million (net income in 2016: €25.5 million) and in the Corporate & Investment Banking segment to €19.9 million (net income in 2016: €40.5 million).

Note: aforementioned comparable amounts for the year 2016 do not include one-off effects resulting in 2016 from the first-time application of the statistically calculated risk provisions for the living portfolio totalling €151.9 million.

The mapping to the internal UniCredit rating masterscale considers the PD (probability of default) ranges mentioned below.

Rating class 10 correlates to the Non-performing Loan Portfolio according to Bank of Italy (and includes the rating classes Bad Loans, Unlikely to pay and Past due):

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 addition to the aforementioned regulatory requirements, Bank Austria AG defines its internal risk appetite much more conservatively; the liquidity coverage ratio therefore had to exceed at least 107% in 2017. In the medium-term and long-term range, compliance with the net stable funding ratio (NSFR 100%) is expected to 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 necessary 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. The liquidity coverage ratio as at 31 December 2017 is approximately 165.6% for UniCredit Bank Austria AG; the average of the daily LCR of the last quarter of 2017 based on internal liquidity risk systems for Bank Austria is approximately 144%.

The new liquidity requirements have been integrated into 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.

The Bank Austria Group and its individual institutions had a comfortable liquidity position throughout 2017. The excess liquidity at the end of 2016 was reduced to a solid and sustainable level in 2017 thanks to an actively managed decline in customer deposits.

Liquidity management methods and control

In medium-term and long-term liquidity management, assets must be covered by liabilities over a period of 1/3/5 years at a minimum level of 105% (>1'), 95% (>3') and 100% (>5'). This limit must be observed at Group level and at individual bank level. In addition, absolute limits are defined for major currencies – that is the US dollar and other currencies for UniCredit Bank Austria AG; cross-currency refinancing is therefore only permitted within the risk appetite. Following a change in the UC group approach, the calculation method to determine the structural liquidity position of UniCredit Bank Austria AG was adjusted in 2017; internal models determine the medium/long term portion of deposits were replaced by regulatory regulations. At the end of 2017, UniCredit Bank Austria AG had the following long-term liquidity ratios: 116% for the >1-year segment (2016: 122%), 126% for the >3-year segment (2016: 120%) and 141% for the >5-year segment (2016: 130%).

For the purpose of short-term liquidity management, volume limits have been implemented at Bank Austria at Group level and at individual bank level for maturities up to nine 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.

Management Report (CONTINUED)

The following table shows the breakdown of UniCredit Bank Austria AG's liquidity reserve as at 31 December 2017:

(€ million)

COMPOSITION OF LIQUIDITY RESERVE[1]	31 DEC. 2017	31 DEC. 2016
Cash and balances with central banks	7,944	2,604
Level 1 assets	12,212	18,048
Level 2 assets	67	123
Other unencumbered assets eligible as collateral for central bank borrowings	601	5,330
Liquidity reserve	**20,824**	**26,105**

1) The liquidity reserve only includes freely available assets; the minimum reserve requirement is not included.

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 in 2016, UniCredit Bank Austria AG 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 weighting towards more stable longer-term funding sources. Funding provided to commercial business units in the entire UniCredit Group takes into account relevant costs like own liquidity cost, country risk premiums and insurance cost.

UniCredit Bank Austria AG further optimised the refinancing structure during financial year 2017 and issued bonds. As in 2016, in the past year the capital market played a smaller role in refinancing.

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. 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 predefined 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.

Since 2016, the model has helped with the modelling of negative interest rates for both internal risk management and the calculation of regulatory capital requirements for market risk. This further development not only includes the EUR currency, but also other currencies that are, however, considered to have a low impact on Bank Austria.

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.

Management Report (CONTINUED)

Risk governance
A new product process (NPP) has been established for the introduction of new products in the market risk department whereby 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 reviewed annually by the Audit department as part of the Group Internal Validation (GIV). 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). Regular and specific stress tests complement the information provided to MACO and the Management Board.

Stress tests
Bank Austria conducts a comprehensive programme of stress testing for market risk and IRC. The test results are reported in the MACO at least quarterly or on an ad-hoc basis in the event of 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. The assumed fluctuations are dependent on currency, region, liquidity and the credit rating, and are determined in the Open Market Risk Forum (OMRF) with the respective experts from other banking segments (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 the 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 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 2017, this results in so-called backtesting overshootings (negative change in value larger than model result) for UniCredit Bank Austria AG in both P/L dimensions (i.e. for the hypothetical and actual changes in the portfolio value), 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 31/12/2017, the following capital requirements resulted for UniCredit Bank Austria AG in connection with Value at Risk (VaR), stressed VaR (SVaR) and incremental risk charge (IRC):

	31 DEC. 2017	31 DEC. 2016
VaR	€2.7 million	€4.0 million
SVaR	€18.9 million	€7.7 million
IRC	€1.0 million	€0.1 million

Management of balance sheet structure
The group-wide transfer pricing system enables the bank to determine the application of the principle of causation 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.

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 and for UniCredit Bank Austria AG alone 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.

At the end of 2017, this 2% interest rate shock used up around 7.18% (2016: 2.93%) of UniCredit Bank Austria AG's chargeable net capital resources. This means that the figure for UniCredit Bank Austria AG is far below the outlier level of 20%. The increase is attributable to a partial expansion of the risk position and a change in the composition of the risk exposure as a result of the implementation of regulatory measures. Furthermore, the result of a 2% interest rate shock is much more restrictively limited in connection with the risk appetite (15% in relation to Tier 1 capital).

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, products and residual maturities. Bank Austria's derivatives business focuses on interest rate contracts.

Currency risk

CHF risk

As in the previous year, the volume of CHF loans was once again significantly reduced in 2017. Of the total volume of CHF loans (gross before deduction of loan loss provisions) of €7 billion (year-end 2016: €9.7 billion), € 6.1 billion (87%) were attributable to the Retail Division.

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 €9.4 million to €282.6 million, mainly as a result of parameter adjustments. As at 31 December 2017, the provision for statistically expected losses on CHF loans amounted to €23.7 million (31 December 2016: €32.0 million).

Other currency risks

Customer loans in other foreign currencies (excluding CHF and before deduction of loan loss provisions) amounted to €3.3 billion as at 31 December 2017 (2016: €3.8 billion), of which a large part were loans in USD (primarily to customers in Corporate & Investment Banking and Corporate Banking).

Counterparty risk

Trading in derivatives at UniCredit Bank Austria AG 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,

Management Report (CONTINUED)

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 expanded model has been used for internal risk management since the end of 2016, as well as for capital adequacy since mid-2017 following approval from the ECB.

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 spite of the very good average credit rating of our business partners, the 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. The requirements regarding the mandatory exchange of collateral in bilateral margining contracts with financial counterparties for variation margins were implemented in Q1 2017 in accordance with the regulations. 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.

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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:

Exposure (€ billion)

	2017	2016
BA AG	1.50	2.19

The total exposure as of year-end 2017 may be split further into the following sectors:

Exposure by sectors (€ million)

SECTOR	2017	2016
Trade and industry	558	677
Financial services sector	535	723
Real estate	265	306
Energy	68	94
Public sector	42	44
Central Clearing Counterparties (CCP)	35	349

Exposure by rating class (€ million)

RATING CLASS	2017	2016
1	201	535
2	314	975
3	577	215
4	235	215
5	133	172
6	20	53
7	10	14
8	2	4
9	11	3
10	0	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, 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 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 financial year 2017, 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 (English version) 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.

Management Report (CONTINUED)

Organisationally, UniCredit Bank Austria AG has established decentralised OpRisk management in the form of divisional and subsidiary contact partners ("Divisional OpRisk Managers" (DORM) or "OpRisk Managers" (ORM)) similar to other types of risk and also in accordance with the UniCredit Group approach. 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 2017 focused on:

- Integrating OpRisk strategy issues of 2016 and monitoring by reference to key performance indicators in the Permanent Work Group (a cross-divisional OpRisk work group which holds regular meetings).
- Implementation of risk mitigation measures for the OpRisk strategy (by DORMS and ORMs) and their reporting in the Permanent Work Group and the Operational & Reputational Risk Committee (OpRRiCo).
- Integration of the approach for monitoring OpRisk exposures using the ELOR (Expected Loss for Operational Risk).
- Integration of a risk-sensitive approach to allocating the OpRisk capital requirement within the Bank Austria sub-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 on an ongoing basis for more effective risk measurement.
- Increasing awareness of operational risk issues by attending training sessions and revising online training.

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.

Operational risk issues are dealt with 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 (ORM), 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.

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.

In 2017, reputational risk activities focused on continued support for subsidiaries in the further implementation and expansion of structures, RepRisk policies and training, on ongoing monitoring and reporting of reputational risk events and trends relating to relevant issues, and on increasing the management's awareness of reputational risk through training activities at UniCredit Bank Austria AG and its subsidiaries.

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.

Management Report (CONTINUED)

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

In general, provisions are made for those procedures where imminent losses are probable or certain, but where the amount or timing of the occurrence of such losses is undefined. In such cases, provisions are made in the amount deemed appropriate in view of the circumstances and in accordance with the accounting principles, respecting both the principle of prudence and the principle of reasonable, reliable estimation.

Legal risks for which provisions have been formed

In accordance with the principles described above provisions were formed for the following pending legal disputes and other proceedings in the amount of the assessed risk.

Madoff

Background

UniCredit Bank Austria AG ("Bank Austria") and some of its affiliates and indirect subsidiaries have been sued or investigated as a result of the Ponzi scheme operated by Bernard L. Madoff ("Madoff") through his company Bernard L. Madoff Investment Securities LLC ("BLMIS"), which was uncovered in December 2008.

Civil law procedures in Austria

Investors in the Primeo and Herald Madoff feeder funds have filed numerous civil proceedings, of which 44 are still pending with €12.8 million plus interest being claimed. The asserted claims in these proceedings are either claims that Bank Austria committed certain violations in its capacity as prospectus controller or claims that Bank Austria improperly advised certain investors (directly or indirectly) to invest in these funds, or a combination of these claims. The Austrian Supreme Court has issued twenty-three final decisions with regard to the prospectus liability claims asserted in the proceedings. With regard to the proceedings concerning the Primeo feeder funds, thirteen final decisions were issued by the Austrian Supreme Court in favour of Bank Austria. In two proceedings, the Supreme Court rejected Bank Austria's extraordinary appeal and therefore made the decision of the Court of Appeal, which had been issued in favour of the plaintiffs, final. With regard to the Herald feeder fund, the Austrian Supreme Court has ruled on prospectus liability claims five times, twice in favour of Bank Austria and three times in favour of the plaintiffs. In a prospectus liability case where investments were made in Primeo and Herald, the Supreme Court ruled in favour of Bank Austria; in two further prospectus liability cases where investments were made in Primeo and Herald, the Supreme Court rejected the plaintiffs' extraordinary appeals, thereby ruling the decisions of the Court of Appeal to be legally binding in favour of Bank Austria.

The impact of these decisions on the remaining proceedings cannot be predicted with certainty; future decisions could be detrimental to Bank Austria.

With regard to the Austrian civil proceedings pending against Bank Austria in connection with Madoff's fraud, Bank Austria has formed provisions to the extent that it considers appropriate for the current risks.

Criminal proceedings in Austria

Bank Austria is being prosecuted in criminal proceedings in Austria in connection with the Madoff case. The allegations relate, among other things, to the fact that Bank Austria, as the prospectus controller of the Primeo fund, violated provisions of the Austrian Investment Fund Act and certain tax issues. The preliminary proceedings for the tax issues were stopped in September 2016 as the tax authorities confirmed in a final report that all taxes have been duly paid. Investigations into prospectus liability under criminal law in view of the bank's capacity as prospectus controller of the Primeo fund were terminated on 2 August 2017. Private parties have brought motions for continuation. As regards the other allegations, the preliminary proceedings are still at the investigative stage.

Proceedings in the United States

Actions by the SIPA trustee

In December 2010, the insolvency administrator (the "SIPA Trustee") brought an action for the liquidation of BLMIS as well as other actions against dozens of defendants, including HSBC, UniCredit S.p.A., Bank Austria and certain affiliates, to a United States Federal Court (the "HSBC Proceedings").

Management Report (CONTINUED)

In the HSBC Proceedings, the SIPA Trustee filed civil claims and avoidance claims (also known as "clawback claims") worth several billion US dollars. The civil claims were dismissed in 2011 and no further appeals are pending against this decision. In 2015, the SIPA Trustee dropped the avoidance claims against UniCredit S.p.A and the Alternative Investments Division of Pioneer ("PAI") in the HSBC Proceedings, waiving the claims, as well as the avoidance claims against Bank Austria, without waiving the claims; this was done following claim adjustments that did not concern UniCredit S.p.A., PAI or Bank Austria and were considered by the SIPA trustee to satisfy the relevant claims. A judgment was ordered the avoidance claims against BA Worldwide Fund Management Ltd ("BAWFM") to be rejected.

On 9 March 2017, the SIPA Trustee commented on the rejection of the avoidance claims against BAWFM in writing. On 16 March 2017, the SIPA Trustee filed an appeal against the rejection of the claims. The appeal is currently pending. Even if this appeal were successful, there is no significant potential claim for damages and therefore no significant risk profile for the UniCredit Group. Certain current or former related persons named as defendants in the HSBC Proceedings may be granted rights to indemnification by UniCredit S.p.A. and its affiliates.

Action by SPV OSUS Ltd.
Bank Austria and some of its affiliates – UniCredit S. p.A., BAWFM, PAI – were named as defendants, together with some 40 other defendants, in an action filed with the Supreme Court of the State of New York, County of New York on 12 December 2014 by SPV OSUS Ltd. The action pursues civil claims in connection with the Madoff Ponzi scheme, namely that the defendants generally supported or assisted the Madoff Ponzi scheme and/or knowingly participated therein. The action was filed on behalf of investors in BLMIS and seeks damages of an unspecified amount. The action brought by SPV OSUS Ltd. is in the initial stages. The statement of claim has been provided to Bank Austria, however no substantive court proceedings have yet taken place.

Possible ramifications
In addition to the aforementioned proceedings and investigations against UniCredit Bank Austria AG, its affiliates and some of their employees and former employees in connection with the Madoff case, additional actions may be brought in connection with this case in the future in the United States, Austria or other countries. Such possible future actions could be brought against UniCredit Bank Austria AG, its affiliates and their employees and former employees. The pending proceedings and possible future actions may have a negative impact on UniCredit Bank Austria AG.

UniCredit Bank Austria AG and its affiliates intend to use all available means to defend themselves against the claims and allegations in connection with the Madoff case. Apart from the aforementioned issues, it is currently not possible to reliably estimate the time horizon and the outcomes of the various actions or to determine the level of responsibility – should responsibility be proven.

