



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

ANNUAL REPORT 2017

including the Intellectual Capital Report and the Environmental Statement

SUSTAINABILITY REPORT 2017



2017

Stability and Security.

The OeNB's legal mandate

Federal Act on the Oesterreichische Nationalbank – selected provisions

(1984 Nationalbank Act)

Federal Law Gazette No. 50/1984, as amended by Federal Law Gazette Part I No. 150/2017

Article 2

(1) The Oesterreichische Nationalbank is a stock corporation; it is the central bank of the Republic of Austria and, as such, an integral part of the European System of Central Banks (ESCB).

(2) The Oesterreichische Nationalbank shall, in accordance with the provisions of the TFEU [i.e. the Treaty on the Functioning of the European Union], the ESCB/ECB Statute [i.e. the Statute of the European System of Central Banks and of the European Central Bank], the directly applicable European Union (EU) legislation adopted thereunder, and this federal act, be obliged to work towards the achievement of the objectives and fulfillment of the tasks of the ESCB. Within the framework of EU law [...], the Oesterreichische Nationalbank shall use all the means at its disposal to maintain the objective of price stability. To the extent that this does not interfere with the objective of price stability, the needs of the national economy with regard to economic growth and employment trends shall be taken into account and the general economic policies in the European Union shall be supported.

(5) In pursuing the objectives and performing the tasks set out [...], the Oesterreichische Nationalbank shall act in accordance with the guidelines and instructions of the ECB [...]; in doing so, neither the Oesterreichische Nationalbank nor any member of its decision-making bodies shall seek or take instructions from EU institutions or bodies, from any government of a Member State of the European Union, or from any other body.

Article 44a

(1) The Oesterreichische Nationalbank shall be in charge of performing payment systems oversight. Payment systems oversight involves monitoring the systemic safety of payment systems.

Article 44b

(1) In the public interest, the Oesterreichische Nationalbank shall monitor all circumstances that may have an impact on safeguarding financial stability in Austria.

Article 44c

(1) Without prejudice to Article 44b, the Oesterreichische Nationalbank contributes to maintaining financial stability and reducing systemic and procyclical risk in Austria [...].

Apart from the Nationalbank Act and a number of EU legal acts (EU regulations, Statute of the ESCB and of the ECB), further tasks of the OeNB are based on the following pieces of national legislation:

- Banking Act (BWG)
- Financial Market Authority Act (FMABG)
- Bank Recovery and Resolution Act (BaSAG)
- Deposit Guarantee Schemes and Investor Compensation Act (ESAEG)
- Alternative Investment Fund Managers Act (AIFMG)
- Sanctions Act (SanktG)
- E-Money Act (E-GeldG)
- Payment Services Act (ZaDiG)
- Settlement Finality Act (FinalitätsG)
- Insurance Supervision Act (VAG)
- Exchange Control Act 2004
- European Recovery Program (ERP) Fund Act

The OeNB's Mission Statement

The Oesterreichische Nationalbank (OeNB) contributes essentially to securing price stability and financial stability.

MISSION

- The OeNB is the independent central bank of the Republic of Austria.
- Together with the European Central Bank (ECB) and the other euro area central banks, we safeguard the stability of the euro and thus support sound economic development.
- In cooperation with the ECB and the Austrian Financial Market Authority, we ensure the stability of banks and financial markets.
- We and our subsidiaries provide secure cash and smoothly functioning payment services.
- We invest and manage the national monetary and gold reserves professionally in accordance with our stability mandate and furnish banks with central bank liquidity as needed.
- As a central economic policy-making institution, we seek to provide economic and financial expertise and guide policy makers with high-quality, reliable statistics.
- We support financial literacy by offering a broad range of information and education services.

VALUES

- We are committed to the European project and actively support the European integration process.
- We are aware of our responsibility toward Austria and Europe and pursue effectiveness and efficiency in our work.
- Our endeavors are founded on technical expertise and social competence, transparency and responsible corporate governance.
- We welcome change and embrace forward thinking.
- Our staff and their skills and commitment are our biggest asset.
- We are an equal opportunity employer, value diversity, and assist our employees in combining a career with family life.
- Our social responsibility is also reflected in our support for science and research, humanitarian concerns, art, culture and environmental protection.

OESTERREICHISCHE NATIONALBANK



Contents

Foreword by the President	6
Foreword by the Governor	7
Ownership structure and decision-making bodies	8
Organization of the OeNB	12
The year 2017 at a glance	14

The OeNB contributes to safeguarding price stability and financial stability

Adjustment of monetary policy following economic expansion in the euro area	19
<i>Five FAQs on APP purchases made by the OeNB</i>	21
<i>Forward guidance</i>	22
<i>Monetary policy effects in the euro area and in Austria</i>	23
Austria's economy is booming	25
<i>Why inflation is higher in Austria than in the euro area and in Germany</i>	27
<i>2007–2017: ten years dedicated to overcoming the crisis</i>	29
<i>Five FAQs on bitcoin and other crypto token systems</i>	32
Reserve management in times of economic prosperity and divergent monetary policy	33
<i>Five FAQs on the importance of gold reserves for the OeNB</i>	34
The OeNB – a key player in supervision that contributes to financial stability	37
<i>A long-term take on Austrian banks' profitability</i>	37
<i>Five FAQs on macroprudential tools for addressing risks in residential property financing in Austria</i>	42
Financial statistics: a key input for safeguarding price stability and financial stability	49
Issuance of the fourth banknote of the Europa series and new developments in the Eurosystem's market infrastructure for payments and securities settlement	53
<i>Cash, card or other means of payment: payment trends in the euro area</i>	57

The OeNB – a sustainable enterprise

Modern knowledge management	63
Risk management	67
New and enhanced communication channels	69
Promoting research, science, art and culture	73
Environmental Statement 2017: ten years of sustainability reporting	75

Direct and indirect equity interests	79
---------------------------------------------	----

Financial statements of the OeNB for the year 2017	81
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Notes

Abbreviations, legend	126
Periodical publications	127
Addresses	129
Imprint	130

Editorial close: February 15, 2018

Foreword by the President



In early 2018, the Oesterreichische Nationalbank (OeNB) looks back on another eventful and challenging year that was also marked by many positive developments. The economic situation in the euro area has improved noticeably, especially in the Central, Eastern and Southeastern European countries, but also in Austria. The Austrian economy grew by around 3% in real terms in 2017, a figure last seen in 2007. The optimistic sentiment, which is here to stay despite international tensions, will facilitate solid economic growth in the next two years. Therefore, the accommodative monetary policy stance of the Governing Council of the European Central Bank (ECB) – reflected mainly by government bond purchases – has proved effective.

In the area of banking supervision, the work of previous years, also undertaken together with the Single Supervisory Mechanism (SSM), has continued to bear fruit. Austrian banks' profitability has improved further, and their resilience to crises has increased. Eventually, the Basel III reforms were completed in 2017. In addition, the OeNB advocates more proportionality in regulating banks by considering their size and the risk inherent in their business models.

Major projects concluded in 2017 include START, a statistics project aimed at overhauling statistical reporting and data processing and at streamlining the statistics function within the OeNB. The launch of the new EUR 50 banknote went smoothly. Also, the OeNB made significant strides in returning gold reserves to Vienna. It already transferred 70 tons to Vienna between 2015 and 2017 and plans to bring home another 20 tons by the summer of 2018. The payment system Austrian Settlement & Transaction Interface (ASTI) began operations in early 2018, replacing the HOAM.AT platform.

Moreover, new treasury and account management systems went live at the turn of the year. In the year under review, the following OeNB subsidiaries once again supported the OeNB in performing its core tasks in cash production, cash provision and cashless payments: Münze Österreich Aktiengesellschaft (MÜNZE), the Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS) and GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA).

Amid continued market pressures, the OeNB's sound reserve management and investment performance in 2017, together with efficient cost management, made for a solid operating profit. The OeNB's operating profit for 2017 came to EUR 286 million, up 7% against the previous year. In line with an amendment, some EUR 59 million of the central government's share of profit are transferred to the National Foundation for Research, Technology and Development. Of the total share of EUR 186 million allocated to the Republic of Austria, the corporate income tax amounts to EUR 72 million and the share of profit equals EUR 114 million.

The OeNB's work and expertise are held in high regard both in Austria and abroad. Acknowledging the underlying efforts, I would like to express my gratitude to the members of the General Council and of the Governing Board and the entire OeNB staff for their commitment and excellent work in 2017.

Vienna, March 2018

A handwritten signature in black ink, which appears to read "C. Raidl". The signature is fluid and cursive.

Claus J. Raidl, President

Foreword by the Governor

Benefiting from the ongoing recovery in the global economy and the favorable development in our key export markets – the euro area and Central and Eastern Europe – Austria experienced the first boom phase after the crisis in 2017. Not only did Austrian goods exports expand markedly, but also lively domestic demand spurred economic growth. Thanks to the recovery, the labor market perked up too. The inflation differential vis-à-vis Germany and the euro area remained positive in 2017, primarily on account of services prices.

The numerous monetary policy measures the Governing Council of the ECB has taken over the past few years have helped improve the financing conditions for households and businesses in the euro area and in Austria. These measures aim at stimulating consumption and investment and, on the back of higher demand, at supporting the return of inflation to the ECB's price stability objective of below, but close to, 2% over the medium term. In light of the favorable economic development, the Governing Council of the ECB decided in 2017 to adjust its monetary policy stance, starting to gradually scale back the pace of monthly asset purchases. Moreover, key interest rates remain at historically low levels for the time being, and the Eurosystem continues to provide large amounts of liquidity.

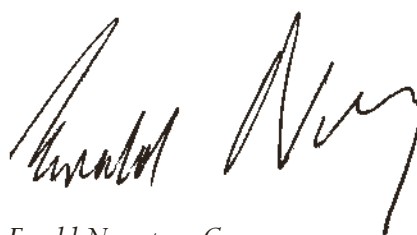
Both the benign economic environment and restructurings in recent years benefited the Austrian banking sector. Banks' higher profits in 2017 and improved capitalization have a positive impact on financial stability in Austria. Notwithstanding these positive developments, which were supported by a number of supervisory measures, Austrian banks should use the window of opportunity provided by the benign market environment and further improve structural efficiency to raise their profitability and, in consequence, their risk-bearing capacity.