Alpine Holding GmbH
Alpine Holding GmbH issued one bond in 2010, one in 2011 and one in 2012. In 2010 and 2011, UniCredit Bank Austria AG acted as joint lead manager together with another bank. In June/July 2013, Alpine Holding GmbH and Alpine Bau GmbH became insolvent and bankruptcy proceedings followed. Numerous bondholders then wrote to the banks involved in the bond issues to assert claims. At least as far as UniCredit Bank Austria AG is concerned, the bondholders largely based their claims on the prospectus liability of the joint lead managers and, in fewer cases, also on flawed investment advice provided by the banks that sold the bonds to their customers. Investors have filed civil proceedings, including three class actions by the Federal Chamber of Labour (with claims amounting to some €20.3 million), in which UniCredit Bank Austria AG is named as a defendant in addition to other banks. The significant aspect is the prospectus liability. These civil proceedings are predominantly still pending at first instance. To date, no final decisions have been issued against UniCredit Bank Austria AG. In addition to the aforementioned proceedings against UniCredit Bank Austria AG resulting from the insolvency of Alpine, there are threats of further actions in connection with Alpine which could be brought in the future. Pending or future actions may negatively affect UniCredit Bank Austria AG. UniCredit Bank Austria AG intends to use all available means to defend itself against these claims. At present, it is not possible to estimate the timing and outcome of the various proceedings or to assess the level of responsibility, if any is proven.

Management Report (CONTINUED)

Criminal proceedings in Austria
A number of accused persons are being prosecuted in Austria in connection with the Alpine bankruptcy case. UniCredit Bank Austria AG has joined the criminal proceedings as a private party. The criminal proceedings are in the investigative stages.

The preliminary proceedings were conducted by the Public Prosecutor's Office also against unknown responsible persons of the issuing banks. In May 2017, the Public Prosecutor's Office against Economic Crimes and Corruption terminated this part of the investigative proceedings. Appeals against this decision were rejected in January 2018.

Financial sanctions
Recently, violations of US sanctions and certain practices involving USD payments at specific financial institutions resulted in the conclusion of settlements and the payment of significant fines, depending on the specific circumstances of the case, to various US authorities, notably 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").

UniCredit Bank Austria AG has launched a voluntary investigation into its compliance with applicable US financial sanctions in the past and has identified certain non-transparent practices undertaken in the past. The scope, duration and outcome of such a review or investigation will depend on the individual facts and circumstances of each case. UniCredit Bank Austria AG shall inform the competent authorities accordingly and has started to implement various measures to reduce risk. Although we are currently unable to determine the nature, extent or timing of any decision by the relevant authorities, the costs of the investigation, any necessary redress and/or payments or any other legal liability could result in cash outflows and may adversely affect the financial position and net result of UniCredit Bank Austria AG over certain periods of time.

Initiation of administrative penalty proceedings in connection with measures to combat money laundering
During an on-site audit carried out in 2014, the FMA identified four weaknesses in the strategies and procedures used by UniCredit Bank Austria AG to combat money laundering and the financing of terrorism. In connection with two of these weaknesses, the FMA has initiated proceedings in which it accuses UniCredit Bank Austria AG of not having had the appropriate strategies and procedures in place until the relevant corrective measures were completed. At first instance, the FMA imposed a fine of €66,000 on UniCredit Bank Austria AG for one of the two weaknesses identified. The proceedings have been suspended as regards the second weakness. As the FMA did not consider all the arguments put forward by UniCredit Bank Austria AG, UniCredit Bank Austria AG filed an appeal against the FMA's decision.

Legal risks for which no provisions have previously been formed

In accordance with the principles described above, no provisions have been formed for the below pending legal disputes. Due to the uncertain circumstances surrounding legal disputes, we cannot rule out that the following proceedings will result in losses for the bank:

Valauret S.A.
In 2001, plaintiffs Valauret S.A. and Hughes de Lasteyrie du Saillant acquired shares in the French company Rhodia S.A. The plaintiffs allege that they suffered losses as a result of a decline in the Rhodia share price between 2002 and 2003. This was allegedly caused by fraudulent activity on the part of the members of the company's Board of Directors, which the plaintiffs claim resulted in false and misleading annual financial statements.

In 2004, the plaintiffs lodged an action for damages against the Board of Directors, the auditors and Aventis S.A. (the supposed majority shareholder of Rhodia S. A.). They subsequently extended their claim to include other parties – a total of 14 defendants – including UniCredit Bank Austria AG as the legal successor of Creditanstalt AG, against which an action was filed towards the end of 2007. The plaintiffs allege that Creditanstalt AG was involved in the alleged fraudulent activity mentioned above because it served as the bank of one of the companies involved in said activity. Valauret S.A. demands compensation in the amount of €129.8 million in addition to legal costs, and Hughes de Lasteyrie du Saillant seeks compensation in the amount of €4.39 million.

According to UniCredit Bank Austria AG, the allegation of Creditanstalt AG's involvement in fraudulent activity is wholly without foundation. The civil proceedings were suspended following the initiation of criminal proceedings in 2006, even before the action was extended to include UniCredit Bank Austria AG. In December 2008, the Commercial Court of Paris also suspended the civil proceedings against UniCredit Bank Austria AG.

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.

As part of the spin-off of the CEE business, UniCredit S.p.A. issued a guarantee for the pension liabilities of the bank until 31 December 2028.

3. Future development (Outlook for 2018)

Economic scenario

The global economy made an excellent start to 2018. Although the environment is characterised by a number of risks, in particular geopolitical risks, such as a further intensification of tensions in the Middle East or a possible escalation for North Korea, as well as the dwindling global leadership of the US and protectionist tendencies, economic sentiment has climbed to record highs. The confidence reflected in the stock markets is unwavering. At the beginning of 2018, the Dow Jones broke through the 25,000-point mark for the first time. However, market volatility is rising in line with the progression of the economic cycle. This resulted in corrections of the stock market pricing levels at the beginning of February – combined with an increased discussion on rising interest rates. An end of the upward trend in the stock markets is quite unlikely at the current economic situation, especially in the light of positive ecomomic data and solid profits of corporates. This is why 2018 is once again expected to be an economically outstanding year with strong performance in industrial nations, especially in Europe but also in emerging markets.

● The **global economy** got off to a good start in 2017 and has grown more than it has in seven years. The conditions are favourable for the acceleration of economic growth to continue i n 2018. At an estimated 3.6%, global growth is expected to rise to 3.9% in 2018. With the increasingly synchronous growth, the revival of global trading, the increasing significance of investment for momentum and a largely expansionary economic policy, we believe that there are four key reasons for sustainability and the continuation of the global recovery in 2018. Firstly, the good economic prospects are supported by the fact that global growth has expanded regionally. The recovery is synchronised in developed and emerging markets, resulting in positive spill over effects that reinforce and strengthen the upswing. Secondly, simultaneous recovery across many countries has accelerated global trading growth to around 4% and will continue to provide momentum. Trade elasticity, i.e. the ratio of trade growth to GDP growth, has risen again to a value of over 1 in 2017 after a few weak years. Thirdly, global growth is increasingly based on investment rather than consumption. Therefore, this means that the upswing is on a broader foundation and the combination of stronger export demand, improved sentiment and increasing capacity utilisation argues for greater growth potential. Finally, a largely accommodating economic policy should continue to be favourable for growth. Both monetary policy and fiscal policy remain essentially expansionary.

● The global economic upturn will be significantly supported by the emerging markets in 2018. The large Asian emerging markets of China and India, which currently account for almost 50% of the GDP total amount of emerging markets, will be able to make a significant contribution to the good development. While momentum in China is expected to slow slightly from 6.9% in 2017 to 6.5% in 2018, as excessive debt and environmental damage from rapid industrialisation are being counteracted with restrictive measures, India's GDP is set to accelerate from 6.7% to 7.4%. India should therefore replace the United Kingdom as the fifthlargest economic power in the world. Expansion is expected to be much more moderate in most other emerging markets, with considerable differences between the regions. While, along with Asian emerging markets, boosted by demand from China and India, the outlook for the growth markets of Central and Eastern Europe are promising, based on the solid recovery in Europe, expectations for the Middle East, Africa and most Latin American countries remain more reserved. An important driver of emerging market growth differentials in 2018 will be resilience to negative global influences and adaptability to changing commodity prices. Crude oil prices will continue to be above $60 per barrel over the coming months. Accordingly, we expect commodity prices to be high enough as a safety line for commodity exporters, but will not allow macroeconomic imbalances of commodity importers to rise to critical levels. In view of the favourable short-term growth outlook, the prospects of a gradual slowdown in US monetary easing and the probability of a devaluation of the US dollar, we expect solid capital inflows in emerging markets in 2018, albeit with a weaker bias for countries such as South Africa, Argentina and Turkey where increased attention is needed.

● The upturn is also continuing in developed countries. After an increase of 2.3% in the previous year, economic growth in the USA will increase to 2.7% in 2018, primarily due to a reduction in taxes. Nevertheless, with diminishing fiscal momentum, the US economy's third-longest economic upswing since the 1850s has been slowly starting to fade towards the end of the year, especially as support for wealth effects, energy-related investments and the global economy is likely to slow. The lower overcapacity will boost inflation in 2018 and core inflation will also exceed the 2% mark. As a result, the US Federal Reserve will continue its gradual normalisation of monetary policy under the new Chairman Jerome Powell. The balance sheet reduction will be carried out in accordance with the announced plan and the key interest rate should continue to rise. For 2018, we are again assuming three interest rate steps of 25 basis points each.

● The economy in the eurozone will experience a slower pace of growth in 2017 than in the US, but the broadly supported recovery is expected to continue briskly in 2018, with GDP rising by 2.3%. The brightening fundamentals of consumption and investment are increasingly benefiting each other. At the same time, the solid growth of the global economy offers a good buffer against exchange rate charges. In addition, the still weak inflation allows the ECB to maintain an accommodating monetary policy.

Domestic demand will remain a driving force behind the upswing in the eurozone in 2018, since the recovery of investments strengthens and widens, and consumer sentiment should continue to boost consumption. Investment activity in 2018 will be supported by rising profitability, sound liquidity positions and flexible financing conditions, including declining equity costs, low lending interest rates of b Domestic demand will remain a driving force behind the upswing in the eurozone in 2018, since the recovery of investments strengthens and widens, and consumer sentiment should continue to boost consumption. Investment activity in 2018 will be supported by rising profitability, sound liquidity positions and flexible financing conditions, including declining equity costs, low lending interest rates of banks and low capital market rates. Private consumption will benefit from the strong rise in job creation, while wage growth in a still high-unemployment economy is likely to remain relatively sluggish. A broadly supported stabilisation of the momentum of global trade suggests that exports will have less growth momentum in 2018. This assumption is supported by the expected continued depreciation convergence of the US dollar towards a fair value of approximately $1.25 for €1. In addition to the strong growth in the eurozone, the lower political risks, the ECB's curbing of the asset purchase program and the increase in portfolio inflows support the strengthening of the euro. Overall, foreign trade in 2018 should therefore be able to only make a slightly positive to largely neutral contribution to GDP growth. anks and low capital market rates. Private consumption will benefit from the strong rise in job creation, while wage growth in a still high-unemployment economy is likely to remain relatively sluggish. A broadly supported stabilisation of the momentum of global trade suggests that exports will have less growth momentum in 2018. This assumption is supported by the expected continued depreciation convergence of the US dollar towards a fair value of approximately $1.25 for €1. In addition to the strong growth in the eurozone, the lower political risks, the ECB's curbing of the asset purchase program and the increase in portfolio inflows support the strengthening of the euro. Overall, foreign trade in 2018 should therefore be able to only make a slightly positive to largely neutral contribution to GDP growth.

● Headline inflation remains weak at 1.5% in 2018, but the continued fall in the output gap should provide for a flat upward trend in core inflation. Therefore, we expect the European Central Bank to complete its qualitative easing at the end of 2018 and to increase deposit rates mid-2019. The normalisation of monetary policy in Europe follows the path in the US with a time interval of approximately four years, due to the equally long delay in the economic recovery in the eurozone due to the "euro crisis". While the US Federal Reserve ended its asset purchase program in October 2014, the ECB is not expected to stop net purchases until the end of 2018. Interest rate normalisation is unlikely to start until the first half of the year or mid-2019 at the earliest. It was not until the second half of the year or the end of 2019 that another step in the deposit rate should end the phase of negative interest rates after five years. Then, an increase in the refinancing rate to 0.25% is likely.

● In the favourable global environment, the **Austrian economy** in 2017 was a positive surprise. With high spirits in all economic sectors, both among consumers and entrepreneurs, and good fundamental data, the Austrian economy will be able to take a lot of momentum going into 2018 and continue with the upturn. After the revival of global trade, which gave a strong momentum to the domestic export sector, investment has picked up significantly. As a result, consumption has been able to put off the decreasing positive effects of the 2016 tax reform. Supported by

Management Report (CONTINUED)

domestic demand and solid global growth, Austria's economic recovery in 2018 will regain stability and normalise. In Austria, the self-supporting upswing will enable a GDP growth of 2.6% in 2018. This normalisation of the growth rate in comparison with the particularly strong 2.9% of 2017 is due to two key factors: Firstly, the slightly negative effects of the price increase of the euro for domestic exports and, secondly, the slowdown in the momentum of investment activity, due to the already long duration of a very strong recovery and the shift in focus away from replacement to expansion investment. An ongoing high employment growth, supporting a drop in the unemployment rate to 5.1% (Eurostat method), as well as slowly increasing wage pressure, will provide income growth that will boost private consumption. Domestic demand will therefore remain the driving force of the Austrian economy in 2018. However, high inflation in Europe is slowing real wage growth and repressing consumer spending. Inflation is set to persist in Austria at 2.1% in 2018. Furthermore, the demand-side upward pressure on services is the dominant influence for the inflation surcharge to Germany of around half a percentage point.

The ongoing very positive economic prospects are likely to lead to a similarly lively demand for corporate finance in 2018 as in 2017. However, the liquidity situation of companies continues to be very good. Also, due to the good economic growth, a further slight increase in both consumer loans and loans to SMEs is to be expected. The demand for housing loans is expected to be similar to that of 2017 in 2018, helped by continued high demand for housing and low interest rates.

On the investment side, the low interest rate environment will continue to dominate the behaviour of private households. However, the share in short-term deposits should continue to decline even more. The holdings of life insurance and bonds are also expected to continue to decrease net in 2018, with funds again as the second-most important type of asset. Due to the already very high valuations, it is also expected that private households will not significantly increase their direct investments in shares in 2018.

Medium-term and long-term objectives

2017, 2018 and 2019 will see the implementation of the "Transform 2019" Group strategy put forward by UniCredit in December 2016. Transform 2019 aims to create a successful pan-European commercial bank with a simple business model, fully plugged-in Corporate & Investment Banking and a unique network in Western, Central and Eastern Europe that we make available to our broadly diversified customer base.

At Bank Austria, we have taken clear action to transform the bank and increase existing competitive advantages in order to remain profitable in the long term and to become more attractive and modern for our customers. For Bank Austria, this specifically means:

- the further development of the business model with regard to focused customer service and a sustainably low-cost structure, with an increased focus on digitisation and corresponding investments in the IT structure,
- 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,
- reducing the cost base through a significantly leaner Corporate Centre.
- As an entrepreneurs' bank, we are the major financial partner for Austrian corporate customers and are cementing our number one position in Austrian corporate banking – as part of a leading European banking group – with a broad spectrum of expertise and competence and through our international network. We are the first port of call for private banking customers and offer them a recognised, excellent range of products and services – either directly at Bank Austria or at our subsidiary Schoellerbank. A new service model was implemented for retail customers that takes changing customer needs into account. It includes fewer, but significantly larger branches with longer opening hours and improved consulting services for our customers. Our real estate experts and investment experts provide advice in person at our branches and via video in smaller branches. Expert consulting services can also be accessed from any location via SmartBanking.

Our services, internal organisational structures and processes are continuously adjusted to meet the changing needs of our customers. To this end, income and cost initiatives are run in addition to numerous initiatives that benefit customers, such as the successful launch of photo transfers or money transfers to phone contacts in the Bank Austria mobile app.

Management Report (CONTINUED)

On the revenue side, Bank Austria will further expand its leading market position in three business areas: Corporate Banking, Corporate & Investment Banking, and wealthy individuals in Private Banking. In addition to efforts to win new corporate customers, Bank Austria will concentrate on leveraging more effectively existing customer business potential available to the bank as Austrian market leader. We see further growth opportunities in Private Banking, but also in the affluent retail customers segment where the new UNIVERS investment solutions and individual asset management were recently introduced for the first time. Schoellerbank, which independent testers from Elite Report named the best asset manager for the sixth time in a row, will pursue its growth strategy. On the Bank Austria side, we see great potential for new business with existing customers through increased cooperation between the individual customer divisions. Retail banking activities focus on consistently expanding branches and the digital marketplace – comprising the online shop and the online branch – giving them equal weight as channels for product sales and advisory services.

On the cost side, at the same time that staff numbers are being reduced and the Corporate Centre is being streamlined, complexity is being reduced by focusing on essential services and designing and digitising processes more efficiently. This process is also supported by preparatory work and the relocation of all central units to the new Bank Austria Campus in 2018. The geographic concentration on one site and the changeover to SmartWorking will lead to a further increase in efficiency and cost reductions, among others also in the Corporate Centre.

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 audit committee monitors the effectiveness of the internal control and risk management systems and the overall accounting process; it can – if necessary – issue recommendations and proposals to ensure the reliability of the accounting 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 and the Audit Committee with quarterly reports.

Control environment

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 continuously 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.

Management Report (CONTINUED)

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 counteract 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 provided to the Supervisory Board and the Management Board, middle management in addition receives 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.

Management Report (CONTINUED)

Vienna, 16 February 2018

The Management Board

Robert Zadrazil
CEO Business Areas &
Support Services
(Chief Executive Officer)

Romeo Collina
COO
Chief Operating Officer
(Deputy CEO)

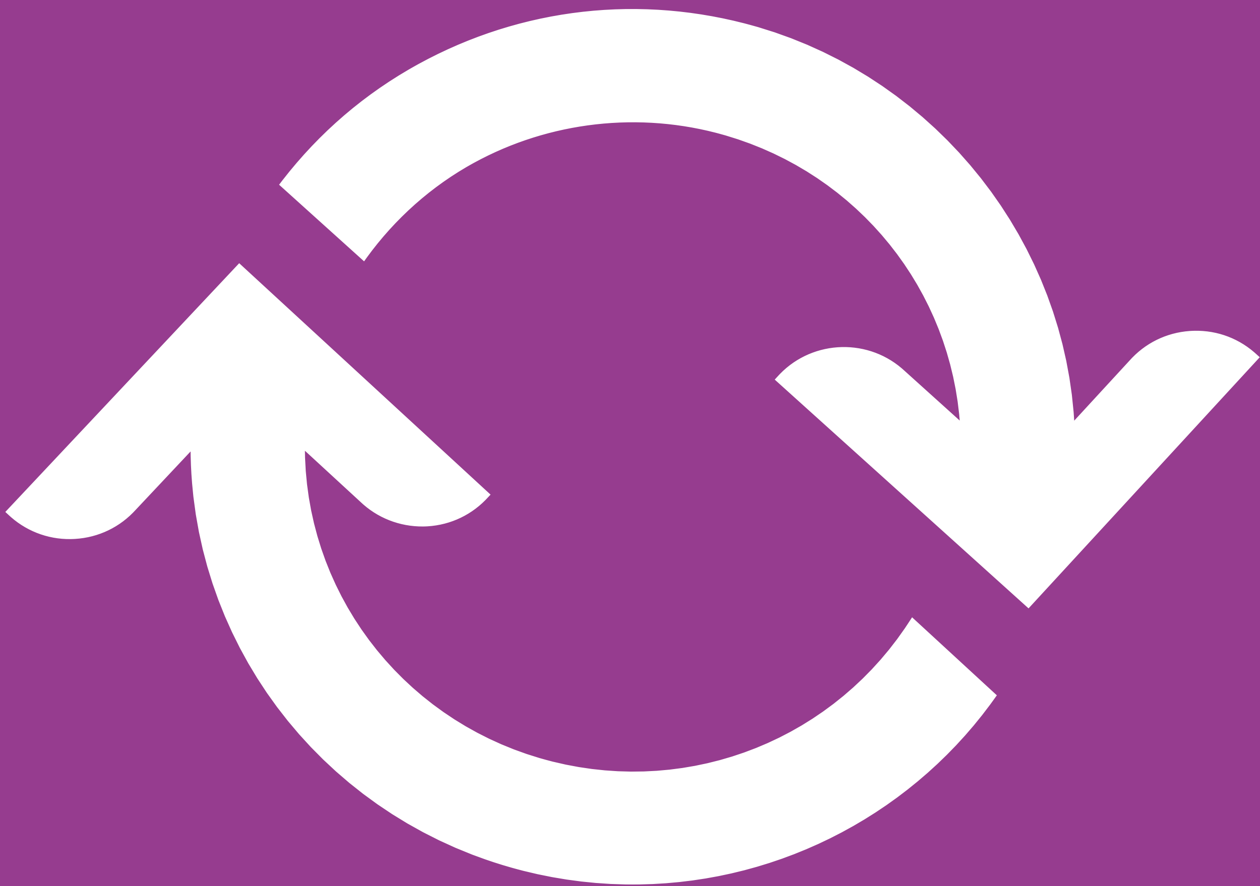
Dieter Hengl
Corporate & Investment
Banking Division

Gregor Hofstätter-Pobst
CFO Finance

Jürgen Kullnigg
CRO Risk Management

Doris Tomanek
Human Capital

Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

Financial Statements of UniCredit Bank Austria AG

Balance Sheet at 31 December 2017

Assets

(€ thousand)

			CHANGE	
	31 DEC. 2017	31 DEC. 2016	+/–	IN %
1. Cash in hand, balances with central banks and postal giro offices	**8,460,782**	**3,133,557**	**5,327,225**	**170.0**
2. Treasury bills and other bills eligible for refinancing at central banks	**11,870,516**	**12,219,045**	**–348,529**	**–2.9**
a) treasury bills and similar securities	11,870,516	12,219,045	–348,529	–2.9
b) other bills eligible for refinancing at central banks	–	–	–	–
3. Loans and advances to credit institutions	**11,783,333**	**17,742,351**	**–5,959,018**	**–33.6**
a) repayable on demand	695,426	1,071,388	–375,962	–35.1
b) other loans and advances	11,087,907	16,670,963	–5,583,056	–33.5
4. Loans and advances to customers	**59,659,199**	**60,580,128**	**–920,929**	**–1.5**
5. Bonds and other fixed-income securities	**2,630,635**	**3,572,671**	**–942,036**	**–26.4**
a) issued by public borrowers	302,249	437,125	–134,876	–30.9
b) issued by other borrowers	2,328,386	3,135,546	–807,160	–25.7
of which: own bonds	117,513	134,269	–16,756	–12.5
6. Shares and other variable-yield securities	**87,254**	**115,246**	**–27,992**	**–24.3**
7. Equity interests	**239,032**	**226,817**	**12,215**	**5.4**
of which: in credit institutions	166,330	158,936	7,394	4.7
8. Shares in group companies	**1,788,101**	**2,180,270**	**–392,169**	**–18.0**
of which: in credit institutions	256,635	256,635	–	–
9. Intangible fixed assets	**–**	**1,235**	**–1,235**	**–100.0**
10. Tangible fixed assets	**176,855**	**181,276**	**–4,421**	**–2.4**
of which: land and buildings used by the credit institution for its own business operations	31,286	45,229	–13,943	–30.8
11. Shares in a controlling company or a company holding a majority interest	**–**	**–**	**–**	**–**
of which: par value	–	–	–	–
12. Other assets	**1,526,978**	**1,806,487**	**–279,509**	**–15.5**
13. Subscribed capital called but not paid	**–**	**–**	**–**	**–**
14. Prepaid expenses	**241,648**	**307,071**	**–65,423**	**–21.3**
15. Deferred tax assets	**465,292**	**497,598**	**–32,306**	**–6.5**
TOTAL ASSETS	**98,929,625**	**102,563,752**	**–3,634,127**	**–3.5**

Financial Statements (CONTINUED)

Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2017	31 DEC. 2016	CHANGE +/–	CHANGE IN %
1. Amounts owed to credit institutions	**18,883,342**	**17,202,670**	**1,680,672**	**9.8**
a) repayable on demand	3,573,142	3,322,621	250,521	7.5
b) with agreed maturity dates or periods of notice	15,310,200	13,880,049	1,430,151	10.3
2. Amounts owed to customers	**52,766,100**	**54,335,909**	**–1,569,809**	**–2.9**
a) savings deposits	15,458,498	15,703,564	–245,066	–1.6
aa) repayable on demand	9,764,083	8,876,913	887,170	10.0
bb) with agreed maturity dates or periods of notice	5,694,415	6,826,651	–1,132,236	–16.6
b) other liabilities	37,307,602	38,632,345	–1,324,743	–3.4
aa) repayable on demand	27,911,773	27,551,829	359,944	1.3
bb) with agreed maturity dates or periods of notice	9,395,830	11,080,516	–1,684,686	–15.2
3. Debts evidenced by certificates	**13,863,021**	**15,744,903**	**–1,881,882**	**–12.0**
a) bonds issued	10,498,994	12,223,763	–1,724,769	–14.1
b) other debts evidenced by certificates	3,364,027	3,521,140	–157,113	–4.5
4. Other liabilities	**1,791,814**	**3,165,165**	**–1,373,351**	**–43.4**
5. Deferred income	**31,176**	**49,754**	**–18,578**	**–37.3**
6. Provisions	**4,277,765**	**4,298,526**	**–20,761**	**–0.5**
a) provisions for severance payments	275,750	258,758	16,992	6.6
b) pension provisions	3,288,810	3,359,636	–70,826	–2.1
c) provisions for taxes	17,049	26,049	–9,000	–34.6
d) other	696,156	654,083	42,073	6.4
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	**1,004,586**	**1,835,480**	**–830,894**	**–45.3**
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**	**1,876,354**	**–**	**–**
a) subject to legal restrictions	876,354	876,354	–	–
b) other	1,000,000	1,000,000	–	–
11. Revenue reserves	**244,203**	**244,209**	**–6**	**0.0**
a) for own shares and shares in a controlling company	–	–	–	–
b) statutory reserve	–	–	–	–
c) reserves provided for by the bye-laws	–	–	–	–
d) other reserves	244,203	244,209	–6	0.0
12. Reserve pursuant to Section 57 (5) of the Austrian Banking Act (BWG)	**2,129,748**	**2,129,748**	**–**	**–**
13. Accumulated profit/loss	**380,481**	**–**	**380,481**	**–**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	98,929,625	102,563,752	–3,634,127	–3.5

Financial Statements (CONTINUED)

Items shown below the Balance Sheet

Assets

(€ thousand)

	31 DEC. 2017	31 DEC. 2016	CHANGE +/–	CHANGE IN %
1. Foreign assets	**29,256,997**	**36,161,704**	**–6,904,707**	**–19.1**

Liabilities and Shareholders' Equity

(€ thousand)

	31 DEC. 2017	31 DEC. 2016	CHANGE +/–	CHANGE IN %
1. Contingent liabilities	**10,270,157**	**9,697,534**	**572,623**	**5.9**
of which:				
a) acceptances and endorsements	–	–	–	–
b) guarantees and assets pledged as collateral security	10,270,157	9,697,534	572,623	5.9
2. Commitments	**13,038,188**	**12,629,524**	**408,664**	**3.2**
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	**6,465,310**	**6,793,790**	**–328,480**	**–4.8**
of which: Tier 2 capital pursuant to Chapter 4 of Title I of Part Two of Regulation (EU) No 575/2013	1,040,671	1,342,632	–301,961	–22.5
5. Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013	**31,954,333**	**34,269,324**	**–2,314,991**	**–6.8**
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	16.98 %	15.91 %		
b) a Tier 1 capital ratio	16.98 %	15.91 %		
c) a total capital ratio	20.23 %	19.82 %		
6. Foreign liabilities	**14,515,864**	**17,548,748**	**–3,032,884**	**–17.3**

Financial Statements (CONTINUED)

Profit and Loss Account for the year ended 31 December 2017

(€ thousand)

		2017	2016	CHANGE +/–	CHANGE IN %
1.	**Interest and similar income**	**1,495,583**	**1,748,292**	**–252,709**	**–14.5**
	of which: from fixed-income securities	195,067	243,781	–48,714	–20.0
2.	**Interest and similar expenses**	**–620,434**	**–797,944**	**177,510**	**22.2**
I.	**NET INTEREST INCOME**	**875,149**	**950,348**	**–75,199**	**–7.9**
3.	**Income from securities and equity interests**	**569,865**	**434,840**	**135,025**	**31.1**
	a) income from shares, other ownership interests and variable-yield securities	7,975	260	7,715	>100.0
	b) income from equity interests	17,423	29,515	–12,092	–41.0
	c) income from shares in group companies	544,467	405,065	139,402	34.4
	Net fee and commission income (sub-total of items 4 and 5)	**513,562**	**486,927**	**26,635**	**5.5**
4.	**Fee and commission income**	**637,962**	**623,686**	**14,276**	**2.3**
5.	**Fee and commission expenses**	**–124,400**	**–136,759**	**12,359**	**9.0**
6.	**Net profit/loss on trading activities**	**62,010**	**73,158**	**–11,148**	**–15.2**
7.	**Other operating income**	**179,414**	**47,507**	**131,907**	**>100.0**
II.	**OPERATING INCOME**	**2,200,000**	**1,992,780**	**207,220**	**10.4**
8.	**General administrative expenses**	**–1,312,736**	**–2,114,953**	**802,217**	**37.9**
	a) staff costs	–728,428	–1,428,913	700,485	49.0
	wages and salaries	–372,539	–735,472	362,933	–49.3
	expenses for statutory social-security contributions and compulsory contributions related to wages and salaries	–98,974	–108,236	9,262	8.6
	other employee benefits	–9,570	–11,964	2,394	20.0
	expenses for retirement benefits	–220,364	–217,116	–3,248	–1.5
	allocation to the pension provision	–	–304,305	304,305	100.0
	expenses for severance payments and payments to severance-payment funds	–26,981	–51,820	24,839	47.9
	b) other administrative expenses	–584,308	–686,040	101,732	14.8
9.	**Depreciation and amortisation of asset items 9 and 10**	**–34,450**	**–61,520**	**27,070**	**44.0**
10.	**Other operating expenses**	**–88,001**	**–260,970**	**172,969**	**–66.3**
III.	**OPERATING EXPENSES**	**–1,435,187**	**–2,437,443**	**1,002,256**	**41.1**
IV.	**OPERATING RESULTS**	**764,813**	**–444,663**	**1,209,476**	**>100.0**