Another core task of the OeNB covers all stages of the cash cycle, from planning and production to provision, including safe storage and adequate stockholding. A Euro-system survey on payment behavior in euro area countries showed that in Austria, much like in Germany and Slovenia, cash continues to be by far the dominant payment instrument. In Austria, cash accounts for a share of more than 80% of all point-of-sale transactions according to the survey. "Virtual currencies" have increasingly attracted media attention. In this context, the OeNB has already issued warnings, pointing to the substantial risk involved above all for consumers buying such virtual currencies.

In the second half of 2018, Austria will assume the presidency of the Council of the EU. As an independent institution, the OeNB is not invested with a political mandate, but it will provide expertise in areas particularly relevant to a central bank, such as the deepening of Economic and Monetary Union (EMU), banking union, capital markets union and Brexit negotiations.

Having continued to embrace internal reforms, the OeNB once more managed to curb staff costs and administrative expenses in 2017. Looking back, I would like to thank all OeNB staff members for their unwavering commitment and outstanding expertise, as well as the President and the Vice President and the Governing Board for their trust and cooperation.

Vienna, March 2018



Ewald Nowotny, Governor



Ownership structure and decision-making bodies

The OeNB's owners

The OeNB is a stock corporation. However, given its particular status as a central bank, it is governed by a number of special provisions laid down in the Federal Act on the Oesterreichische Nationalbank 1984 (Nationalbank Act). Its nominal capital of EUR 12 million has been held in its entirety by the central government since July 2010.

Functions of the General Council

The General Council is charged with the supervision of all business not falling within the remit of the European System of Central Banks (ESCB). The General Council is convened by the President, as a rule once a month. Pursuant to Article 20 paragraph 2 Nationalbank Act, the General Council shall advise the Governing Board in the conduct of the OeNB's business and in matters of monetary policy. Joint meetings of the General Council and the Governing Board must take place at least once every quarter. General Council approval is required for a number of management decisions, e.g. for starting and discontinuing business lines, establishing and closing down branch offices, and acquiring and selling holdings and real property.

Also, the General Council must approve appointments of members of supervisory boards and executive bodies of companies in which the OeNB is a shareholder. Appointments of the second executive tier of the OeNB itself must likewise be approved by the General

Council. Finally, the General Council has the exclusive right of decision on issues detailed in Article 21 paragraph 2 Nationalbank Act, e.g. on submitting to the Austrian federal government nominations of three candidates for appointments to the OeNB's Governing Board by the Federal President, on defining general operational principles for all matters outside the remit of the ESCB, on approving the financial statements for submission to the General Meeting, and on approving the cost account and investment plan for the next financial year.

Composition of the General Council

The General Council consists of the President, the Vice President and eight other members. Only Austrian citizens may be members of the General Council. They are appointed by the federal government for a term of five years and may be reappointed. All the provisions pertaining to the General Council are set out in Articles 20 through 30 Nationalbank Act.

Personnel changes of the General Council (between January 1, 2017, and March 6, 2018)

February 28, 2018, marked the end of the term of office of General Council members Anna Maria Hochhauser and Werner Muhm. On March 1, 2018, the federal government appointed Bettina Glatz-Kremsner and Peter Sidlo General Council members.

The General Council of the OeNB comprised the following members from January 1, 2017, to March 6, 2018:



Claus J. Raidl
President

Term of office:
September 1, 2013, to
August 31, 2018



Max Kothbauer
Vice President

Term of office:
September 1, 2013, to
August 31, 2018



August Astl
*Secretary General,
Austrian Chamber
of Agriculture
(until July 31, 2016)*
Term of office:
September 8, 2013, to
September 7, 2018



**Bettina
Glatz-Kremsner**
*Member of the Management
Board of Casinos Austria AG
and of Österreichische Lotterien
Ges.m.b.H.*
Term of office: March 1, 2018,
to February 28, 2023



Gottfried Haber
*Head – Economic and Financial
Policy,
Head – Center for Management
in Healthcare,
Danube University Krems*
Term of office:
May 23, 2013, to May 22, 2018



Erich Hampel
*Chairman of the Supervisory
Board,
UniCredit Bank Austria AG*
Term of office:
May 23, 2013, to
May 22, 2018



**Anna Maria
Hochhauser**
*Secretary General,
Austrian Federal Economic
Chamber*
Term of office:
March 1, 2013, to
February 28, 2018



Werner Muhm
*Director,
Vienna Chamber of Labour
(until June 30, 2016)*



Gabriele Payr
*Managing Director of
Wiener Wohnen Haus- &
Außenbetreuung GmbH*
Term of office:
August 1, 2014, to
July 31, 2019



Walter Rothensteiner
*Chairman of the
Managing Board,
Raiffeisen Zentralbank
Österreich AG*
Term of office:
August 1, 2014, to
July 31, 2019



Peter Sidlo
*Member of the Management
Board of SIGMA Investment AG*
Term of office:
March 1, 2018, to
February 28, 2023



Dwora Stein
*Federal CEO,
Union of Private Sector
Employees, Graphical Workers
and Journalists*
Term of office:
September 1, 2013, to
August 31, 2018



**State Commissioner
Harald Waiglein**
*Director General,
Directorate General Economic
Policy and Financial Markets,
Federal Ministry of Finance*
Term of office:
from July 1, 2012



**Deputy State Commissioner
Alfred Lejsek**
*Head,
Directorate Financial Markets,
Federal Ministry of Finance*
Term of office:
from April 1, 2016

Robert Kocmich and Birgit Sauerzopf (alternate) are the representatives delegated by the Central Staff Council to participate in meetings of the General Council pursuant to Article 22 paragraph 5 Nationalbank Act.



Robert Kocmich
*Central Staff Council
Chair*



Birgit Sauerzopf
*Central Staff Council
Deputy Chair*

Governing Board

The Governing Board is responsible for the overall running of the OeNB and for conducting the OeNB's business. In pursuing the objectives and tasks of the ESCB, the Governing Board acts in accordance with the guidelines and

instructions of the ECB. The Governing Board conducts the OeNB's business in a way that enables the OeNB to fulfill the tasks conferred upon it by directly applicable EU legislation under the Treaty (TFEU), the Statute of the ESCB and of the ECB and by federal legislation.

On March 6, 2018, the Governing Board of the OeNB comprised the following members:



From left to right: Executive Director Peter Mooslechner, Governor Ewald Nowotny, Vice Governor Andreas Ittner, Executive Director Kurt Pribil

The Governing Board is composed of the Governor, the Vice Governor and two other members, all of whom are appointed by the Federal President acting on a proposal from the federal government. Each appointment is made for a term of six years. Persons holding office may be reappointed. The Governor of the OeNB is a member of both the Governing Council and the General Council of the ECB. When taking decisions on monetary policy and

on other tasks of the ECB and the Eurosystem, the Governor and the Vice Governor are not bound by the decisions of the OeNB's Governing Board or those of the OeNB's General Council, nor are they subject to any other instructions.

Further provisions pertaining to the Governing Board are set out in Articles 32 through 36 Nationalbank Act. See www.oenb.at for additional information about the Governing Board of the OeNB.



OeNB

HEG

HBI

HTR

HFB

HIT

HRC

HST

Organization of the OeNB

President

Claus J. Raidl

Vice President

Max Kothbauer

Governing Board

Central Bank Policy

Ewald Nowotny, Governor

Compliance Office

Eva Graf, Head

Communications, Organization and Human Resources Department

Markus Arpa, Director

Agenda Office – Governing Board, General Council and General Meeting

Brigitta Lidauer

Personnel Division

Hannes Brodtrager, Head

Organization Division^{1,2}

Anna Cordt, Head

Press Office

Christian Gutleider, Head

Communications and Financial Literacy Division

Maximilian Hiermann, Head

Economic Analysis and Research Department

Doris Ritzberger-Grünwald, Director

Economic Analysis Division

Ernest Gnan, Head

Economic Studies Division

Martin Summer, Head

Foreign Research Division

Helene Schuberth, Head

Financial Stability, Banking Supervision and Statistics

Andreas Ittner, Vice Governor

Internal Audit Division

Axel Aspetsberger, Head

Department for the Supervision of Significant Institutions

Karin Turner-Hrdlicka, Director

Off-Site Supervision Division – Significant Institutions

Gabriela De Raaij, Head

On-Site Supervision Division – Significant Institutions

Martin Hammer, Head

Supervision Policy, Regulation and Strategy Division

Markus Schwaiger, Head

Department for Financial Stability and the Supervision of Less Significant Institutions

Philip Reading, Director

Off-Site Supervision Division – Less Significant Institutions

Matthias Hahold, Head

On-Site Supervision Division – Less Significant Institutions

Roman Buchelt, Head

Financial Stability and Macroprudential Supervision Division

Michael Würz, Head

Statistics Department

Johannes Turner, Director

Office for Specific Bank Resolution Matters

Alexander Benkwitz, Head

Statistical Information Systems and Data Management Division

Ralf Peter Dobringer, Head

External Statistics, Financial Accounts and Monetary and Financial Statistics Division

Michael Pfeiffer, Head

Supervisory Statistics, Models and Credit Quality Assessment Division

Gerhard Winkler, Head

Payment Systems, IT and Infrastructure

Kurt Pribil, Executive Director

Treasury Risk Monitoring Office

Doris Rijnbeek, Head

Equity Interest Management and Company Law Office

Christa Mölzer-Hellsberg, Head

Northern Austria Branch Office

Josef Kienbauer, Branch Manager

Southern Austria Branch Office

Claudia Macheiner, Branch Manager

Western Austria Branch Office

Armin Schneider, Branch Manager

Equity Interests, Payment Systems and Internal Services Department

Stefan Augustin, Director

Equity Interest and Payments Management Division

Wolfgang Haunold, Head

Cashier's Division

Barbara Nösslinger, Head

Payment Systems Division

Katharina Selzer-Haas, Head

Procurement, Facilities and Security Management Division

Thomas Reindl, Head

IT and Customer Services Department

Christoph Martinek, Director

IT Strategy, Architecture and Security Office

Martin Durst, Head

IT Development

Dieter Gally, Head

IT Operations

Peter Deixelberger, Head

Information Management and Services Division

Bernhard Urban, Head

Financial Markets, International Relations and Accounting

Peter Mooslechner, Executive Director

European Affairs and International

Financial Organizations Division

Franz Nauschnigg, Head

Brussels Representative Office

Isabella Lindner, Chief Representative

Legal Division

Matthias Schroth, Head

Treasury Department

Franz Partsch, Director

Treasury – Back Office

Reinhard Beck, Head

Treasury – Strategy Division

Robert Reinwald, Head

Treasury – Front Office

Peter Sixt, Head

New York Representative Office

Gerald Fiala, Chief Representative

Accounting, Controlling and Cash and Gold Inventory Department

Friedrich Karrer, Director

Financial Statements and Tax Matters Division

Elisabeth Trost, Head

Accounting Division

Josef Steininger, Head

Controlling and Research Funding Division

Rudolf Butta, Head

¹ Environmental Officer Martin Much

² OeNB Chief Equalities Officer Nicola Antesberger

As on February 1, 2018

The year 2017 at a glance

Monetary policy stance adjusted in light of economic recovery

The monetary policy measures of recent years have contributed significantly to improving financing conditions for households and businesses and, hence, in spurring consumption and investment. At 2.5%, real GDP in the euro area grew at a considerably faster pace in 2017 than expected. Moreover, the rate of inflation continued to move back closer to levels consistent with the ECB's definition of price stability. In light of this favorable development, the Eurosystem decided to adjust its monetary policy stance. The latest measures include a further reduction of the monthly volume of its asset purchases: between January and September, 2018, the Eurosystem will buy assets in the amount of EUR 30 billion net per month (down from EUR 60 and EUR 80 billion, respectively). Moreover, the key interest rates in the euro area remain at historically low levels for the time being, and the Eurosystem continues to provide large amounts of liquidity. In Austria, lively domestic demand and marked export growth noticeably accelerated growth in 2017, which in turn also benefited the labor market. Inflation in Austria remained at a higher level than in the euro area or in Germany, which was primarily attributable to services prices.

The OeNB – a key player in supervision contributing to financial stability

Austrian banks benefited from the more benign economic environment by recording historically low risk provisions and higher profits. Also, their efforts to adjust their business models are starting to pay off. This notwithstanding, banks will have to take additional measures to raise cost efficiency and risk-bearing capacity. The OeNB's annual stress test corroborates this call for action. The new law adopted in 2017 on a macroprudential toolkit for containing systemic risks in real estate financing has strengthened supervisory powers for reacting to systemic risks in this realm. At present, the OeNB sees no need for using these instruments, but it considers compliance with sustainable lending standards imperative. As shown by a review, the systemic risk buffer, the sustainability package as well as the measures taken in respect of foreign currency loans have reinforced financial stability.

Even under the decentralized system of banking supervision in place in the euro area, the supervision of Austrian banks has largely remained a responsibility of the OeNB. The OeNB's core activity in this respect is called the Supervisory Review and Evaluation Process, the endpoint of which is a decision on whether the capital ratios applicable to significant Austrian banks

Chart 1

Real GDP

Change on the same quarter of the previous year in %

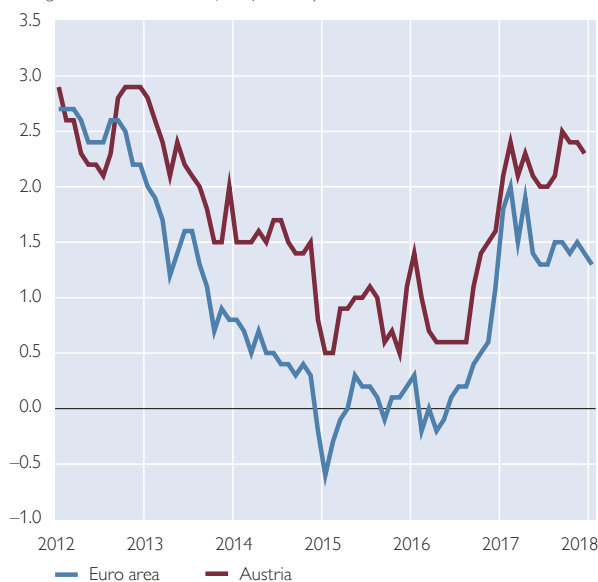


Source: Eurostat, WIFO.

Chart 2

HICP inflation

Change on the same month of the previous year in %



Source: Eurostat.

under the Single Supervisory Mechanism continue to be adequate. In 2017, the respective ratios were left largely unchanged. In addition, the OeNB analyzes the performance of less significant credit institutions. Major work streams in 2017 included the ongoing supervision of Austrian banks' efforts to reduce nonperforming loans and the cyber security of banks and financial market infrastructures. On an international scale, 2017 finally saw the completion of the Basel III reforms. Last, but not least, the OeNB has been advocating more proportionality in banking regulation as warranted by the size of banks and the risk inherent in their business models.

OeNB harnesses state-of-the-art technologies

The OeNB evaluates developments, challenges and risks arising from new technologies in all of its business areas. Its primary goal is to modernize and adapt its services so that they are state-of-the-art. In 2017, the OeNB completed a comprehensive statistics project, upgrading its technical systems, implementing a new flexible data model for banks' reports and establishing a one-stop shop for reporting institutions and users. Besides, the OeNB updated its payment system infrastructure, with a view to making it more

user-friendly, while at the same time maintaining its high level of reliability. The OeNB has also started to explore ways it can exploit opportunities and contain risks involved in new technologies such as blockchain and big data. It stepped up its presence on social media, including Twitter and YouTube, to increase the OeNB's visibility also outside the conventional communication channels.

OeNB posts operating profit of EUR 286 million

The OeNB's total assets expanded in 2017 year on year to EUR 143.7 billion, reflecting above all the monetary policy asset purchase program. The OeNB's net currency position decreased to EUR 18.3 billion, with gold and gold receivables accounting for EUR 9.7 billion thereof.

The OeNB's operating profit for 2017 came to EUR 286 million, up EUR 18 million against the previous year. Transfers to risk provisions had an impact of EUR 275 million in 2017. After EUR 72 million in corporate income tax plus, in line with the Nationalbank Act, the transfer of both EUR 21 million to the pension reserve and EUR 174 million to the central government (equaling the latter's 90% share of profit), the OeNB's profit for the year 2017 amounted to EUR 19 million.

Table 1

Selected OeNB performance indicators

	2016	2017
	<i>EUR million (as at December 31)</i>	
Net currency position	20,005	18,347
Banknotes in circulation	28,893	30,035
Total assets	122,556	143,716
Operating profit before writedowns and transfers	529	748
Writedowns on financial assets and positions, transfers to/from risk provisions	-261	-462
Operating profit	268	286
Corporate income tax	67	72
Central government's share of profit under Article 69 paragraph 3 Nationalbank Act	163	174 ¹
Profit for the year	18	19
	<i>absolute or in %</i>	
Full-time equivalent staff resources	1,092	1,100
Share of university graduates in total staff (%)	62	63
Share of women in total staff (%)	40	39
Share of women in management positions (%)	28	29
Queries to OeNB hotlines	14,518	13,335
Cash training course participants (including Euro Shop Tour)	8,279	16,159
Electricity consumption (MWh per person)	6.03	5.95

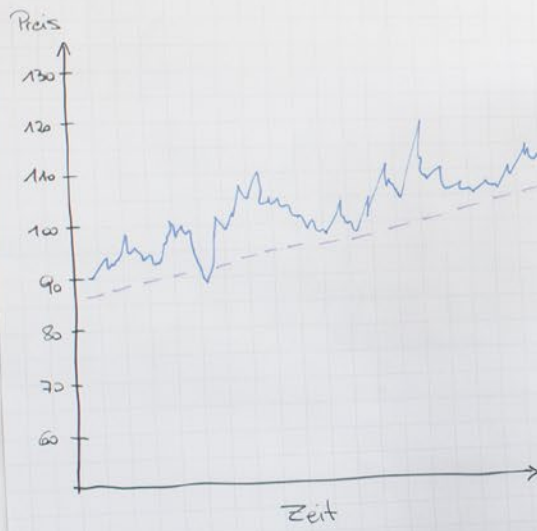
Source: OeNB.

¹ Including the payout to the National Foundation in line with the National Foundation Act (for more details, see the financial statements 2017).



The OeNB contributes to safeguarding
price stability and financial stability

ENTWICKLUNG



Adjustment of monetary policy following economic expansion in the euro area

GDP growth in 2017 higher than expected

In 2017, euro area real GDP growth climbed to the highest level measured since the onset of the financial and economic crisis. Following a double-dip recession (2008–2009 and 2011–2012) the economy was slow to recover, until output growth rebounded to 2% in both 2015 and 2016 and accelerated further to 2.5% in 2017. Notwithstanding the appreciation of the euro, export demand continued to rise in 2017, benefiting above all from the expansion of global trade and the strength of the global economy. On the domestic side, growth was supported by increasing consumption and investment spending. The labor market continued to strengthen, and unemployment in the euro area fell to the lowest measure since 2009, namely 8.7% in December 2017. The number of people in employment in the euro area jumped to levels never seen before in the history of the euro area, driving up private consumption accordingly. Consumption was also fueled by the steady increase in economic sentiment, which together with the low interest rate environment contributed to further driving down the saving ratio in the euro area. Business investment benefited from the highly favorable financing conditions, improvements in corporate profitability and the strength of export demand. Moreover, the degree of capacity utilization in the manufacturing industry rose to an above-average level of 83.8% in the fourth quarter of 2017, reflecting industry needs for capacity expansion. On balance, euro area GDP growth in 2017 was driven above all by domestic demand.

Robust GDP growth in 2017 contributed to repeated upward revisions of the Eurosystem's macroeconomic projections during 2017. By December 2017, the Eurosystem expected euro area real GDP to grow by 2.3% in 2018, and to gradually decelerate to 1.7% by 2020.