Financial Statements (CONTINUED)

(€ thousand)

				CHANGE	
		2017	2016	+/–	IN %
11./12.	Net income/expenses from the disposal and valuation of loans and advances, securities as well as contingent liabilities and commitments	24,907	–93,128	118,035	>100.0
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	–400,659	137,842	–538,501	>100.0
V.	RESULTS FROM ORDINARY BUSINESS ACTIVITIES	389,061	–399,949	789,010	>100.0
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	25,924	495,740	–469,816	–94.8
19.	Other taxes not included under item 18	–34,510	–133,681	99,171	74.2
VI.	ANNUAL SURPLUS/ANNUAL DEFICIT	380,475	–37,890	418,365	>100.0
20.	Movements in reserves	6	37,890	–37,884	100.0
VII.	PROFIT/LOSS FOR THE YEAR	380,481	–	380,481	–
21.	Profit/loss brought forward from previous year	–	–	–	–
VIII.	ACCUMULATED PROFIT/LOSS	380,481	–	380,481	–

Notes to the Financial Statements

of UniCredit Bank Austria AG

1. General information

The financial statements of UniCredit Bank Austria AG for the 2017 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.

The disclosure in the balance sheet items "Loans and receivables with banks" or "Loans and receivables with customers" as well as "Deposits from banks" or "Deposits from customers" is due to technical and procedural reasons, as well as for better comparability with the consolidated financial statements of the BA Group according to the provisions of CRR 575/2013.

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.

Non-financial report

The information in accordance with Section 243b UGB is published by the topmost EU parent institution. It is published online at (www.unicreditgroup.eu) in the Integrated Report.

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 2017. 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. Portfolio-based specific provisions are established for foreign currency loans and loans with repayment vehicles.

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 are 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 a Discounted Cash Flow Valuation Model (3-phase model):

- Phase 1 – planning period (2018-2020):
  The 2018 budget figures for net profit and risk-weighted assets were used for 2018, and currently available multi-year planning figures were used for subsequent years.
- Phase 2 (2021–2025):
  Within this stage, the return on equity converges against the cost of capital.
- 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 for Austria (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.

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

2.2.6. Intangible assets
As of 31 December 2017, UniCredit Bank Austria AG reported no intangible assets. For the reporting year, the depreciation rates between 16.67% p.a. and 25% p.a., which were also applied during the previous year, were again applied.

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 2017 was composed as follows for all currencies:

TYPE OF VALUATION UNIT	PROVISION REQUIRED FOR PENDING LOSSES 31 DEC. 2017 (IN €)	PROVISION MADE FOR PENDING LOSSES FROM 2016 (IN €)	RELEASE OF PROVISION FOR PENDING LOSSES IN 2017 (IN €)
Macro valuation units	−648,767.42	−1,954,293.69	1,305,526.27
Micro valuation units	−102,339.31	−97,369.58	−4,969.73
Stand-alone derivatives	−847,186.49	−3,149,895.14	2,302,708.65
Total	**−1,598,293.22**	**−5,201,558.41**	**3,603,265.19**

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 changes in interest rates in the period covered by the financial statements. While short-term interest rates in the eurozone have moved rather sideways and the interest rate curve has risen slightly in the long term, the US dollar continued its interest rate increase over the entire curve, with a slight flattening in longer maturities. 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 31 DEC. 2017	CLEAN MARKET VALUES OF DERIVATIVES, NET AMOUNTS 31 DEC. 2016	UNRECOGNISED RESERVES FROM HEDGED ITEMS OFFSET UNDER A MACRO HEDGE 2017	PROVISION REQUIRED FOR PENDING LOSSES 2017	PROVISION MADE FOR PENDING LOSSES FROM 2016	PROVISION MADE FOR PENDING LOSSES 2017	LONGEST TERM OF DERIVATIVES 2017
EUR	25.7	168.6	not relevant	0.0	0.0	0.0	31 Dec. 2049
CHF	45.0	11.0	not relevant	0.0	0.0	0.0	15 June 2031
CZK	1.1	–0.4	not relevant	0.0	–0.4	0.4	31 March 2026
JPY	1.5	–1.5	not relevant	0.0	–1.5	1.5	31 May 2020
RON	–0.4	0.2	1.5	0.0	0.0	0.0	30 June 2019
RUB	0.4	0.0	not relevant	0.0	0.0	0.0	8 Sept. 2018
TRY	–0.9	0.4	0.2	–0.6	0.0	–0.6	31 Dec. 2018
USD	–48.3	–62.3	164.0	0.0	0.0	0.0	15 Dec. 2032
	24.1	**116.0**		**–0.6**	**–1.9**	**1.3**	

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, CZK, JPY and RUB , 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 TRY 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 the currencies CZK and JPY the existing provisions from 2016 are not necessary anymore due to positive market values, which led to a release of provisions in 2017.

Effectiveness is 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 on a monthly basis 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 €496,930,580.55 (2016: €548,249 thousand). Of this total, €515,379,137.20 (2016: €572,485 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 – €-18,448,556.65 (2016: – €24,236 thousand).

TYPE OF MICRO VALUATION UNIT	SIDE OF THE BALANCE SHEET	TYPE OF UNDERLYING	VALUE IN €	LONGEST TERM OF DERIVATIVES
Cash flow	Assets	Securities	–2,553,783.48	31 July 2033
Cash flow	Liabilities	Securities	–24.95	3 July 2020
Fair value	Assets	Loan to customers	–57,881.68	31 December 2021
Fair value	Assets	Securities	–15,836,891.49	9 June 2036
Fair value	Liabilities	Money market	44,637,370.24	1 July 2055
	Liabilities	Securities	470,741,791.91	3 Jan. 2042
Total			**496,930,580.55**	

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.

Notes (CONTINUED)

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.

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 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 left the company to take retirement by 31 December 2016.

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, 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 received compensation, in the form of lump-sum payments, for any disadvantages resulting from this transfer. In addition, UniCredit Bank Austria made 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 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 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. A complaint was introduced against this increase to the Federal Administrative Court, which initiated proceedings to review a legislative act with the Constitutional Court (VfGH). As per the decision by the VfGH and legal force of the corresponding notices to UniCredit Bank Austria AG, the liability was paid on 17 November 2017. There are still amounts payable for those 84 cases still awaiting a decision from the Federal Administrative Court. This sum (around €23 million) is booked as a liability.

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: 1.80% p.a. (2016: 1.60% p.a.)
  This percentage is the rounded percentage according to the Mercer Yield Curve (MYC) as at 31 December 2017 based on the cash flows determined for the pension plan for active employees and pensioners. The duration for the pension plan is 12.64 years (2016: 13.07 years); the weighted duration for the pension, severance pay and anniversary payments is 12.2 years (2016: 12.8 years).
- Collective bargaining agreement dynamics: 2.05% p.a. (2016 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 dynamics take into account the regular advancements of the current banking collective bargaining agreement scheme and the effects of the transitional provisions of the Service Law Reform 2005. Non-regular advancements were calculated at 0.25% p.a. (2016: 0.25% p.a.) (assumption of increases for employees).
- Pension provision
- Pension trend: 1.40% (2016: 1.40%) "BA-ASVG" pensions only2.05% (2016: 2.05%) other pensions
- No discount for staff turnover.
- AVÖ2008-P statistical tables of Aktuarverein Österreich (life-expectancy tables for salaried staff).

Notes (CONTINUED)

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)

	2017		2016	
	PENSION	SEVERANCE PAYMENT	PENSION	SEVERANCE PAYMENT
Discount rate	1.80%	1.80%	1.60%	1.60%
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 2017	3,288,810	275,750	3,516,785	274,416
Expected present value as at 31 December 2018	3,156,257	269,748	3,375,321	270,641
Sensitivity *) – discount rate +/–	0.25%	0.25%	0.25%	0.25%
Discount rate –	3,393,632	281,982	3,632,975	281,101
Discount rate +	3,189,330	269,731	3,406,614	267,969
Sensitivity *) – salary increase +/–	0.25%	0.25%	0.25%	0.25%
Salary increase rate –	3,288,492	269,750	3,516,411	268,000
Salary increase rate +	3,289,133	281,933	3,517,165	281,036
Sensitivity *) – pension increase +/–	0.25%	–	0.25%	–
Pension increase rate –	3,189,236	–	3,406,751	–
Pension increase rate +	3,393,214	–	3,632,293	–
Duration	12.64	9.04	13.07	9.72
Active employees	4	5,743	10	5,859
Average age	59.33	46.14	56.40	45.61
Retired employees	6,684	–	6,807	–
Average age	72.43	–	71.67	–

*) Sensitivity data reflect the total amount of the obligation upon a change in the parameter.

3. Changes in accounting and valuation methods, reclassifications

No changes in accounting and valuation methods were made compared to the previous year.

Notes (CONTINUED)

4. Notes to the balance sheet

4.1. Breakdown by maturity – not repayable on demand

Breakdown by maturity

	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Loans and advances to credit institutions		
up to three months	5,683,206,529.40	9,370,667
over three months and up to one year	1,072,154,464.57	2,495,183
over one year and up to five years	3,411,556,060.37	3,386,877
over five years	920,989,526.16	1,418,236
Loans and advances to customers		
up to three months	3,215,099,764.40	6,424,602
over three months and up to one year	2,786,010,851.91	2,790,767
over one year and up to five years	13,904,509,978.84	14,000,953
over five years	33,435,422,070.70	36,574,463
Amounts owed to credit institutions		
up to three months	4,317,886,851.11	3,620,004
over three months and up to one year	702,935,468.69	734,101
over one year and up to five years	6,516,816,753.11	3,710,347
over five years	3,772,561,295.31	5,815,597
Amounts owed to customers		
a) Savings deposits *)		
up to three months	1,949,588,603.49	254,803
over three months and up to one year	2,253,560,616.50	1,185,635
over one year and up to five years	1,080,742,017.01	3,386,164
over five years	410,523,988.52	2,000,049
b) Other amounts owed to customers		
up to three months	5,673,788,105.45	5,622,704
over three months and up to one year	1,915,539,481.56	1,713,686
over one year and up to five years	1,089,058,682.71	2,758,919
over five years	717,443,453.47	985,208
Other debts evidenced by certificates		
up to three months	190,015,148.67	84,368
over three months and up to one year	186,930,569.28	74,894
over one year and up to five years	1,153,275,281.66	1,320,802
over five years	1,833,805,762.33	2,041,075

*) 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 2017, foreign currency assets amounted to €14,558,622,870.24, representing 14.72% of total assets (31 December 2016: €13,411,148 thousand or 13.08% of total assets). Foreign currency liabilities amounted to €14,634,265,697.84 or 14.79% of the balance sheet total (31 December 2016: €13,486,790 thousand or 13.15% 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. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Loans and advances						
Loans and advances to credit institutions	5,615,788,293.00	10,291,652	323,868,086.00	520,806	0.00	0
Loans and advances to customers	4,726,854,483.00	7,375,814	468,005,311.00	507,189	2,384,520.51	2,742
Bonds and other fixed-income securities	257,315,207.11	771,321	33,709,760.11	0	0.00	0
Shares and other variable-yield securities	51,576,209.79	67,167	3,135,513.03	3,136	0.00	0
Amounts owed						
Amounts owed to credit institutions	5,594,775,671.00	6,387,730	7,772,818,915	7,298,042	0.00	0
Amounts owed to customers	1,255,959,974.00	1,681,042	127,545,967	182,005	9,165,491	8,617
Debts evidenced by certificates	322,901,828.18	358,446	0.00	0	0.00	0
Tier 2 capital	3,702,413.33	126,708	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. 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-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 2017, financial fixed assets accounted for €12,584,809,006.18 (31 December 2016: €15,202,466 thousand) and current assets including the trading portfolio accounted for €3,410,013,475.31 (31 December 2016: €3,116,364 thousand).

4.6.1. The following breakdown shows securities admitted to trading on an exchange:

	LISTED		NOT LISTED	
	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Bonds and other fixed-income securities	2,004,681,840.17	2,702,169	625,953,244.86	870,503
Shares and other variable-yield securities	37,367,478.44	37,331	0.00	0
Equity interests	106,377,190.93	99,029	0.00	0
Shares in group companies	0.00	0	0.00	0
TOTAL	**2,148,426,509.54**	**2,838,529**	**625,953,244.86**	**870,503**

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. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Bonds and other fixed-income securities	2,118,806,325.92	2,890,453	511,828,759.11	682,219
Shares and other variable-yield securities	0.00	0	37,367,478.44	37,331
TOTAL	**2,118,806,325.92**	**2,890,453**	**549,196,237.55**	**719,550**

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. 2017 (IN €)	UNRECOGNISED LOSSES 31 DEC. 2017 (IN €)	BOOK VALUE 31 DEC. 2016 (IN € THOUSAND)	UNRECOGNISED LOSSES 31 DEC. 2016 (IN € THOUSAND)
Treasury bills and similar securities	860,394,690.43	−989,802.75	474,562	−4,738
Bonds and other fixed-income securities	215,533,514.13	−5,019,387.90	818,473	−21,690
Shares and other variable-yield securities	0.00	0.00	0	0
Equity interests	0.00	0.00	30,395	−1,921
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 €3,989,116.89 (31 December 2016: €11,712 thousand) and a statistically determined provision of €6,422,327.32 (31 December 2016: €6,422 thousand) 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 2017.

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 (31 December 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 (31 December 2016: €97,025 thousand). As at 31 December 2017, the difference between cost and repayable amount was €156,993,674.19 (31 December 2016: €175,055 thousand).

Notes (CONTINUED)

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 2017, the market value of securities held in the trading portfolio pursuant to Section 56 (5) of the Austrian Banking Act was €1,156.61 (31 December 2016: €1 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 €34,567,939.42 (31 December 2016: €52,685 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 €374,581,028.91 (31 December 2016: €801,185 thousand) will become due in 2018. Of the bonds issued, securities in the amount of €2,562,707,761.21 (31 December 2016: €1,524,746 thousand) will become due in 2018.

4.10. Trading book

In the 2017 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 €1,816,007.41 (31 December 2016: €3,508 thousand) and the notional amount of derivatives totalled €54,726,176,328.00 (31 December 2016: €46,449,151 thousand).

4.11. Own shares

There were no sales or purchases of UniCredit Bank Austria AG ordinary shares in 2017 (2016: no sales or purchases). As at 31 December 2017, UniCredit Bank Austria AG did not hold any of its own shares (31 December 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 318,218 shares (2016: 2,842 thousand shares).

At the balance sheet date, UniCredit Bank Austria AG did not hold any UniCredit S.p.A. shares (31 December 2016: 0).

4.13. Repurchased own subordinated bonds and Tier 2 capital

As at 31 December 2017, UniCredit Bank Austria AG's own portfolio included subordinated bonds issued by the bank itself with a total carrying amount of €34,622,815.45 (31 December 2016: €34,203 thousand) and no Tier 2 capital (31 December 2016: €0). UniCredit Bank Austria AG holds issues of hybrid instruments of two subsidiaries with a total nominal value of €254,711,000.00 (31 December 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. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Loans and advances to customers	278,000,142.28	318,065
Total assets items	**278,000,142.28**	**318,065**
Amounts owed to credit institutions	86,964,100.00	104,185
Amounts owed to customers	191,036,042.28	213,880
Total liabilities items	**278,000,142.28**	**318,065**

UniCredit Bank Austria AG holds a mortgage of €213,000,000.00 in a trust on behalf of a third-party bank (2016: €0). 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 €1,411,882,725.59 (31 December 2016: €1,637,776 thousand) compare with assets totalling €1,466,411,245.76 (31 December 2016: €1,637,796 thousand) 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 (31 December 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 2017, UniCredit Bank Austria AG did not borrow any securities (31 December 2016: €0) and the bank lent securities in the total amount of €364,903,800.00 (31 December 2016: €536,350 thousand).

4.16. Subordinated assets

	31 DEC. 2017 (IN €)		31 DEC. 2016 (IN € THOUSAND)	
Loans and advances to credit institutions		**338,190,479.42**		**254,008**
of which: equity interests	0.00		15,420	
of which: group companies	336,184,623.86		238,588	
Loans and advances to customers		**22,435,217.98**		**240,099**
of which: equity interests	0.00		0	
of which: group companies	22,000,000.00		239,097	
Bonds and other fixed-income securities		**171,301,529.26**		**170,580**
of which: equity interests	0.00		0	
of which: group companies	163,087,102.59		162,299	

4.17. Intangible fixed assets and tangible fixed assets

The item “Intangible fixed assets” does not include any software (31 December 2016: €0) that was acquired from a group company. At the balance sheet date, the land value of property was €12,208,490.86 (31 December 2016: €13,886 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

(€)

	31 DEC. 2016	ADDITIONS	DISPOSALS	TRANSFERS	31 DEC. 2017
Cost					
Treasury bills and similar securities	10,570,475,794.93	1,223,524,309.12	1,798,360,446.28	0.00	9,995,639,657.77
Loans and advances to credit institutions	1,980,426,561.66	0.00	1,230,234,978.33	0.00	750,191,583.33
Loans and advances to customers	107,149,016.67	57,156,656.90	14,193,724.66	0.00	150,111,948.91
Bonds and other fixed-income securities	2,896,568,175.03	193,057,039.52	957,420,502.63	0.00	2,132,204,711.92
Shares and other variable-yield securities	0.00	0.00	0.00	0.00	0.00
Equity interests	327,712,343.01	7,395,762.90	22,715,296.06	0.00	312,392,809.85
Shares in group companies	9,295,627,095.61	29,926,266.85	1,962,067.24	0.00	9,323,591,295.22
Intangible fixed assets	484,380,565.08	0.00	279,872.96	0.00	484,100,692.12
Tangible fixed assets					
a) Land and buildings	104,464,825.09	773,059.63	25,428,759.98	–13,702.08	79,795,422.66
b) Other tangible fixed assets	510,055,516.41	38,821,746.05	16,273,385.00	13,702.08	532,617,579.54
TOTALS	**26,276,859,893.49**	**1,550,654,840.97**	**4,066,869,033.14**	**0.00**	**23,760,645,701.32**

	ACCUMULATED WRITE-DOWNS/DEPRECIATION 31 DEC. 2016	WRITE-DOWNS/DEPRECIATION 2017	WRITE-UPS 2017	ACCUMULATED WRITE-DOWNS/DEPRECIATION DISPOSALS 31 DEC. 2017
Carrying value and write-downs/depreciation				
Treasury bills and similar securities	346,038,631.87	149,321,652.07	65,419,774.19	0.00
Loans and advances to credit institutions	0.00	0.00	0.00	0.00
Loans and advances to customers	0.00	0.00	0.00	0.00
Bonds and other fixed-income securities	6,115,319.02	22,720,964.05	8,450,127.31	6,987,769.76
Shares and other variable-yield securities	0.00		0.00	
Equity interests	100,895,474.86	441,188.04	9,221,008.89	18,754,729.00
Shares in group companies	7,115,357,298.08	455,797,439.85	35,639,048.07	25,466.24
Intangible fixed assets	483,145,286.08	1,235,279.00	0.00	279,872.96
Tangible fixed assets				
a) Land and buildings	50,347,731.19	3,429,993.65	0.00	14,561,916.33
b) Other tangible fixed assets	382,896,584.57	29,784,898.74	119,892.11	16,219,317.13
TOTALS	**8,484,796,325.67**	**662,731,415.40**	**118,849,850.57**	**56,829,071.42**

	ACCUMULATED WRITE-DOWNS/DEPRECIATION TRANSFERS 31 DEC. 2017	ACCUMULATED WRITE-DOWNS/DEPRECIATION 31 DEC. 2017	CARRYING VALUE 31 DEC. 2017	CARRYING VALUE 31 DEC. 2016
Carrying value and write-downs/depreciation				
Treasury bills and similar securities	0.00	429,940,509.75	9,565,699,148.02	10,224,437,163.06
Loans and advances to credit institutions	0.00	0.00	750,191,583.33	1,980,426,561.66
Loans and advances to customers	0.00	0.00	150,111,948.91	107,149,016.67
Bonds and other fixed-income securities	0.00	13,398,386.00	2,118,806,325.92	2,890,452,856.01
Shares and other variable-yield securities	0.00	0.00	0.00	0.00
Equity interests	0.00	73,360,925.01	239,031,884.84	226,816,868.15
Shares in group companies	0.00	7,535,490,223.62	1,788,101,071.60	2,180,269,797.53
Intangible fixed assets	0.00	484,100,692.12	0.00	1,235,279.00
Tangible fixed assets				
a) Land and buildings	452.08	39,215,356.43	40,580,066.23	54,117,093.90
b) Other tangible fixed assets	–452.08	396,342,726.15	136,274,853.39	127,158,931.84
TOTALS	**0.00**	**8,971,848,819.08**	**14,788,796,882.24**	**17,792,063,567.82**

4.19. Leasing activities

While UniCredit Bank Austria AG was not directly active as lessor in the leasing business in 2017, 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. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
for the subsequent business year	47,384,841.15	59,164
for the subsequent five business years	216,118,489.44	305,029

4.21. Other assets

4.21.1. Other assets

This item includes valuation components, both reflected and not reflected in income, of €1,223,128,379.40 (31 December 2016: €1,382,057 thousand) from derivative products.

Dividends receivable from group companies with which there are profit pooling arrangements totalled €83,599,960.08 (31 December 2016: €233,454 thousand).

Claims against the Austrian tax office for companies (Finanzamt für Körperschaften) totalled €40,510,406.39 (31 December 2016: €52,483 thousand). Other assets also include accrued interest and fee and commission income in the amount of €21,153,264.00 (31 December 2016: €22,023 thousand).

4.21.2. Prepaid expenses

This item includes an advance rent payment of €21,238,458.64 (31 December 2016: €23,140 thousand) for the property in Lassallestrasse 5, 1020 Vienna, and advance rent payments of €1,848,169.44 (31 December 2016: €2,036 thousand) for various properties.

This balance sheet item also includes discounts of €217,965,424.02 (31 December 2016: €279,377 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 €465,291,547.93 (31 December 2016: €497,598 thousand); this amount included deferred taxes of €1,259,060.42 (31 December 2016: €2,074 thousand) resulting from temporary differences at companies with which UniCredit Bank Austria AG maintained single entity agreements for tax purposes.

The movement in the balance of deferred tax assets is mainly based on changes in the areas of provisions for social capital, changes in the provision for credit losses which may be expected on the basis of statistical experience, continued write-downs to the going concern value ("Siebentel-Abschreibungen"), the usage resp. release of other provisions, long-term provisions and long-term liabilities.

The option of capitalizing carrying tax loss carry-forwards as assets was not used.

4.23. Other liabilities

This item includes valuation components, both reflected and not reflected in income, in the amount of €1,289.870,931.57 (31 December 2016: €1,507,451 thousand) from derivative products.

Also included in this item are liabilities of €41,089,414.47 (31 December 2016: €851,603 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 €311,783,913.57 (31 December 2016: €545,265 thousand) 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 €27,437,175.65 (31 December 2016: €22,378 thousand).

Other liabilities also include accrued expenses in the amount of €7,070,493.09 (31 December 2016: €7,734 thousand).

The item also comprises liabilities of €3,192.15 (31 December 2016: €3 thousand) from the assumption of losses.

4.24. Deferred income

This balance sheet item includes premiums of €15,305,491.22 (31 December 2016: €21,777 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 2017 was 1.80% (2016: 1.60%). The provisions for pensions and severance payments stated in the balance sheet correspond with the respective actuarial valuation of these liabilities.

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. It is recognised in 2017 for the last time as an expense on this basis, with €157,149,392.81 for pensions (31 December 2016: €157,147 thousand) and €15,658,000.00 for severance payments (31 December 2016: €15,658 thousand).

4.25.2. Other provisions

	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Provisions for credit risks	174,876,930.72	112,977
Provisions for pending losses	249,958,495.48	279,979
Provisions for indeterminate liabilities	192,810,807.30	211,667
Restructuring provisions	78,509,710.88	49,459
TOTAL	**696,155,944.38**	**654,082**

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 as well as costs related to the restructuring of real estate held by Bank Austria.

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 2017 amounts to €1,004,585,855.83 (31 December 2016: €1,835,480 thousand).

Three subordinated issues totalling €798,573,617.30 were redeemed in the reporting year.

As at 31 December 2017, subordinated liabilities included 20 bonds (31 December 2016: 23 bonds) and 4 time deposits (31 December 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 2017 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 2017, capital reserves subject to legal restrictions were stated at €876,354,199.40, unchanged compared with 31 December 2016. A capital reserve which is not subject to legal restrictions amounted to €1,000,000,000.00 as at the balance sheet date (31 December 2016: €1,000,000 thousand), reflecting a shareholder contribution from UniCredit S.p.A.

4.27.3. Revenue reserves

As at 31 December 2017, revenue reserves were stated at €244,203,161.67 (31 December 2016: €244,209 thousand).

4.27.4. Reserve pursuant to Section 57 (5) of the Austrian Banking Act

As at 31 December 2017, 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 2017. Please note that the financial statements for 2017 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. 2017	6,465,310,116.72
		31 Dec. 2016	6,793,789,609.60
UNICREDIT BANK AUSTRIA AG			
1	**CAPITAL**		**6,465,310,116.72**
1.1	**TIER 1 CAPITAL (T1)**		**5,424,638,629.82**
1.1.1	**COMMON EQUITY TIER 1 CAPITAL (CET1)**		**5,424,638,629.82**
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	244,203,161.67	
1.1.1.2.1	Retained earnings of previous years	244,203,161.67	
1.1.1.2.2	Qualifying profit or loss	0.00	
1.1.1.2.2.1	*Profit or loss attributable to the owners of the parent company*	*380,480,980.62*	
1.1.1.2.2.2	*(–) Part of interim or year-end profit not eligible*	*– 380,480,980.62*	
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)	– 9,406,046.00	
1.1.1.9.4	*Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities*	*– 9,344,179.00*	
1.1.1.9.5	*(–) Write-downs resulting from requirements for prudent valuation*	*– 61,867.00*	
1.1.1.13	(–) IRB shortfall arising from credit risk adjustments to expected losses	– 4,342,361.80	
1.1.1.16	(–) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	– 12,588,158.34	
1.1.1.18	(–) Securitisation positions to which a risk weight of 1250 % may be assigned as an alternative	– 21,089,922.54	
1.1.1.19	(–) Free deliveries which can alternatively be subject to a 1.250% risk weight	– 3,308.60	
1.1.1.24	(–) Common Equity Tier 1 capital instruments of financial sector entities in which the institution has a significant investment	– 228,241,540.05	
1.1.1.25	(–) Amount exceeding the 17.65 % threshold	– 242,861,641.46	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	11,832,316.69	
1.1.2	**ADDITIONAL TIER 1 CAPITAL (AT1)**		**0.00**
1.1.2.7	(–) AT1 instruments of financial sector entities where the institution has a significant investment	– 6,672,000.00	
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	– 5,916,158.34	
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)	12,588,158.34	
1.2	**TIER 2 CAPITAL (T2)**		**1,040,671,486.90**
1.2.1	**Capital instruments and subordinated loans qualifying as Tier 2 capital**		**867,264,556.06**
1.2.1.1	Paid-up capital instruments and subordinated loans	877,692,151.31	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify for inclusion	94,148,402.74	
1.2.1.4	(–) Own Tier 2 instruments	– 10,427,595.25	
1.2.1.4.1	*(–) Direct positions in Tier 2 capital instruments*	*– 10,427,595.25*	
1.2.2	**Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)**		**68,644,500.00**
1.2.5	**Qualifying provisions exceeding the expected losses under the IRB approach (IRB excess)**		**140,868,222.35**
1.2.9	**(–) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment**		**– 30,189,633.17**
1.2.10	**Other transitional adjustments to Tier 2 capital**		**– 5,916,158.34**