Inflation rate rises to 1.5% in 2017

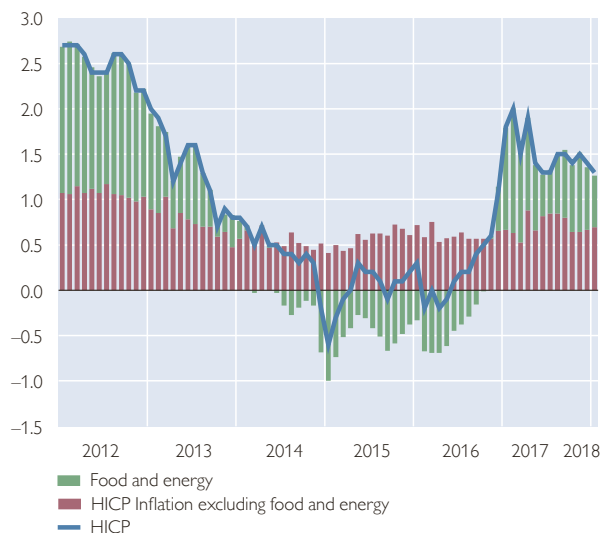
With the economy going strong and even exceeding expectations in 2017, inflation gradually headed toward a medium-term level of below, but close to, 2%. Having risen from levels of 0% in 2015 and 0.2% in 2016, the HICP inflation rate stabilized at a rate of 1.5% in 2017.

Throughout the year, inflation was fueled by energy costs. This effect was comparatively more pronounced in the first half of the year, pushing HICP inflation up to 2.0% in February 2017. To a lesser extent, the increase in headline inflation also reflected rising food prices. Underlying inflation, as measured by HICP inflation excluding energy and food, initially recorded marginal increases in 2017, hovering more or less at 2016 levels. By mid-year, underlying inflation edged up somewhat, reflecting above all the contribution of services prices. Having not dropped as much as headline inflation during the crisis years, underlying inflation

Chart 3

HICP inflation and contributions by subcomponents in the euro area

HICP: annual change in %;
contributions to inflation: percentage points



Source: Eurostat.

Expanded asset purchase programme (APP)

Under the expanded asset purchase programme, the Eurosystem buys public and private sector securities based on four underlying programmes: the covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP) as well as the corporate sector purchase programme (CSPP). The APP portfolio leans heavily toward the PSPP segment, which accounts for more than 80% of all assets purchased.

has also been slower to rise during the economic expansion.

Since mid-2016, inflation rates have become more closely aligned with the desired path of inflation. However, a sustainable return of HICP inflation to a medium-term level of below, but close to, 2% consistent with

the ECB's definition of price stability, is yet to occur. The Eurosystem's macroeconomic projections of December 2017 suggest a slight increase of HICP inflation to 1.7% by 2020.

Monetary policy stance adjusted

In view of the favorable economic conditions, the Governing Council of the ECB decided to

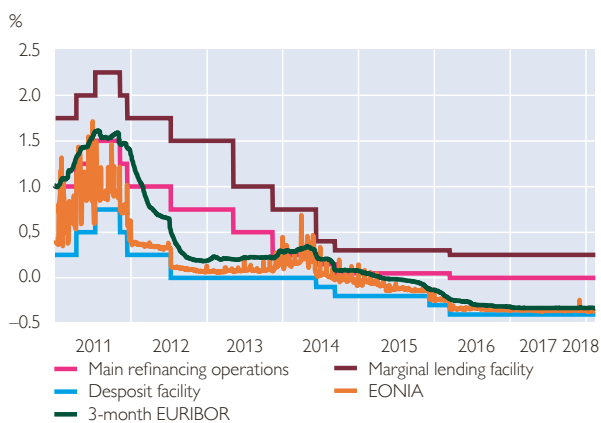
adjust the expanded asset purchase programme (APP) launched in January 2015. Following APP purchases totaling EUR 80 billion each month from January to March 2017, the monthly purchase volumes were lowered to EUR 60 billion for the period from April to December 2017. Ultimately, net asset purchases made by the Eurosystem during 2017 totaled EUR 780 billion. In October 2017, the Governing Council recalibrated the purchase volumes once more, reducing the pace of monthly net purchases to EUR 30 billion from January to September 2018.

Depending on the inflation outlook, these purchases are set to continue beyond September 2018, if necessary, and in any case until the Governing Council sees a sustained upward adjustment of the path of inflation consistent with the ECB's definition of price stability.

In the absence of policy rate changes in 2017, the interest rate on Eurosystem main refinancing operations remained at 0.00%, and the interest rate corridor continued to range from 0.25% (marginal lending rate) to -0.40% (deposit facility rate). However, in June 2017, the Governing Council of the ECB adjusted its communication on the expected path of policy rates, i.e. in terms of the forward guidance it has been providing at the press conferences following its monetary policy meetings. Since June 2017, the Governing Council has reiterated that the policy rates were expected to remain at their present levels for an extended period of time, well beyond September 2018. In other words, the message since June 2017 has been that further policy rate cuts are not to be expected.

Chart 4

ECB and money market interest rates



Source: Macrobond.

Five FAQs on APP purchases made by the OeNB

What type of securities does the OeNB buy?

The OeNB buys PSPP-eligible bonds and CBPP3-eligible bonds. Specifically the OeNB buys Austrian government bonds denominated in euro (with a residual maturity of no less than 1 year and no more than 30 years); securities issued by two Austrian agencies (ÖBB-Infra, which operates the domestic rail infrastructure, and ASFINAG, which maintains the highway network); as well as covered bonds issued by Austrian issuers.

How big is the OeNB's share of Eurosystem APP purchases?

The OeNB contributes only to PSPP and CBPP3 purchases; it does not buy ABSPP-eligible and CSPP-eligible bonds. On December 31, 2017, the OeNB's APP portfolio accounted for EUR 51.2 billion of its balance sheet assets.

How are the risks arising from asset purchase programmes shared?

Risk-sharing works differently for different APP purchases. Risks arising from CBPP3, ABSPP and CSPP assets are carried jointly by the Eurosystem. The same holds true for purchases of bonds issued by supranational institutions as well as for any PSPP purchases made by the ECB (which account for 10% of the PSPP portfolio). In contrast, any other PSPP purchases are not subject to risk-sharing. This means that any risks arising from purchases of Austrian government bonds as well as ÖBB-Infra and ASFINAG bonds are borne by the OeNB alone.

How sizeable is the OeNB's government bond portfolio compared with the outstanding volume of Austrian government bonds?

The Republic of Austria typically funds itself by issuing bonds, among other things, and the same holds true for Austrian agencies. Those bonds that are eligible for purchases by the OeNB (see question 1) account for an outstanding (nominal) issuing volume of about EUR 230 billion. Thereof, the OeNB had bought bonds worth EUR 38.9 billion under the PSPP by December 31, 2017 (with the purchases made by the OeNB and the ECB adding up to some EUR 43 billion). This corresponds to a share of close to one-fifth of the outstanding volume, which is well below the upper bound of the issue share limit adopted by the Eurosystem – the limit to the maximum share of a single security that the Eurosystem is prepared to hold is 33% of the nominal value (or 25% subject to certain conditions).

What happens with maturing bond redemptions?

In addition to new bond purchases (in the amount of EUR 30 billion per month from January to September 2018), the Eurosystem reinvests the principal payments from maturing bonds bought under the APP, unless not justified by the prevailing market conditions. The reinvestments are made in those countries in which the maturing bonds were issued and will continue beyond September 2018, for as long as necessary.

Forward guidance

Forward guidance refers to regular messages from monetary policymakers about the expected path of policy rates and the monetary policy stance as a whole. For the Eurosystem, ECB President Mario Draghi has since 2013 been communicating the intended path of key interest rates, as envisaged by the Governing Council, at the press conferences following all (currently eight) monetary policy meetings per year. In late 2017/early 2018, his message was as follows: “We continue to expect them (i.e. the key ECB interest rates) to remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases (i.e. September 2018 for the time being).” Thus, the ECB’s forward guidance is linked to a particular point in time, namely the discontinuation of the asset purchase programme (calendar-based forward guidance), and the message is that there will be no key rate increases until much later than that point.

In setting their policy rates, central banks exert considerable influence on overnight market interest rates. By providing forward guidance, central banks can also influence interest rate expectations. If the guidance provided is credible, central banks are in a position to steer not only the very short end of the yield curve but also longer time horizons. For instance, forward guidance signaling that policy rates will remain unchanged for an extended period will typically cause the yield curve to flatten over the respective time horizon.

In addition, forward guidance may also refer to aspects other than policy interest rates. Thus, the President of the ECB has also provided guidance as to the intended duration of the Eurosystem’s asset purchase programme. In his introductory statements to the monetary policy meetings in late 2017/early 2018, President Draghi announced that the net asset purchases were intended to run until September 2018, “and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim” (outcome-based forward guidance).

Forward guidance is deemed a particularly effective tool when the differential to the effective lower bound on nominal interest rates is small, and when anticipating the future path of monetary policy is difficult because of extraordinary conditions.

Favorable liquidity conditions maintained in the euro area

In addition to keeping policy rates low and implementing asset purchase programmes, the Eurosystem opened a third avenue to reinforce

Effective lower bound on nominal interest rates

Central bank policy rates cannot be cut to below the effective lower bound of interest rates. While conventional wisdom had it that the effective lower bound was at zero, the crisis has shown that central banks can push the lower bound into negative territory. However, there is indeed a lower bound below zero at which economic agents (such as banks) will probably start to withdraw their balances and move into cash in order to avoid the burden of negative interest rates. At such point, negative policy rates would cease to have an effect. This interest rate floor, which is not known ex ante, is termed the effective lower bound on nominal interest rates.

its accommodative monetary policy stance in late June 2016 by launching a new series of four targeted longer-term refinancing operations (TLTRO-II) with a maturity of four years each. The last TLTRO-II operation, which was settled in March 2017, saw a substantial gross take-up of EUR 233 billion across the Eurosystem, bringing the total amount of cen-

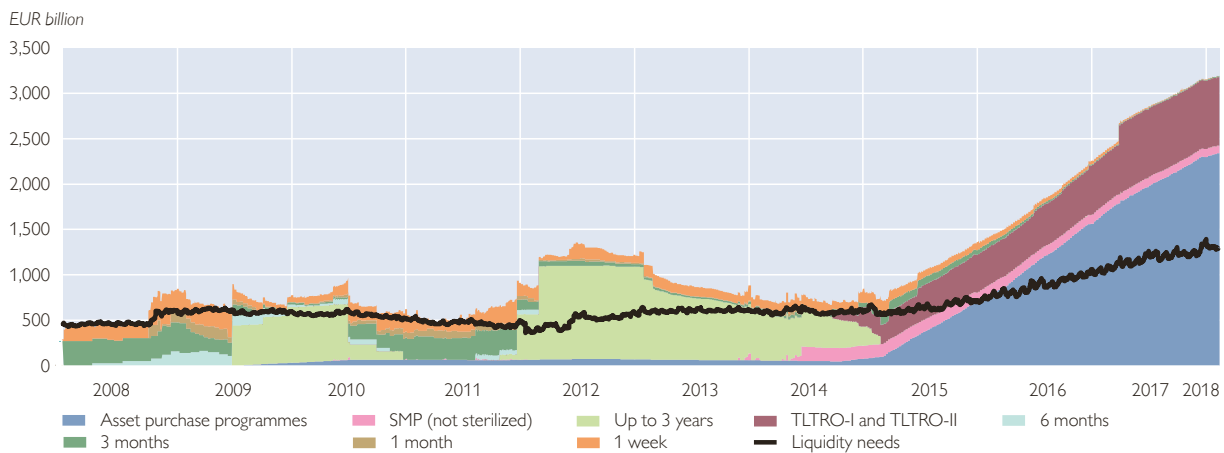
tral bank liquidity borrowed by euro area banks in all four TLTRO-II operations up to EUR 740 billion by late 2017/early 2018.

The TLTROs, which were designed to stimulate bank lending to the real economy, have significantly lengthened the maturity of monetary policy operations in the euro area. Liquidity-providing operations with a maturity of one week and/or three months, which used to be the standard monetary policy instruments before the crisis, have come to play a limited role (see chart 5). More than 98% of all liquidity-providing operations conducted in recent years had an initial maturity of four years. In the case of the asset purchase programmes, such as PSPP purchases, the volume-weighted residual maturity was, at the time of writing, close to eight years in the euro area on average.

Like the regular liquidity-providing operations with a maturity of one week and three

Chart 5

Liquidity provision in the euro area



Source: ECB, OeNB calculations.

Note: SMP = securities markets programme; TLTRO = targeted longer-term refinancing operation.

months, the TLTRO operations have been carried out with full allotment in recent years, i.e. banks' demand for central bank liquidity has been met in full by the Eurosystem, subject to compliance with the eligibility criteria and the provision of adequate collateral. In October 2017, the Governing Council of the ECB decided to extend the fixed rate full allotment procedures for Eurosystem refinancing operations until the end of 2019. In other words, the Eurosystem stands ready to lend banks unlimited amounts of central bank money at the predefined interest rates until the end of 2019, provided they

are able to submit adequate collateral.

The asset purchase programmes as well as the TLTRO operations have created a large amount of central bank liquidity, with the full range of monetary policy operations accounting for a volume of more than EUR 3,200 billion in early 2018 (see chart 5).

Targeted longer-term refinancing operations (TLTRO-II)

TLTRO-II operations refer to the second generation of longer-term refinancing operations with a maturity of up to four years. The second generation consists of a series of four central bank lending operations implemented in the period between June 2016 and March 2017 (i.e. one such operation per quarter). The applicable interest rate depends on the amount of onward lending by banks and can even turn negative. The more loans participating banks extend, the cheaper borrowing becomes, the cheapest rate being -0.4%.

Box 3

Monetary policy effects in the euro area and in Austria

The purpose of the monetary policy measures adopted by the Eurosystem, including policy rate cuts, the expansion of liquidity-providing operations and the implementation of asset purchase programmes, was to improve financing conditions for households and businesses, with a view to fostering consumption and investment and supporting the return of inflation, on the back of higher demand, to the ECB's price stability objective.

Bank lending rates have, indeed, declined visibly since the onset of the crisis in 2008: While bank lending rates for corporate loans had averaged 5.4% across the euro area in 2008, they contracted to an annual euro area average of 1.6% in 2017. In Austria, firms were even able to borrow money from banks below the euro area level, namely at an average rate of 1.5% in 2017 (see chart 6). This compares with a drop of average euro area interest rates for residential loans from 5.3% since the onset of the crisis to 1.9% in 2017 – which was also the average interest rate Austrian households taking out new residential loans had to pay in 2017.

Firms and households borrowing from banks have not been the only beneficiaries of the low interest rate level; the Austrian government has also been saving money on account of better refinancing conditions in recent years. While the yield for 10-year benchmark bonds had averaged 4.4% in 2008, the Republic of Austria was able to finance 10-year bonds issued in April 2017 at a rate of 0.5%. With a view to locking in the low interest rates for an extended period of time, the Republic of Austria issued 100-year bonds with an original yield of 2.1% in September 2017.

The low financing costs have been fueling credit demand. Euro area credit growth has been rebounding since 2014. In December 2017, the annual growth rate of bank loans to the private sector was close to 3%. As indicated by banks participating in the euro area bank lending survey,¹ corporate borrowing in 2017 was mainly motivated by loan demand for fixed investment, unlike in the initial years of the economic recovery, when the low interest rate level had been the main driver of loan demand.

These developments lifted economic activity both in Austria and in the euro area as a whole, causing the unemployment rate (Eurostat definition) to drop to 8.7% in the euro area and to 5.3% in Austria in December 2017 – i.e. to levels last seen in 2009.

The expansion of the euro area economy has also been brought about by factors other than monetary policy, such as the recovery of the global economy and of global trade and the setback of oil prices in 2014 and 2015 as well as, in some countries, the adoption of an expansionary fiscal stance and the successful implementation of reform measures. Model-based estimates of the ECB,² however, suggest that half of the extra GDP growth achieved during the current recovery has been attributable to the monetary policy of the Eurosystem.

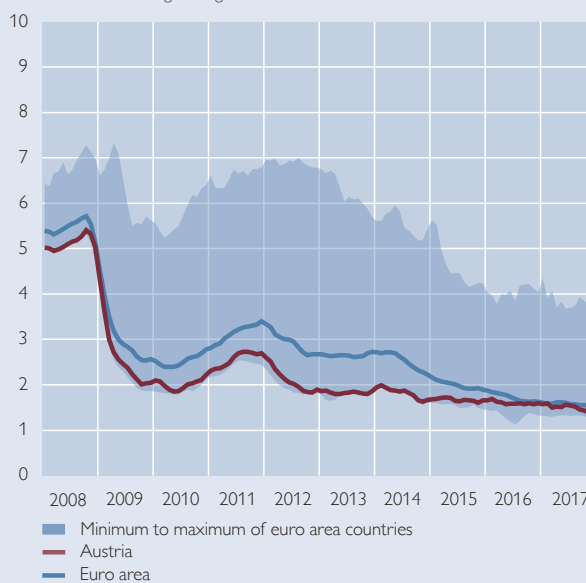
The robust growth rate would imply that the inflation rate is going to converge toward the ECB's price stability target. A further lessening of labor market slack should eventually feed through into wage dynamics – and thus ultimately into rising inflation rates as well. However, these effects are yet to materialize in full in the euro area. While accelerating to an average pace of 1.5% in 2017, annual HICP inflation in the euro area continued to fall short, for the fifth year in a row, of a medium-term level that is below, but close to, 2%, and hence consistent with the ECB's definition of price stability.

¹ ECB (2018). The euro area bank lending survey (January).

² "Monetary policy and the economic recovery in the euro area," speech by Mario Draghi, President of the ECB, at the conference The ECB and Its Watchers XVIII on April 6, 2017.

Interest rates on new loans to nonfinancial corporations

%, three-month moving average



Source: ECB.

Austria's economy is booming

Growth accelerated markedly in 2017 driven by lively domestic demand and strong export growth

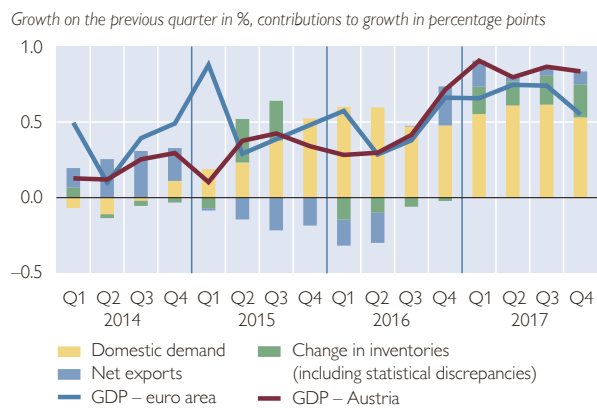
Global economic growth gained momentum in the course of 2017. Though the increased pace of growth was mainly fueled by the advanced economies, the economic situation of emerging countries improved as well. From end-2016 onward, Austrian goods exports recovered from their extended dry spell thanks to the more favorable external environment and the acceleration of world trade, and in the course of 2017, domestic exports strengthened further. Exporters benefited from a pronounced acceleration in international demand, in particular in the euro area and EU Member States in Central, Eastern and Southeastern Europe (CESEE). In the CESEE EU Member States, import growth was mainly supported by stepped-up investment activity that was facilitated by a rise in funds disbursed by the European Structural and Investment Funds.

Domestic demand in Austria, i.e. private consumption and investment, had already experienced a strong rebound in 2016. The lagged effects of the 2016 income tax reform, the declining saving ratio and the very favorable labor market developments also supported private consumption growth in 2017. Domestic demand was also driven by strong investment demand; investment in plant and equipment has been seeing an exceptionally long expansionary phase, though motives for investment have increasingly shifted from replacing equipment to expanding capacity. Investment in construction and R&D also contributed significantly to the growth of gross fixed capital formation. Coupled with strong export growth, the very lively domestic economic activity resulted in real GDP growth of 3% in 2017 (trend-cycle adjusted), signaling a boom phase. The last time Austria recorded such fast-paced growth had been in 2006 and 2007.