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. 2017	2,556,346,669.98
		31 Dec. 2016	2,741,545,882.92
UNICREDIT BANK AUSTRIA AG			
1	**TOTAL RISK EXPOSURE AMOUNT**		**31,954,333,374.70**
1.1	**RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK AND FOR FREE DELIVERIES**		**29,222,338,598.93**
1.1.1	**Standardised approach**		**5,622,197,373.74**
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	5,622,197,373.74	
1.1.1.1.01	*Central governments or central banks*	*910,245,080.48*	
1.1.1.1.02	*Regional governments or local authorities*	*13,489,244.90*	
1.1.1.1.03	*Public sector entities*	*18,065,746.81*	
1.1.1.1.04	*Multilateral development banks*	*488.81*	
1.1.1.1.06	*Institutions*	*410,824,706.66*	
1.1.1.1.07	*Corporates*	*1,863,484,071.19*	
1.1.1.1.08	*Retail exposures*	*5,962,937.64*	
1.1.1.1.09	*Exposures secured by mortgages on immovable property*	*5,165,205.80*	
1.1.1.1.10	*Exposures in default*	*24,062,538.72*	
1.1.1.1.11	*Exposures associated with particularly high risk*	*73,468,850.29*	
1.1.1.1.15	*Equity exposures*	*2,297,428,502.44*	
1.1.2	**Internal ratings-based (IRB) approach**		**23,597,460,291.12**
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	21,727,540,435.52	
1.1.2.2.01	*Central governments and central banks*	*28,578,963.46*	
1.1.2.2.02	*Institutions*	*3,357,845,987.81*	
1.1.2.2.03	*Corporates – SMEs*	*1,726,495,963.70*	
1.1.2.2.04	*Corporates – specialised lending exposures*	*323,448,192.81*	
1.1.2.2.05	*Corporates – other*	*11,232,760,588.89*	
1.1.2.2.06	*Retail exposures – secured by mortgages on immovable property, SMEs*	*182,208,418.36*	
1.1.2.2.07	*Retail exposures - secured by mortgages on immovable property, non-SMEs*	*1,968,311,410.70*	
1.1.2.2.08	*Retail exposures – qualifying revolving*	*402,731,468.64*	
1.1.2.2.09	*Retail exposures – other, SMEs*	*374,808,370.05*	
1.1.2.2.10	*Retail exposures – other, non-SMEs*	*2,130,351,071.10*	
1.1.2.3	Equity exposures under the IRB approach	967,515,984.22	
1.1.2.4	Securitisation positions under the IRB approach	119,423,233.41	
1.1.2.4*	Of which: re-securitisation	49,995.64	
1.1.2.5	Other non credit-obligation assets	782,980,637.97	
1.1.3	**Risk exposure amount for contributions to the default fund of a central counterparty**		**2,680,934.07**
1.2	**RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS**		**196,228.13**
1.2.1	**Settlement and delivery risk in the non-trading book**		**196,228.13**
1.3	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN EXCHANGE RISK AND COMMODITIES RISK**		**302,109,755.13**
1.3.1	**Risk exposure amount for position risk, foreign exchange risk and commodities risk under the standardised approach**		**19,324,070.25**
1.3.1.4	Commodities	19,324,070.25	
1.3.2	**Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models**		**282,785,684.88**
1.4	**TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK**		**2,402,027,560.13**
1.4.3	**Advanced measurement approach (AMA) for operational risk (OpR)**		**2,402,027,560.13**
1.6	**TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)**		**27,661,232.38**
1.6.1	**Advanced method**		**27,661,232.38**
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013			**2,556,346,669.98**
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		**16.98%**
	b) a Tier 1 capital ratio of		**16.98%**
	c) a total capital ratio of		**20.23%**

Notes (CONTINUED)

The following table includes the profit or loss for 2017. 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. 2017	7,478,702,864.44
		31 Dec. 2016	7,383,364,714.39
UNICREDIT BANK AUSTRIA SUB-GROUP			
1	**CAPITAL**		**7,478,702,864.44**
1.1	**TIER 1 CAPITAL (T1)**		**6,622,689,937.72**
1.1.1	**COMMON EQUITY TIER 1 CAPITAL (CET1)**		**6,622,689,937.72**
1.1.1.1	Capital instruments qualifying as Common Equity Tier 1 capital	5,815,515,000.00	
1.1.1.1.1	Paid-up capital instruments	1,681,034,000.00	
1.1.1.1.3	Share premium	4,134,481,000.00	
1.1.1.2	Retained earnings	1,845,878,735.20	
1.1.1.2.1	Retained earnings of previous years	1,571,633,000.00	
1.1.1.2.2	Qualifying profit or loss	274,243,735.20	
1.1.1.2.2.1	*Profit or loss attributable to the owners of the parent company*	*653,461,000.00*	
1.1.1.2.2.2	*(–) Part of interim or year-end profit not eligible*	*– 379,215,264.80*	
1.1.1.3	Accumulated other comprehensive income	– 830,930,000.00	
1.1.1.4	Other reserves	1,150,845,000.00	
1.1.1.7	Minority interests that qualify as Common Equity Tier 1 capital	29,765,000.00	
1.1.1.8	Transitional arrangements concerning additional minority interests	1,105,800.00	
1.1.1.9	Deductions and filters due to adjustments to Common Equity Tier 1 capital (prudential filters)	– 162,918,981.94	
1.1.1.9.2	*Cash flow hedge reserves*	*– 148,760,000.00*	
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*	*465,815.06*	
1.1.1.9.4	*Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities*	*– 9,344,179.00*	
1.1.1.9.5	*(–) Write-downs resulting from requirements for prudent valuation*	*– 5,280,618.00*	
1.1.1.11	(–) Other intangible assets	– 8,244,000.00	
1.1.1.11.1	*(–) Gross amount of other intangible assets*	*– 9,204,000.00*	
1.1.1.11.2	*Deferred tax liabilities associated to other intangible assets*	*960,000.00*	
1.1.1.12	(–) Deferred tax assets that rely on future profitability and do not arise from temporary differences, less associated deferred tax liabilities	– 3,785,873.41	
1.1.1.13	(–) IRB shortfall arising from credit risk adjustments to expected losses	– 2,777,304.40	
1.1.1.16	(–) Items to be deducted from Additional Tier 1 items that exceed Additional Tier 1 capital	– 51,759,606.61	
1.1.1.18	(–) Securitisation positions to which a risk weight of 1250 % may be assigned as an alternative	– 22,041,152.77	
1.1.1.19	(–) Free deliveries which can alternatively be subject to a 1.250% risk weight	– 3,308.60	
1.1.1.24	(–) Common Equity Tier 1 capital instruments of financial sector entities in which the institution has a significant investment	– 1,158,057,966.93	
1.1.1.25	(–) Amount exceeding the 17.65 % threshold	– 75,380,239.76	
1.1.1.26	Other transitional adjustments to Common Equity Tier 1 capital	95,478,736.95	
1.1.2	**ADDITIONAL TIER 1 CAPITAL (AT1)**		**0.00**
1.1.2.2	Transitional adjustments to Additional Tier 1 capital instruments (grandfathering)	72,644,500.00	
1.1.2.7	(–) AT1 instruments of financial sector entities where the institution has a significant investment	– 6,672,000.00	
1.1.2.9	Other transitional adjustments to Additional Tier 1 capital	– 117,732,006.62	
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)	51,759,506.62	
1.2	**TIER 2 CAPITAL (T2)**		**856,012,926.72**
1.2.1	**Capital instruments and subordinated loans qualifying as Tier 2 capital**		**867,264,556.06**
1.2.1.1	Paid-up capital instruments and subordinated loans	867,264,556.06	
1.2.1.2*	Additional information: capital instruments and subordinated loans that do not qualify for inclusion	94,148,438.74	
1.2.2	**Transitional adjustments to Tier 2 capital instruments and subordinated loans (grandfathering)**		**36,322,250.00**
1.2.5	**Qualifying provisions under the IRB approach that exceed the expected losses (IRB excess)**		**124,641,870.83**
1.2.9	**(–) Tier 2 capital instruments of financial sector entities in which the institution has a significant investment**		**– 56,132,543.55**
1.2.10	**Other transitional adjustments to Tier 2 capital**		**– 116,083,206.62**

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. 2017	2,659,435,804.53
		31 Dec. 2016	2,835,714,332.94
UNICREDIT BANK AUSTRIA SUB-GROUP			
1	**TOTAL RISK EXPOSURE AMOUNT**		**33,242,947,556.57**
1.1	**RISK-WEIGHTED EXPOSURES FOR CREDIT RISK, COUNTERPARTY RISK AND DILUTION RISK, AND FOR FREE DELIVERIES**		**29,716,820,493.18**
1.1.1	**Standardised approach**		**8,817,825,732.49**
1.1.1.1	Exposure classes under the standardised approach excluding securitisation positions	8,817,825,732.49	
1.1.1.1.01	*Central governments or central banks*	*653,811,139.52*	
1.1.1.1.02	*Regional governments or local authorities*	*13,723,389.20*	
1.1.1.1.03	*Public sector entities*	*20,258,094.28*	
1.1.1.1.04	*Multilateral development banks*	*488.81*	
1.1.1.1.06	*Institutions*	*514,563,253.03*	
1.1.1.1.07	*Corporates*	*3,545,754,772.26*	
1.1.1.1.08	*Retail exposures*	*446,561,434.62*	
1.1.1.1.09	*Exposures secured by mortgages on immovable property*	*237,402,557.72*	
1.1.1.1.10	*Exposures in default*	*149,833,923.47*	
1.1.1.1.11	*Exposures associated with particularly high risk*	*91,547,262.25*	
1.1.1.1.12	*Covered bonds*	*10,421.93*	
1.1.1.1.13	*Exposures to institutions and corporates with a short-term credit assessment*	*14,409,374.85*	
1.1.1.1.14	*Units or shares in collective investment undertakings (CIUs)*	*114,442.67*	
1.1.1.1.15	*Equity exposures*	*2,347,389,711.02*	
1.1.1.1.16	*Other items*	*782,445,466.86*	
1.1.2	**Internal ratings-based approach (IRB)**		**20,896,313,826.62**
1.1.2.2	IRB approaches if the institution uses its own estimates of LGD and conversion factors	19,684,538,776.18	
1.1.2.2.01	*Central governments or central banks*	*28,578,941.68*	
1.1.2.2.02	*Institutions*	*3,343,490,935.39*	
1.1.2.2.03	*Corporates – SMEs*	*1,727,201,132.71*	
1.1.2.2.04	*Corporates – specialised lending exposures*	*323,448,625.73*	
1.1.2.2.05	*Corporates – other*	*9,203,250,077.16*	
1.1.2.2.06	*Retail exposures – secured by mortgages on immovable property, SMEs*	*182,209,444.02*	
1.1.2.2.07	*Retail exposures – secured by mortgages on immovable property, non-SMEs*	*1,968,316,316.82*	
1.1.2.2.08	*Retail exposures – qualifying revolving*	*402,622,991.11*	
1.1.2.2.09	*Retail exposures – other, SMEs*	*374,804,778.57*	
1.1.2.2.10	*Retail exposures – other, non-SMEs*	*2,130,615,532.99*	
1.1.2.3	Equity exposures under the IRB approach	215,447,240.30	
1.1.2.4	Securitisation positions under the IRB approach	122,668,688.55	
1.1.2.4*	of which: re-securitisation	62,621.35	
1.1.2.5	Other non credit-obligation assets	873,659,121.59	
1.1.3	**Risk exposure amount for contributions to the default fund of a central counterparty**		**2,680,934.07**
1.2	**RISK EXPOSURE AMOUNT FOR SETTLEMENT AND DELIVERY RISKS**		**196,228.13**
1.2.1	**Settlement and delivery risk in the non-trading book**		**196,228.13**
1.3	**TOTAL RISK EXPOSURE AMOUNT FOR POSITION RISK, FOREIGN-EXCHANGE RISK AND COMMODITIES RISK**		**302,213,599.38**
1.3.1.4	Commodities	20,974,003.13	
1.3.2	**Risk exposure amount for position risk, foreign exchange risk and commodities risk under internal models**		**281,239,596.25**
1.4	**TOTAL RISK EXPOSURE AMOUNT OF EXPOSURES FOR OPERATIONAL RISK**		**3,196,056,003.50**
1.4.2	**Standardised approach or alternative standardised approach (ASA) for operational risk**		**678,268,020.25**
1.4.3	**Advanced measurement approach (AMA) for operational risk**		**2,517,787,983.25**
1.6	**TOTAL RISK EXPOSURE AMOUNT DUE TO CREDIT VALUATION ADJUSTMENTS (CVA)**		**27,661,232.38**
1.6.1	**Advanced method**		**27,661,232.38**
Capital requirements pursuant to Article 92 of Regulation (EU) No 575/2013			**2,659,435,804.53**
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		**19.92%**
	b) a Tier 1 capital ratio of		**19.92%**
	c) a total capital ratio of		**22.50%**

Notes (CONTINUED)

4.29. Cross-holdings

There are no cross-holdings within the meaning of Section 241, item 6, of the Austrian Business Code, unchanged compared with the previous year.

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. 2017 (IN €)	DESCRIPTION OF THE LIABILITIES	BALANCE SHEET ITEM
Cover fund for deposits held in trust for wards:			
Fixed-income securities	148,955,528.33	Deposits held in trust for wards	Liabilities item 2
Cover fund for mortgage bonds and public-sector covered bonds:			
Loans and advances to customers	11,825,628,101.27	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Loans and advances to credit institutions	337,600,000.00	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Fixed-income securities	1,524,384,914.55	Mortgage bonds and public-sector covered bonds	Liabilities item 3
Total	**13,687,613,015.82**		
Collateral for Wohnbaubank bonds issued on a trust basis:			
Loans and advances to customers	1,466,411,245.76	Wohnbaubank bonds issued on a trust basis	Liabilities item 3
Collateral pool OeNB (tender):			
Loans and advances to customers	6,858,177,305.69	OeNB/ECB funding	Liabilities item 1
Fixed-income securities	2,361,354,551.96	OeNB/ECB funding	Liabilities item 1
Total	**9,219,531,857.65**		
Collateral EIB and KfW:			
Loans and advances to customers	75,831,627.56	Supranational funding	Liabilities item 1
Fixed-income securities	118,592,924.93	Supranational funding	Liabilities item 1
Total	**194,424,552.49**		
Collateral for trading transactions in securities and derivatives:			
Cash collateral	255,202,363.00	Margin requirements	
Securities collateral	26,980,186.08	Margin requirements	
Total	**282,182,549.08**		
Collateral for clearing systems:			
Fixed-income securities	62,366,520.42	Security provided in favour of OeKB, Euroclear, Clearstream Banking	
Collateral for amounts owed to credit institutions:			
Loans and advances to customers	5,050,266,052.40	Claims assigned in favour of OeKB	Liabilities item 1
Loans and advances to customers	44,155,281.15	Earmarked deposit Wohnbaubank AG	Liabilities item 1
Total	**5,094,421,333.55**		
AGGREGATE TOTAL	**30,155,906,603.10**		

The sub-item "Savings deposits" (liabilities item 2a) includes deposits held in trust for wards in the amount of €131,170,064.90 (31 December 2016: €129,262 thousand).