Mirroring the robust growth in exports, Austria's current account developed very favor-

GDP growth and contributions of demand components in Austria

Chart 7



Source: OeNB, WIFO.

Note: Trend-cycle data.

ably in the first three quarters of 2017, recording the largest surplus since 2008 (EUR 7 billion). Trade in goods picked up markedly – both exports and imports grew by 9%. Likewise, trade in services gained considerable momentum, though imports (+9%) clearly outpaced exports (+5%). As a result, the services surplus was 10% lower than in the corresponding period in 2016. The surplus was mainly driven by travel, which contributed EUR 7 billion in net terms, while the contribution of business services like transport, construction and financial services together came to just under EUR 1 billion.

From a regional perspective, Austria's external sector remains characterized by its close economic ties with Germany: 30% of Austria's goods exports go to Germany and 37% of Austria's goods imports originate there. In net terms, Austria's trade relations with Germany resulted in a trade deficit of nearly EUR 7 billion in the first three quarters of 2017. Trade with other countries, however, yielded surpluses, e.g. vis-à-vis the United States (EUR 5 billion), France (EUR 1.1 billion) or the United Kingdom (EUR 1.3). Austria's goods exports to CESEE came to some EUR 20 billion, compared to EUR 18.3 billion in goods imports from CESEE.

Employment and inflation mirror economic boom

Vigorous economic activity also favored the labor market. Labor supply continued to grow robustly in 2017, and employment growth accelerated further compared to the previous year. Among new jobs created, the number of full-time jobs increased, especially in the industrial sector. Accordingly, the number of hours worked in payroll employment grew more strongly than the number of jobs – which is typical in periods of economic boom. Since fall 2016, employment growth in Austria has outpaced labor supply growth, leading to a trend reversal in unemployment. Austria’s unemployment rate as calculated by Eurostat has come down from its high of 6.2% (observed in May to August 2016), reaching 5.4% at end-2017.

The growth of residential property prices in Austria was less pronounced in 2017 (3.8%) than in 2016 (7.3%), but picked up speed again over the course of the year. The acceleration was driven by price growth in the “Austria excluding Vienna” aggregate, while the housing

market in Vienna cooled down. Nevertheless, the OeNB fundamentals indicator for residential property prices suggests that house prices in Austria are increasingly misaligned with fundamentals. While, in 2015, house prices had stood just below fundamental values, in 2017, we saw a deviation of +8.5%.

HICP inflation in Austria had already picked up considerably in the fourth quarter of 2016, reaching 1.5% after an average of only 0.8% in the first three quarters of 2016. In the first quarter of 2017, HICP inflation spiked again (2.2%) on the back of surging energy prices. In the second and third quarters of 2017, the inflation rate remained at 2.2%, though monthly values showed greater fluctuations. The strong rise in HICP inflation to 2.5% in September 2017 can be traced to price hikes of industrial goods excluding energy, which leveled out in the following months. At 2.2% for 2017 as a whole, Austria’s HICP inflation rate once more significantly surpassed that of the euro area and Germany. This is mainly attributable to the stronger price increases in the services sector (see box 4).

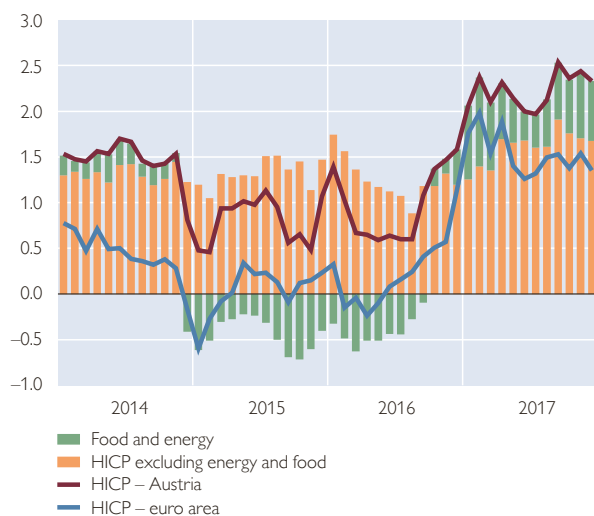
Dynamic economic growth also led to a marked increase in government revenues. Together with the strong decline in interest expenses associated with persistently low refinancing costs, this resulted in a significant improvement of the general government balance in 2017. Both factors will continue to benefit fiscal developments in 2018. In September 2017, the Austrian Treasury seized the opportunity presented by the historically low interest rate environment by issuing a 100-year bond priced at a yield of no more than 2.1%. In 2016, it had already issued a government bond with a maturity of 70 years.

Because of the low general government deficit and high nominal GDP growth, Austria’s general government debt ratio fell below 80% of GDP in 2017. Also, the partial release of the cash reserves of HETA Asset Resolution helped reduce the debt of public wind-down vehicles and, consequently, government debt.

Chart 8

HICP inflation and contributions by subcomponents in Austria

HICP: annual change in %;
contributions to inflation: percentage points



Source: Eurostat, Statistics Austria.

Why inflation is higher in Austria than in the euro area and in Germany

Since the establishment of Economic and Monetary Union, inflation in Austria has mostly moved in line with overall euro area inflation. From January 1999 to end-2017, Austria's inflation rate as measured by the Harmonised Index of Consumer Prices (HICP) averaged 1.8%, compared with 1.7% for the euro area as a whole. Over the same period, Austria's most important trading partner – Germany – recorded an average HICP inflation rate of 1.4%. Since 2011, however, Austria's inflation has deviated significantly from rates recorded for both the euro area and Germany (see chart 9, left-hand panel). This is attributable almost exclusively to elevated inflation in the Austrian services sector (see chart 9, right-hand panel).

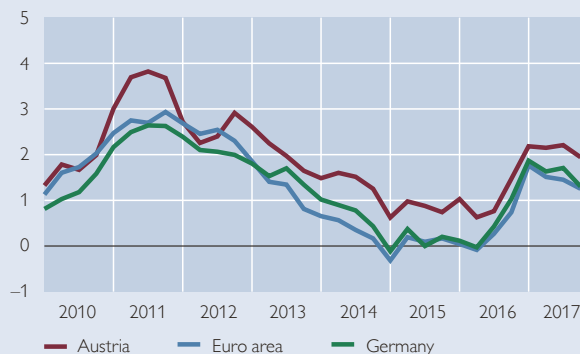
Since 2011, Austria's HICP inflation has been, on average, 0.7 percentage points above that of the euro area and 0.6 percentage points above Germany's. In both cases, the contribution of services, which have a weight of 47% in the Austrian HICP, to the inflation differential was 0.6 percentage points. This means that the services sector accounted for the entire average inflation differential observed between Austria and Germany since 2011 and for about 90% of the average inflation differential observed between Austria and the euro area. A detailed analysis of this issue can be found in the OeNB publication *Inflation Aktuell Q4/2017* (German only).

Chart 9

Comparing inflation in Austria, the euro area and Germany

Overall HICP

Change on the same period of the previous year in %

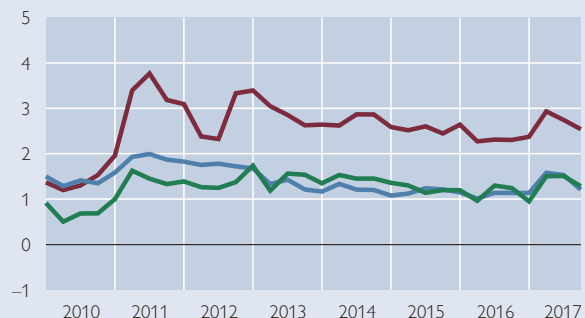


Source: Eurostat.

Note: Quarterly data.

Services prices

Change on the same period of the previous year in %



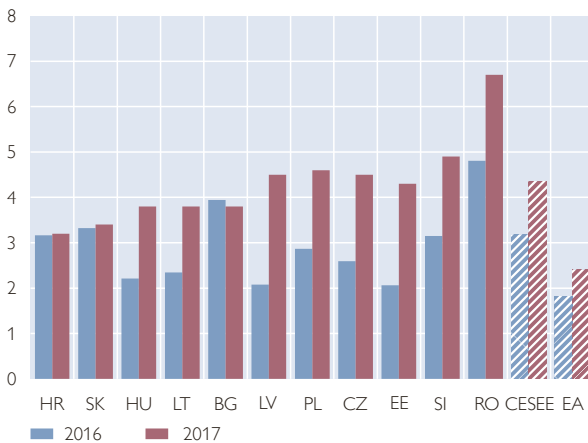
Within the services sector, about half of the inflation differential between Austria and Germany results from catering services (restaurants, cafés, pubs, dance clubs, canteens, etc.). Although, at an average of 0.9 percentage points, the difference between the respective inflation rates is rather small, catering services carry a much higher weight in Austria's HICP basket (11.8%) than in Germany's (4.3%). The difference in weighting mirrors differences in consumption patterns; apparently, in Austria a larger part of households' consumption expenditure goes into restaurants and cafés than in Germany. Apart from catering services, divergent growth in administered prices¹ (and indirect taxes) also contributes a significant portion (0.2 percentage points) to Austria's inflation differential vis-à-vis Germany.

The effects of this persistent inflation differential vis-à-vis the euro area and Germany on Austria's international competitiveness are likely to be small, given that stark differences in price growth are limited to services that are less tradable. This assessment is also confirmed by the favorable development of the Austrian current account balance, which has improved since 2011, inter alia thanks to services. Their contribution to the current account balance has shown a positive performance despite relatively stronger price growth.

¹ Administered prices are prices for goods and services that are, in part or in full, determined or influenced by the government, e.g. water charges, fees for waste disposal, medical services, tuition, cultural services. The contribution of indirect taxes is calculated as the difference between HICP inflation and HICP inflation at constant tax rates (e.g. VAT, mineral oil tax, tobacco tax).

Real economic growth in CESEE

Annual change in %



Source: Eurostat, European Commission interim forecast (February 2018); CESEE value: European Commission autumn 2017 forecast.

OeNB December 2017 outlook: strong growth set to continue in 2018

The boom phase of Austria's economy will continue into 2018, with domestic demand acting as an important growth driver. On the back of lively employment and wage growth, private consumption growth will accelerate more strongly than in 2017. Investment dynamics will remain robust for a sustained period of time, but may decelerate somewhat, given the particularly pronounced and historically relatively protracted investment cycle. Mirroring the developments in Austria's export markets, annual export growth will stabilize at around 4%, which is much higher than it was in the period from 2012 to 2016, but weaker than in the last boom phase from 2004 to 2007. Overall, the OeNB expects very strong GDP growth of nearly 3% for 2018. The unemployment rate will drop to just below 5% by end-2018, while inflation will continue to stand slightly above 2%.

CESEE records strongest growth since 2008

Economic expansion in the EU Member States of Central, Eastern and Southeastern Europe

(CESEE¹) accelerated sharply in 2017. At an average rate of 4.4%, CESEE EU economies grew at a dynamic pace last seen in 2008. The growth differential against the euro area came to 2.2 percentage points, supporting a further convergence of income levels and benefiting countries with strong economic ties with the CESEE area – such as Austria.

Markedly improved labor market conditions fuel growth in CESEE

CESEE growth was driven above all by significant increases in private consumption, reflecting higher real incomes and clearly improved labor market conditions. Employment was on the rise in most CESEE EU countries (visibly, in some), and economic sentiment improved considerably. At the same time, average unemployment dropped to a historical low of 4.8% in December 2017. Several countries now have de facto achieved full employment. The Czech Republic for instance reported an unemployment rate of 2.3% in December 2017, thus outperforming all other EU countries. These lively labor market dynamics are, however, accompanied by strong wage growth and reports about a beginning shortage of labor supply, which could result in medium-term challenges for price stability and international competitiveness.

Investment activity also picked up speed in 2017, following a very weak performance in 2016. Next to rising capacity utilization, stronger foreign demand and favorable financing conditions, it was especially increasing disbursements from European Structural and Investment Funds that had a positive impact on investment activity. The economic expansion was thus increasingly broadly based. From 2009 to 2016, the share of EU funds in gross fixed capital formation ranged from 2% to 13% in the CESEE EU Member States. In 2017, this share reached historic highs of up to 16% according to first estimates.

Industrial production growth rose substantially in the course of 2017. Data collected in

¹ CESEE EU Member States: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

surveys among purchasing managers in Poland and the Czech Republic confirm the robustness of industrial activity, which is reflected in healthy export growth. On balance, however, the external sector made a small negative contribution to overall growth in the CESEE EU countries, as imports expanded vigorously on the back of strong domestic demand.

Inflation in CESEE accelerates moderately to around 2%

Against the background of a vigorous economic expansion, prices in the CESEE EU Member

States began to rise moderately, following a long period of deflation. In December 2017, average inflation stood at 2%. The acceleration in price growth affected all major HICP components, in particular energy and processed food. Some central banks of the CESEE region began to gradually tighten their monetary policy. The Czech National Bank, for instance, raised its key interest rate to 0.75% in three steps from August 2017 onward, reacting to the strong economic expansion and the tightening labor market. In early 2018, also the Romanian central bank increased its policy rate, namely by 25 basis points to 2%.

Box 5

2007–2017: ten years dedicated to overcoming the crisis

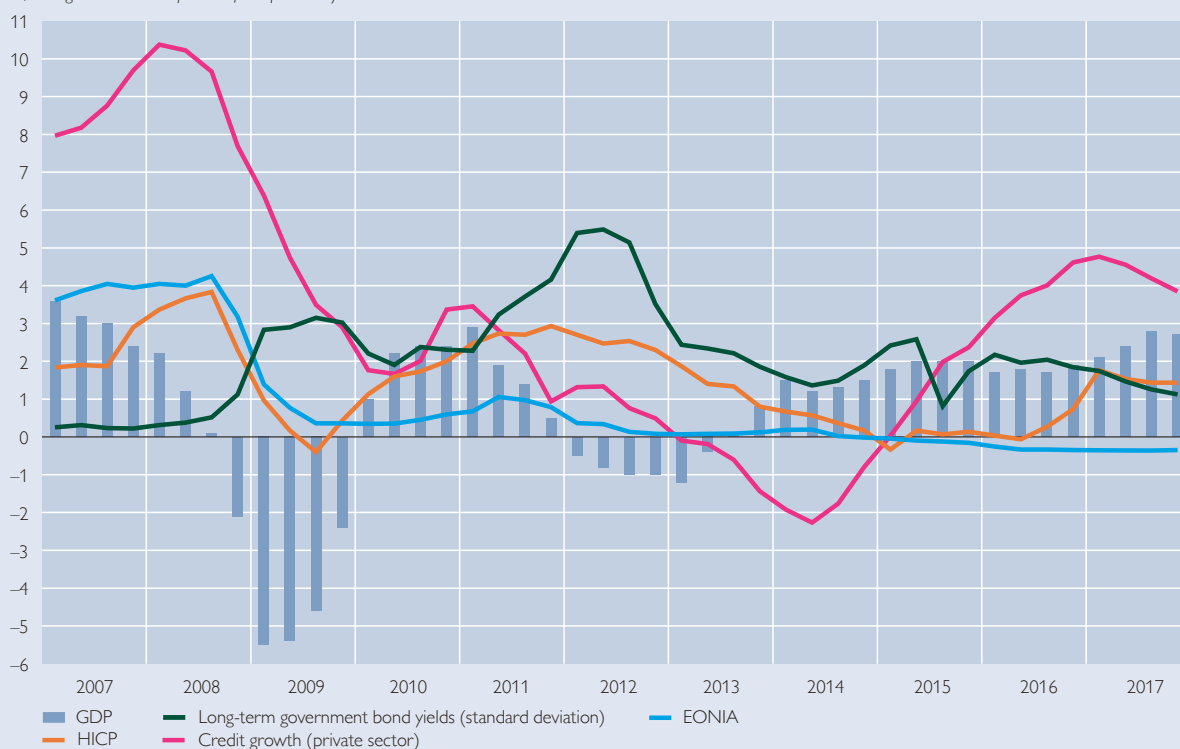
	Events and challenges	Selected (monetary policy) responses	Selected financial stability measures
2007–2009: financial and economic crisis	<ul style="list-style-type: none"> - U.S. subprime mortgage crisis triggers global financial market turmoil - global crisis of confidence in the wake of Lehman Brothers bankruptcy also affects Austrian banks and their CESEE exposures - funding constraints weigh down world economy 	<ul style="list-style-type: none"> - ECB provides banks with unlimited, longer-term liquidity, also in foreign currencies - ECB cuts policy rates from end-2008 - concerted central bank measures 	<ul style="list-style-type: none"> - from 2008: measures to strengthen banking systems (Austria: bank support package in the amount of EUR 100 billion, full deposit guarantees until end-2009, since then guarantees up to a deposit amount of EUR 100,000) - 2008: de facto prohibition of foreign currency loans in Austria (CESEE subsidiaries of Austrian banks: Guiding Principles published in 2010) - 2009: Vienna Initiative for stabilizing CESEE
2010–2013: sovereign debt crisis in Europe	<ul style="list-style-type: none"> - stimulus packages and bank bailouts increase government debt - speculations about individual countries' possible exit from the euro area - public finances and banks in crisis countries enter downward spiral 	<ul style="list-style-type: none"> - bailouts for Ireland, Greece, Portugal, Spain, Cyprus - 2012: ECB announces option of Outright Monetary Transactions (OMTs) and puts an end to rise in bond yields - 2013: ESM replaces temporary financial assistance facilities 	<ul style="list-style-type: none"> - 2011: supervisory guidance on the strengthening of the sustainability of the business models of large internationally active Austrian banks - 2012: decision to create a banking union resting on three pillars (supervision, resolution, deposit insurance)

<p>2012–2015: economic recovery takes longer than expected</p>	<ul style="list-style-type: none"> - restrictive fiscal policies and private sector deleveraging push euro area into recession again - inflation rates fall - large stocks of nonperforming loans in some euro area countries 	<ul style="list-style-type: none"> - ECB's forward guidance indicates interest rates will remain low for an extended period - 2014: ECB cuts deposit facility rate below zero - ECB offers four-year refinancing (TLTROs) to stimulate bank lending 	<ul style="list-style-type: none"> - 2014: implementation of Basel III (CRR and CRD IV) - 2014: SSM takes over banking supervision in the euro area following a comprehensive assessment of the relevant banks - 2015: Austria establishes Financial Market Stability Board - systemic risk buffer prescribed for some Austrian banks
<p>2014–2016: deflation risks</p>	<ul style="list-style-type: none"> - output gap and oil price slump temporarily push euro area inflation below zero - weak growth in Austria 	<ul style="list-style-type: none"> - ECB lowers deposit facility rate to -0.4% - 2015: expanded asset purchase programme (APP) with monthly purchase volumes of EUR 60 million to EUR 80 million 	<ul style="list-style-type: none"> - 2016: ECB develops measures to reduce nonperforming loans - 2016: Single Resolution Mechanism takes up operation at European level (with the FMA acting as Austria's national resolution authority)
<p>2016–2017: economic upswing</p>	<ul style="list-style-type: none"> - strong GDP growth in Austria, economic recovery in the euro area - inflation remains subdued - external assessments of the Austrian banking sector improve 	<ul style="list-style-type: none"> - ECB's main refinancing rate remains at 0.0%, deposit facility rate at -0.4% - APP to be continued at least until September 2018 with reduced purchase volumes 	<ul style="list-style-type: none"> - 2017: new law paves way for macroprudential instruments designed to mitigate systemic risks in real estate financing in Austria

Chart 11

2007–2017: the crisis in the euro area – key indicators

%, change on the same period of the previous year in %



Source: ECB, Eurostat, Macrobond.