Notes (CONTINUED)

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**		

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 the following tables.

Information pursuant to Section 64 (1) 3 of the Austrian Banking Act may also be derived from the tables showing derivatives transactions in the following tables.

(in €)

	31 DEC. 2017			31 DEC. 2016		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
Trading book	**54,726,176,328**	**896,834,465**	**968,948,593**	**46,449,151,211**	**1,003,715,713**	**1,065,303,230**
Financial derivatives on debt instruments and interest rates	**43,240,787,618**	**693,894,872**	**751,778,040**	**35,603,772,918**	**717,154,214**	**787,744,253**
Options	4,597,632,634	25,472,569	27,135,348	5,151,626,444	32,565,552	34,850,395
Swaps	36,313,175,725	667,336,121	723,556,509	28,806,082,504	684,027,074	752,332,269
Forwards	2,329,979,258	1,086,183	1,086,183	1,646,063,971	561,589	561,589
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on equity instruments and share indices	**836,073,413**	**1,765,616**	**1,765,616**	**1,224,428,494**	**5,531,016**	**5,529,117**
Options	836,073,413	1,765,616	1,765,616	1,224,428,494	5,531,016	5,529,117
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	**10,061,836,035**	**179,466,413**	**193,683,554**	**9,272,561,385**	**228,364,083**	**219,361,143**
Options	753,261,347	13,090,869	13,085,683	1,855,753,523	12,206,354	12,189,283
Swaps	1,193,101,935	46,089,556	48,632,098	922,606,246	58,429,568	58,647,638
Forwards	8,115,472,753	120,285,988	131,965,773	6,494,201,615	157,728,161	148,524,223
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on other underlying transactions	**587,479,263**	**21,707,563**	**21,721,383**	**348,388,414**	**52,666,400**	**52,668,717**
Options	8,338,197	530,113	530,252	0	0	0
Swaps	579,141,065	21,177,450	21,191,130	348,388,414	52,666,400	52,668,717
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)

	31 DEC. 2017			31 DEC. 2016		
	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE	NOTIONAL AMOUNT	POSITIVE MARKET VALUE	NEGATIVE MARKET VALUE
Banking book – hedging derivatives	**95,401,832,720**	**2,132,721,171**	**1,630,042,555**	**92,341,163,951**	**2,701,870,404**	**2,111,527,366**
Financial derivatives on debt instruments and interest rates	**73,563,512,996**	**1,956,392,476**	**1,524,931,245**	**73,600,372,459**	**2,583,537,372**	**1,981,969,269**
Options	3,377,296,065	73,916,068	185,096,855	3,569,635,669	90,707,497	238,834,014
Swaps	70,186,216,931	1,882,476,408	1,339,834,390	70,030,736,791	2,492,829,875	1,743,135,255
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	**226,484,000**	**27,358,561**	**3,070,611**	**290,268,000**	**22,621,892**	**2,798,018**
Options	226,484,000	27,358,561	3,070,611	290,268,000	22,621,892	2,798,018
Swaps	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	**21,210,958,023**	**146,488,210**	**99,187,676**	**18,076,223,491**	**95,326,926**	**119,223,507**
Options				39,472,126	1,626,671	6,102,835
Swaps	11,733,181,334	133,264,100	66,193,674	13,617,180,801	89,359,511	106,319,731
Forwards	9,477,776,689	13,224,111	32,994,002	4,419,570,563	4,340,743	6,800,941
Futures	0	0	0	0	0	0
Other	0	0	0	0	0	0
Financial derivatives on other underlying transactions	**31,577,701**	**579,475**	**2,158,910**	**0**	**0**	**0**
Options	31,577,701	579,475	2,158,910	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	**369,300,000**	**1,902,448**	**694,113**	**374,300,000**	**384,215**	**7,536,573**
Credit default swaps	369,300,000	1,902,448	694,113	374,300,000	384,215	7,536,573
Other	0	0	0	0	0	0
TOTAL	**150,128,009,049**	**3,029,555,635**	**2,598,991,148**	**138,790,315,161**	**3,705,586,117**	**3,176,830,596**

Notes (CONTINUED)

Notional amounts of derivatives by residual maturity (in €)

	31 DEC. 2017			
	UP TO 1 YEAR	OVER 1 YEAR UP TO 5 YEARS	OVER 5 YEARS	TOTAL
Trading book	**18,351,416,241**	**21,741,064,024**	**14,633,696,063**	**54,726,176,328**
Financial derivative contracts on debt instruments and interest rates	9,710,422,710	19,578,606,208	13,951,758,700	43,240,787,618
Financial derivative contracts on equity instruments and share indices	212,697,815	293,010,999	330,364,599	836,073,413
Financial derivative contracts on exchange rates and gold	8,010,352,441	1,699,910,830	351,572,764	10,061,836,035
Financial derivative contracts on other underlying transactions	417,943,276	169,535,987	0	587,479,263
Credit derivatives	0	0	0	0
Banking book	**36,308,250,581**	**33,376,083,247**	**25,717,498,892**	**95,401,832,720**
Financial derivative contracts on debt instruments and interest rates	24,385,722,021	27,181,643,740	21,996,147,235	73,563,512,996
Financial derivative contracts on equity instruments and share indices	0	124,820,000	101,664,000	226,484,000
Financial derivative contracts on exchange rates and gold	11,650,434,135	6,000,836,231	3,559,687,657	21,210,958,023
Financial derivative contracts on other underlying transactions	7,894,425	23,683,276	0	31,577,701
Credit derivatives	264,200,000	45,100,000	60,000,000	369,300,000
TOTAL	**54,659,666,823**	**55,117,147,271**	**40,351,194,955**	**150,128,009,049**

The book values (in €) of derivatives as at 31 December 2017 are included in the following items:

Other assets – trading book	896,834,522
Other assets – banking book	326,293,857
Other liabilities – trading book	968,948,593
Other liabilities – banking book	320,922,338

	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**

4.32. Contingent liabilities

Contingent liabilities of UniCredit Bank Austria AG shown below the line in item 1 on the liabilities side amounted to €10,270,157,353.92, an increase of €572,623,780.40 or 5.90% compared with 31 December 2016.

	31 DEC. 2017 (IN €)	31 DEC. 2016 (IN € THOUSAND)
Acceptances and endorsements	0.00	0
Guarantees and assets pledged as collateral security	10,270,157,353.92	9,697,534

Notes (CONTINUED)

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 €363,354,184,94 (31 December 2016: €565,737 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.

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.

4.34. Commitments

	31 DEC. 2017 (IN €)	31 DEC. 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	0
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)	13,038,187,598.11	12,629,524
Securities borrowed – own account	0.00	0
Obligations under rent and lease agreements	0.00	0
Any other irrevocable transactions that may give rise to credit risk and have not been mentioned above	0.00	0
TOTAL	**13,038,187,598.11**	**12,629,524**

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 0.39 % for the reporting year (31 December 2016: –0.04 %).

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 €31,912,077 (2016: €26,009 thousand) and are included in “Interest and similar income”. Income received for deposits (liabilities) amounted to €15,979.531.51 (2016: €6,605 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 €34,420,077.90 (2016: €82,199 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 €121,821,612.70 (2016: €77,175 thousand).

5.4. Income from administrative and agency services provided to third parties

In 2017, income from safe-custody services and from intermediary services relating to insurance, building-society savings agreements and real estate totalled €53,731,997.89 (2016: €58,387 thousand).

5.5. Other operating income

Other operating income included compensation for group services, the release of provisions (including releases from provisions for pensions of €71,172,727.40 and from 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 2017 was €179,413,911.48 (2016: €47,507 thousand).

5.6. Expenses for severance payments

The item “Expenses for severance payments and payments to severance-payment funds” shows expenses of €26,981,236.13 (2016: €51,820 thousand).

5.7. 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 €18,072,087.00 (2016: €17,800 thousand) for deposit guarantee schemes and expenses of €37,933,551.67 (2016: €35,474 thousand) for the EU bank resolution fund. Expenses reflected in this item in the reporting year totalled €88,001,141.10 (2016: €260,970 thousand).

5.8. Valuation and disposal of equity interests and shares in group companies

In the reporting year, write-downs totalled €474,338,627.89 (2016: €43,620 thousand). These write-downs related to various companies including, on account of distributions, also to Austrian group companies with €448,474,915.56 (2016: €23,305 thousand).

Valuation gains in 2017 totalled €44,860,056.96 (2016: €106,355 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 €-437,967,292.54 (2016: €80,618 thousand).

Income of €52.88 (2016: €0) was realised on the sale of shares in profit-pooling arrangements.

5.9. Taxes on income

The taxes on income registered in the result of the reporting year amount to €25,923,924.91 (2016: €495,740 thousand). The current taxes for 2017 show an income balance of €58,230,482.31 (2016 expenses: €1,879 thousand). The deferred tax expenses amount to €32,306,557.40 (2016 income: €497,619 thousand).

Current taxes

The current tax expenses essentially include received income in the amount of €51,447,557.00 (2016: €22,876 thousand) due to settled tax allocations to group members, expenses for returned final settlement payments to group members in the amount of €8,670,978.75 (2016: €6,092 thousand), income from set claim interest specified in the amount of €1,282,929.30 and income from the reversal of corporation tax provisions for previous years in the amount of 5,679,114.24 (2016 expenses: €15,000 thousand). Pursuant to Section 9 of the Austrian Corporation Tax Act (Körperschaftsteuergesetz – KStG), a group of companies existed as at 31 December 2017 which consisted of UniCredit Bank Austria AG as group holding company and 150 companies as group members all of which are Austrian companies (15 companies with profit and loss transfer agreements and 135 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.

The amount to be activated in the reporting year as per § 198 Section 9 UGB with a tax rate of 25% amounted to €465,291,547.93 (2016: €497,598 thousand), containing €1,259,060.42 (2016: €2,074 thousand) of deferred taxes from temporary differences of companies with which a profit and loss transfer agreement was completed. The changes in the deferred taxes were recognised in the income statement and amount to €32,306,557.40 (2016 income: €497,619 thousand).

The actively deferred taxes are predominantly based on temporary differences in the area of pension and severance provisions, the valuation of receivables (IBNR) and seventh part amortisation. In addition, there are actively deferred tax assets from differential amounts resulting from the different corporate law and tax approach of other provisions for risks and charges (for example provisions for expenses) and of non-current provisions and liabilities.

The movement of the deferred tax balances is due to changes in the provisions for employee benefits, changes in the pensions for statistically expectable credit losses, ongoing seventh part amortisations, the use or dissolution of other and non-current provisions for risks and charges and the change in long-term liability.

The option to capitalize tax-losses carried forward has not been applied.

5.10. Movements in reserves

In the 2017 financial year, the amount of €5,691.74 was released from revenue reserves (2016: release of €37,890 thousand).

Notes (CONTINUED)

5.11. 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 table below.

	2017 (IN €)	2016 (IN THOUSAND €)
Fees for the audit of the financial statements and the consolidated financial statements		
Deloitte Network	2,002,884.18	2,080
Austrian Savings Bank Auditing Association	1,173,841.25	1,477
Other services involving the issuance of a report		
Deloitte Network	1,189,809.01	33
Austrian Savings Bank Auditing Association	18,413.40	46
Tax consulting services		
Deloitte Network	150,000.00	180
Austrian Savings Bank Auditing Association	0.00	0
Other services		
Deloitte Network	0.00	428
Austrian Savings Bank Auditing Association	1,112,345.00	1,125
TOTAL	**5,647,292.84**	**5,369**

5.12. Proposal for the appropriation of profit

The net income for the financial year from 1 January 2017 to 31 December 2017 was €380,475,289.65. After the release of the reserve of €5,691.74, the net retained profits amount to €380,480,981.39. The Management Board proposes to the Annual General Meeting that a dividend amounting to €1.64 per qualifying share be paid out on the share capital of €1,681,033,521.40. The distribution is therefore 231,228,820 shares, amounting to €379,215,264.80.

In addition, the Management Board proposes the remainder of €1,265,716.59 be carried forward to new account.

6. Information on staff, Management Board and Supervisory Board

6.1. Staff

The average number of employees (full-time equivalent) in the 2017 financial year was 4,607 (2016: 5,183).

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 2017 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 €7,413,979.25 (2016: €10,529 thousand); allocations and payments for other employees and their surviving dependants totalled €168,758,510.15 (2016: €562,712 thousand). The amounts include payments to pension funds amounting to €562,712 (2016: €239 thousand) for active members of the Management Board and €0 (2016: €1,765 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 2017 financial year (excluding payments into pension funds) totalled €2,130,898.71 (comparable emoluments in 2016 totalled €2,357 thousand). Of this total, €1,573,307.00 (2016: €1,571 thousand) related to fixed salary components and €557,591.71 were variable salary components (2016: €786 thousand). Moreover, a provision was made for variable remuneration for 2016 (subject to malus) in the amount of €1,226,012.00, 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 2017

Notes (CONTINUED)

financial year amounted to €1,615,960.51 (2016: €3,296 thousand) and are partly (2016: €1,335,210.00; 2016: €777 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 €7,483,908.25. (Of this total, €4,051,677.37 were paid to former Management Board members of Creditanstalt AG, which merged with Bank Austria in 2002, and their surviving dependants; €1,645,030.56 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 2016 was €8,009 thousand. Emoluments paid to this group of persons for activities in subsidiaries amounted to €17,133.64 (2016: €10 thousand).

The emoluments of the Supervisory Board members active in the 2017 business year totalled €318,404.53 (2016: €306 thousand) for UniCredit Bank Austria AG, and €1,430.00 (2016: €1 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 €304,732.30 (2016: €332 thousand), utilised overdraft facilities were €25,028.93 (2016: €34 thousand). Repayments during the business year totalled €34,120.92 (2016: €40 thousand).

Loans to members of the Supervisory Board amounted to €681,094.77 (2016: €954 thousand). Overdraft facilities utilised by Supervisory Board members totalled €62,408.36 (2016: €37 thousand). Repayments during the business year totalled €63,082.57 (2016: €63 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 €1,678,735.92 (2016: €5,745 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 2017 are shown below.

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. 2017 IN EUR 2)
	2004	0	0	4.018	112.35	03.09.08	9 Years	1)	No	0.00
	2005	113,000	4,041	4.817	134.69	25.11.09	9 Years	1)	No	119,192.40
	2006	111,000	3,970	5.951	166.40	28.06.10	9 Years	1)	No	140,859.00
	2007	0	0	7.094	198.36	13.07.11	6 Years	1)	No	0.00
	2008	361,671	12,935	4.185	117.02	25.06.12	6 Years	1)	No	236,966.84
	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
	2017	0	0	0	0.00	–	–	–	–	0.00
Total Management Board	**2004–2017**	**585,671**	**20,946**	**–**	**–**	**–**	**–**	**–**	**–**	**497,018.24**

*) Date of resolution passed by the Group's Board of Directors

In 2017, 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 2017. 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. 2017 IN EUR 2)
Executives	2007	0	0	7.094	198.36	13.07.11	6 Years	1)	No	0.00
Executives	2008	1,504,195	269,100	4.185	117.02	25.06.12	6 Years	1)	No	985,548.56
Executives	2010	0	0	–	–	–	–	–	–	0.00
Total executives	**2007–2010**	**1,504,195**	**269,100**	**–**	**–**	**–**	**–**	**–**	**–**	**985,548.56**
Other employees	2007	0	0	7.094	198.36	13.07.11	6 Years	1)	No	0.00
Other employees	2008	451,947	80,853	4.185	117.02	25.06.12	6 Years	1)	No	296,115.67
Other employees	2010	0	0	–	–	–	–	–	–	0.00
Total other employees	**2007–2010**	**451,947**	**80,853**	**–**	**–**	**–**	**–**	**–**	**–**	**296,115.67**
TOTAL STOCK OPTIONS	**2004–2010**	**2,541,813**	**370,899**	**–**	**–**	**–**	**–**	**–**	**–**	**1,778,682.48**

*) 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 2017; no Stock Options were exercised.

2. Performance Shares

No Performance Shares were allocated to Management Board members in 2017.

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 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	1,882,949.00	372,956.00	1,884,500.00	31 Dec. 2017[2]
Alpine Cayman Islands Ltd., Grand Cayman, KY	100.00	13,923,171.00	–952,929.00	410,782,765.00	31 Dec. 2017[2]
BA Alpine Holdings, Inc., Wilmington County, New Castle, US	100.00	7,485,030.43	–510,742.10	7,542,823.31	31 Dec. 2017[2]
BA Betriebsobjekte GmbH, Vienna, AT	100.00	16,021,836.00	57,847.00	24,175,292.00	31 Dec. 2017[2]
BA GVG-Holding GmbH, Vienna, AT	100.00	1,277,789.00	5,581.00	1,299,523.00	31 Dec. 2017[2]
BA-CA Markets & Investment Beteiligung Ges. m. b. H., Vienna, AT [1]	100.00	32,119,421.00	940,537.00	39,152,922.00	31 Dec. 2017[2]
BA-CA Vienna Mitte Holding GmbH, Vienna, AT	100.00	1,560,587.00	166,712.00	8,118,179.00	31 Dec. 2017[2]
Bank Austria Finanzservice GmbH, Vienna, AT	100.00	4,359,210.00	963,208.00	7,423,493.00	31 Dec. 2017[2]
Bank Austria Real Invest Immobilien-Management GmbH, Vienna, AT [1]	94.95	113,779,917.00	19,566,001.00	124,218,980.00	31 Dec. 2017[2]
Bank Austria Wohnbaubank AG, Vienna, AT [1]	100.00	53,856,680.00	781,070.00	194,591,005.00	31 Dec. 2017[2]
CABET-Holding GmbH, Vienna, AT [1]	100.00	708,934,787.08	14,929,031.00	718,232,005.00	31 Dec. 2017[2]
card complete Service Bank AG, Vienna, AT [1]	50.10	96,282,809.44	35,252,453.89	698,694,662.02	31 Dec. 2017[2]
Cards & Systems EDV-Dienstleistungs GmbH, Vienna, AT	58.00	8,210,905.00	1,534,599.00	10,811,340.00	31 Dec. 2017[2]
FactorBank Aktiengesellschaft, Vienna, AT	100.00	62,260,387.09	3,497,126.41	650,660,944.05	31 Dec. 2017[2]
Human Resources Service and Development GmbH, Vienna, AT [1]	100.00	155,261.55	177,969.55	1,235,735.44	31 Dec. 2017[2]
Immobilien Holding GmbH, Vienna, AT	100.00	137,729,055.00	109,609,013.00	217,670,713.00	31 Dec. 2017[2]
Immobilien Rating GmbH, Vienna, AT	99.00	1,008,225.00	161,780.00	1,718,198.00	31 Dec. 2017[2]
Kaiserwasser Bau- und Errichtungs GmbH und Co OG, Vienna, AT	99.80	481,692.00	81,325.00	18,159,949.00	31 Dec. 2017[2]
KLEA ZS-Immobilienvermietung G. m. b. H., Vienna, AT	100.00	3,457,894.00	424,989.00	3,612,313.00	31 Dec. 2017[2]
KLEA ZS-Liegenschaftsvermietung G. m. b. H., Vienna, AT	100.00	2,158,508.00	–39,274.00	4,024,089.00	31 Dec. 2017[2]
Lassallestraße Bau-, Planungs-, Errichtungs- und Verwertungsgesellschaft m. b. H., Vienna, AT	100.00	–16,423,067.00	–10,791,152.00	103,012,608.00	31 Dec. 2017[2]
MY Drei Handels GmbH, Vienna, AT	100.00	689,915.00	4,092.00	694,664.00	31 Dec. 2017[2]
Nordbahnhof Projekte Holding GmbH, Vienna, AT [1]	100.00	2,039,463.00	482,288.00	2,142,423.00	31 Dec. 2017[2]
Paytria Unternehmensbeteiligungen GmbH, Vienna, AT	100.00	367,720.00	–23,281.00	370,422.00	31 Dec. 2017[2]
POLLUX Immobilien GmbH, Vienna, AT	100.00	5,882,832.00	261,912.00	9,293,632.00	31 Dec. 2017[2]
RAMSES Immobilien Gesellschaft m. b. H. & Co OG, Vienna, AT	100.00	28,117,739.00	4,207,833.00	42,130,977.00	31 Dec. 2017[2]
RIGEL Immobilien GmbH, Vienna, AT	100.00	11,555,844.00	247,621.00	11,694,498.00	31 Dec. 2017[2]
Schoellerbank Aktiengesellschaft, Vienna, AT	100.00	198,121,363.46	25,746,473.60	4,543,203,755.59	31 Dec. 2017[2]
SIRIUS Immobilien GmbH, Vienna, AT	100.00	6,904,950.00	264,890.00	6,997,416.00	31 Dec. 2017[2]
UniCredit Center am Kaiserwasser GmbH, Vienna, AT	100.00	13,769.00	0.00	148,236.00	31 Dec. 2017[2]
UniCredit Leasing (Austria) GmbH, Vienna, AT	100.00	124,022,232.05	–47,884,738.82	802,374,154.90	31 Dec. 2017[2]
UNIVERSALE International Realitäten GmbH, Vienna, AT	100.00	351,660,224.00	6,923,573.00	355,430,033.00	31 Dec. 2017[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	1,328,120,000.00	72,528,000.00	10,460,583,000.00	31 Dec. 2017[2])
BKS Bank AG, Klagenfurt, AT	29.78	1,022,855,200.00	60,940,000.00	7,545,270,000.00	31 Dec. 2017[2])
NOTARTREUHANDBANK AG, Vienna, AT	25.00	27,474,894.00	4,595,000.00	2,061,495,000.00	31 Dec. 2017[2])
Oberbank AG, Linz, AT	27.17	2,429,603,682.00	205,527,000.00	20,094,773,000.00	31 Dec. 2017[2])
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna, AT	49.15	771,619,000.00	39,107,000.00	27,121,319,000.00	31 Dec. 2017[2])
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna, AT	50.00	30,037,307.00	2,295,498.00	972,543,172.00	31 Dec. 2017[2])
Österreichische Wertpapierdaten Service GmbH, Vienna, AT	29.30	82,580.00	10,515.00	1,812,553.00	31 Dec. 2017[2])
PSA Payment Services Austria GmbH, Vienna, AT	24.00	26,394,847.00	21,555,088.00	170,228,412.00	31 Dec. 2017[2])
WKBG Viennaer Kreditbürgschafts- und Beteiligungsbank AG, Vienna, AT	21.54	29,006,943.00	−201,968.00	32,977,137.00	31 Dec. 2017[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	−16,691.91	−2,655.24	505.91	31 Dec. 2016
Bank Austria-CEE BeteiligungsgmbH, Vienna, AT	100.00	101,766.33	76,362.03	103,268.73	31 Dec. 2016
RAMSES-Immobilienholding GmbH, Vienna, AT	100.00	28,847.38	−1,715.43	31,547.43	31 Dec. 2016
Real(e)value Immobilien BewertungsGmbH, Vienna, AT	100.00	727,550.97	179,092.05	928,838.73	31 Dec. 2016
RE-St. Marx Holding GmbH, Vienna, AT [1)]	100.00	20,955.18	−2,422.61	23,057.58	31 Dec. 2016
Sigma Holding Ingatlanszolgaltato Kft., Budapest, HU	95.00	−328,392.36	−4,875.46	436,042.28	31 Dec. 2016
Wirtschaftsverein der MitarbeiterInnen der UniCredit Bank Austria e. Gen. in Liquidation, Vienna, AT	52.99	2,375,663.92	1,065,566.84	2,747,221.96	31 Dec. 2016
B) Associated companies					
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna, AT	27.29	77,000.00	0.00	927,488.66	31 Dec. 2016
MY Fünf Handels GmbH in Liquidation, Vienna, AT	50.00	13,525.98	−3,703.71	15,102.18	31 Dec. 2016
C) Other companies					
2020 Medici GmbH, Vienna, AT	25.00	169,598.29	−49,849.40	736,092.71	31 Dec. 2016

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 2017 – 31 December 2017

Supervisory Board

Chairman:
Erich HAMPEL

Deputy Chairman:
Ranieri De MARCHIS

Members:
Mirko D. BIANCHI

Paolo CORNETTA from 19 April 2017

Massimiliano FOSSATI until 31 October 2017

Olivier Nessime KHAYAT

Alfredo MEOCCI

Marina NATALE until 13 March 2017

Gianni Franco PAPA

Karl SAMSTAG

Eveline STEINBERGER-KERN

Ernst THEIMER

Andrea VARESE from 27 November 2017

Delegated by the Employees' Council:
Adolf LEHNER
Chairman of the Employees' Council

Christine BUCHINGER from 23 January 2017
Member of the Employees' Council

Alfred FÜRLER until 22 January 2017
Member of the Employees' Council

Mario PRAMENDORFER
Member of the Employees' Council

Barbara TITZE
Member of the Employees' Council

Dr. Wolfgang TRUMLER
Member of the Employees' Council

Dr. Barbara WIEDERNIG until 30 November 2017
First Deputy Chairman of the Employees' Council

Mag. Karin WISAK-GRADINGER from 01 December 2017
Member of the Employees' Council

Management Board

Chairman / Chief Executive Officer:
Robert ZADRAZIL

Deputy Chairman:
Romeo COLLINA

Members:
Dieter HENGL

Gregor HOFSTÄTTER-POBST

Jürgen KULLNIGG

Doris TOMANEK

Financial Statements for 2017

UniCredit Bank Austria AG
Financial Statements for 2017

Vienna, 16 February 2018

The Management Board

Robert Zadrazil
CEO Business Areas &
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 Capital

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 2017, 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 at 31 December 2017, 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 regulation (EU) No. 537/2014 (EU regulation) and the Austrian Generally Accepted Auditing Standards. These standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under these 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.

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 set up through impairment allowances for loans and advances. On 31 December 2017, gross loans and advances (to customers and credit institutions) before impairments amounted to EUR 73,168.8 mn and loan impairment provisions of EUR 1.726,3 were recorded.

UniCredit Bank Austria AG uses different methods to determine the amount of impairment provisions; depending on the credit quality and the volume of the respective receivables (see Management Report, 2.2. Risks, Provisioning process).

The calculation of impairment allowances for loans and advances – whether derived on an individual- or portfolio basis – represents an estimation. This estimation is connected to a great deal of uncertainty, which essentially result from the identification of impairment events, the estimation of expected cash-flows and determination of parameters depicting the latter. Thus, 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 nonperforming borrowers. We examined the internal control system concerning the correct application of rating models and collateral valuation.

We examined the bank's internal control system to assess 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, involvement of management in relevant committees) regarding design and implementation.

Auditors' Report (CONTINUED)

We 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 purpose, 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)
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 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 statements 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 recognized and valued at 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 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 recognized.

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 contains 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 terms of the management report we refer to the section "Report on the Audit of the Management Report".

Auditors' Report (CONTINUED)

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 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 the EU regulation and 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.

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 management has conducted or will conduct its affairs.

As part of an audit in accordance with the EU regulation and 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.
- Take into consideration as we conduct the audit in accordance with the applicable auditing standards, the legal and other regulatory frameworks of the company. However, we are not responsible for detecting or preventing violations of laws or other regulations by the company. Audits are subject to inherent limits. Thus, there is an inevitable risk of not detecting material misstatements even if the audit was designed and performed in due form. The risk of not detecting a material misstatement is higher for violations of other laws which is at least partially due to the fact that there are many laws and other regulations that are mainly focused on the operational aspects of companies and that are not captured by the financial-reporting based information systems of these companies. Violations concerning other laws can thus be connected to conduct that is directed at concealing such violations.

Auditors' Report (CONTINUED)

- 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.

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.

Additional information in accordance with article 10 of the EU regulation

According to sections 23 and 24 of the Austrian Savings Banks Act (SpG), the Savings Bank Auditing Association (Sparkassen-Prüfungsverband) acts as statutory auditor of UniCredit Bank Austria AG. Under section 23 para 3 SpG in conjunction with sections 60 and

Auditors' Report (CONTINUED)

61 of the Austrian Banking Act (BWG), the audit requirement also includes the consolidated financial statements.

By resolution of Bank Austria's annual general shareholders' meeting on 5 August 2016, Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, was appointed as additional auditor for the fiscal year ending on 31 December 2017. In accordance with the above, the Supervisory Board of Bank Austria engaged Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, by letter dated 5 August 2016 as additional auditor.

Deloitte Audit Wirtschaftsprüfung GmbH has consecutively been the additional auditor since the group financial statements as of 31 December 2013.

We confirm that the audit opinion in the section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

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.

UniCredit Bank Austria AG, Vienna

Vienna, 20 February 2018

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

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.

Statement by Management

UniCredit Bank Austria AG
Financial Statements for 2017

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, 16 February 2018

The Management Board:

Robert Zadrazil
CEO Business Areas &
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 Capital

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.

Funding Value Adjustments cover the funding cost/benefit stemming from hedging the market risk of OTC derivatives.

Loans/direct funding ratio: loans and receivables with customers measured against direct funding.

Net operating profit: operating profit less net write-downs of loans and provisions for guarantees and commitments.

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.

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.

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.

ROAC (return on adjusted capital): net profit measured against allocated capital (12.5% of risk-weighted assets). If the return on adjusted capital is calculated for a period of less than a full year, net profit is annualised.

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

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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Cover and introduction creative definition: UniCredit S.p.A.

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Design, graphic development and production: UniCredit S.p.A.

Graphics: www.horvath.co.at

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, Paolo Cornetta, 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, Andrea Varese, Karin Wisak-Gradinger.

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

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.