International monetary and financial system

Shaping the future of the European Union

Decision makers in the euro area have been discussing institutional reforms to make Economic and Monetary Union (EMU) fit for future challenges. In May 2017, the European Commission published a reflection paper on the future of EMU, and in September, European Commission president Jean-Claude Juncker held a State of the Union Address, which also focused on this issue. Many member countries likewise proposed ways to deepen EMU. These initiatives were followed by talks between the EU Member States to discuss specific implementation measures focused on improving the coordination of fiscal policy, completing banking union and safeguarding the democratic legitimation of the common set of rules.

Another important step for the EU will be the establishment of a capital markets union (CMU), which is supposed to open up additional financing opportunities outside the banking sector for the real economy. To be able to assess the implications of CMU for Austrian businesses and all other domestic stakeholders and to develop a joint Austrian position, the OeNB has organized a series of round-table events to discuss different aspects of this project.

Following the outcome of the Brexit referendum, the British government, on March 29, 2017, formally submitted its application to withdraw from the EU in line with Article 50 of the Treaty on European Union. Negotiations

between the United Kingdom and the EU have started and will continue into 2018. As the United Kingdom is the second-largest economy in the EU and the second-most important trading partner of all other Member States, both the U.K. and the EU have a keen interest in constructive negotiations that will establish a stable basis for future relations.

In the second half of 2018, Austria will assume the presidency of the Council of the EU². The main topics on the agenda will be jobs, growth and security, as well as issues of particular central bank relevance, such as the deepening of EMU, banking union, CMU and the Brexit negotiations. The OeNB plays an active role in the preparations for the Austrian presidency and has been liaising with all involved Austrian ministries.

International Monetary Fund

The International Monetary Fund (IMF) has started its Fifteenth General Review of Quotas. Based on the regular reviews of its quotas, the IMF ensures that the financial contributions of its members reflect their relative position in the world economy.

With effect from 2017, the OeNB renewed its commitment under the New Arrangements to Borrow (NAB), a standing borrowing arrangement with the IMF. In addition, Austria signed a bilateral EUR 6.13 billion credit arrangement with the IMF during the 2017 Spring Meetings.

² To mark the Austrian presidency, the OeNB will publish special issues of its quarterlies "Monetary Policy & the Economy" (Q2/18) and "Focus on European Economic Integration" (Q3/18).

Five FAQs on bitcoin and other crypto token systems

What's a crypto token?

Crypto tokens are digital units that can be transferred among users within a decentrally organized payment system (e.g. "blockchain") by means of cryptography. Bitcoin and similar tokens are not issued by a central public authority that guarantees their value, holds assets as backing or assumes responsibility in any other way. The administration of a crypto token system is based on open, voluntary participation that is managed through technical rules and usage incentives. The value of crypto tokens is determined by supply and demand on private trading platforms or exchanges and tends to fluctuate very much.

What can crypto tokens be used for?

Bitcoin and other private crypto token systems represent no real currencies¹ that can be used as an alternative to the euro, the U.S. dollar or the like. Since, from a user's perspective, stability and general acceptance are the most important qualities of a currency, bitcoin and similar instruments have hardly been used as a means of payment so far. The main economic motive for using crypto tokens is most likely speculators' hope to generate price gains.

Is bitcoin legal?

At present, crypto token systems are not subject to any regulation or supervision. The creation of bitcoins and similar tokens cannot be regulated because they are not issued by a central authority or any other legal entity. However, the use of crypto tokens (for investment purposes or for payments, etc.) is currently not prohibited. Business models based on crypto token systems may require a license issued by the Financial Market Authority (FMA).² In line with the EU Anti-Money Laundering Directive, which was amended in December 2017, entities that engage in commercial trade with crypto tokens will be required to carry out customer identification and verification procedures. As regards taxation, Austria's Federal Ministry of Finance published information in 2017 (in German) detailing the tax obligations associated with the use of crypto tokens.

What does the OeNB say about all this?

The OeNB mostly sees substantial risks for individual investors, and the European Banking Authority (EBA) has identified about 40 such risks for users. But from a macroeconomic, financial stability and monetary policy perspective, crypto tokens do not appear to represent any risks at the moment, especially because of their comparatively low market volume. Like other central banks and supervisory authorities, the OeNB has responded to media attention and public interest in crypto tokens by providing targeted information and opinions based on its financial market and currency expertise. It has also addressed the issue as part of its financial literacy initiatives.

What do we know about crypto token usage in Austria?

At the moment, there are no reliable data about crypto token usage in Austria, among other things because people who buy or hold crypto tokens are currently not obliged to disclose their identity to any entities subject to reporting obligations. Recently, a remarkably dense sales infrastructure for crypto tokens has emerged in Austria. Moreover, there are now businesses that participate in competitions for the production of crypto tokens. Other businesses have started crowdfunding campaigns for business projects through the sale of project-specific "coins" in so-called Initial Coin Offerings (ICOs). In an ICO, a business sells a virtual token of its own invention to raise funds. Ownership of a "coin" (or "token") obtained in an ICO either confers certain shares in the business, access to some of its future services or merely makes it possible to trade the "coin" on platforms in the hope of generating price gains.

¹ Although the terms "virtual currency" or "cryptocurrency" are commonly used, the ECB and the OeNB consider them misnomers because the actual functioning of the underlying systems does not promote the use of these so-called "currencies" as a substitute for money.

² <https://www.fma.gv.at/en/fma-thematic-focuses/bitcoins/>.

Reserve management in times of economic prosperity and divergent monetary policy

Dynamic economic growth supports financial markets

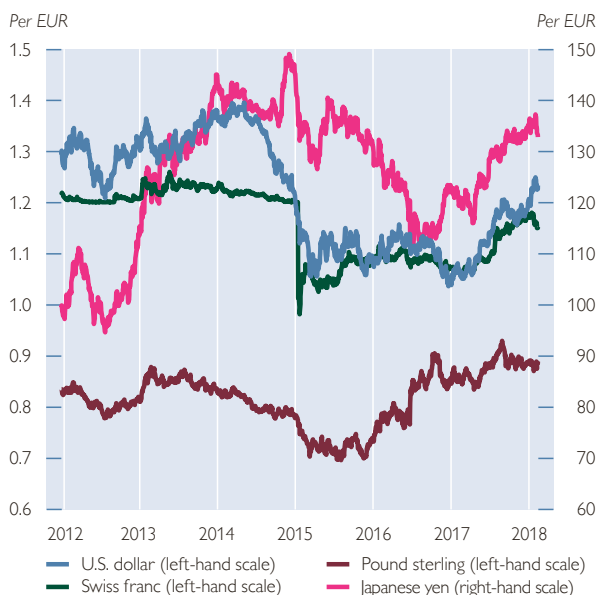
At the beginning of 2017, the result of the U.S. presidential elections drove up both stock prices and yields and strengthened the U.S. dollar. In spring, prompted by presidential elections in France, financial market participants' interest shifted toward Europe. On the back of the French electorate's pro-European vote in the presidential elections, the euro appreciated – a development that was supported by unexpectedly dynamic euro area growth. The strengthening of the euro continued unabated despite a number of factors such as the crisis in Catalonia or the stalling Brexit negotiations that might have given cause for uncertainty. In the course of 2017, the euro appreciated (in trade-weighted terms) by around 8.5%, thereby recording the strongest appreciation of all G-10 currencies³.

The U.S. dollar benefited neither from the Fed's three interest rate hikes nor from newly launched balance sheet reduction measures nor from pronouncedly supportive fiscal policies, which comprised i.a. the biggest tax reform since the 1980s. Instead, at end-2017, the U.S. dollar came in as the weakest of the G-10 currencies, having lost almost 13% against the euro in the course of the year. By year-end, the EUR/USD exchange rate stood above 1.20. Also the Swiss franc and the Japanese yen, which are both considered "safe haven" currencies, came under pressure during the global economic recovery, each depreciating by around 9% against the euro.

Government bond markets in 2017 developed in different directions: the extremely benign global environment and the beginning turnaround in monetary policy drove up yields in most developed economies; the course of yield curves

Chart 12

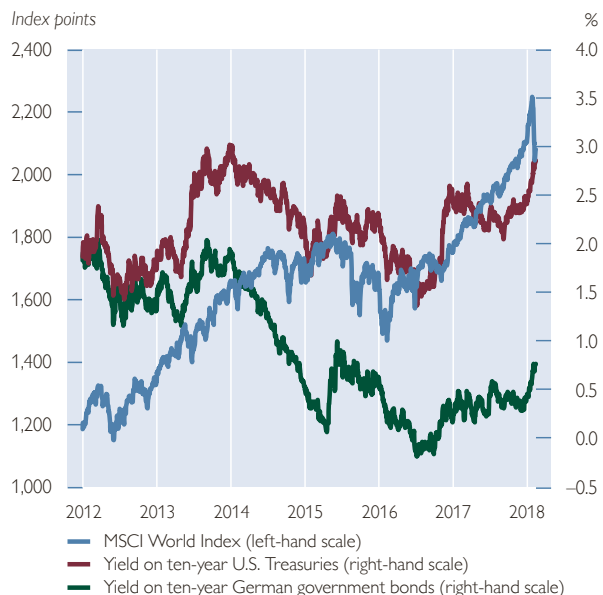
Exchange rates of major currencies against the euro



Source: Macrobond.

Chart 13

MSCI World Index and ten-year government bond yields in the U.S.A. and in Germany



Source: Macrobond.

³ The G-10 currencies are the major currencies of the developed economies: Australian dollar (AUD), euro (EUR), Canadian dollar (CAD), New Zealand dollar (NZD), Norwegian krone (NOK), pound sterling (GBP), Swedish krona (SEK), Swiss franc (CHF), U.S. dollar (USD) and Japanese yen (JPY).

differed widely across countries, however. While the yield curve in Germany, for instance, was steeper by around 24 basis points, reflecting a rise in ten-year government bond yields, interest rate hikes resulted in a pronounced flattening of the yield curve in the United States. The yield on two-year U.S. Treasuries went up by 67 basis points to 1.88% in the course of 2017 and was thus only 57 basis points below that on ten-year U.S. Treasuries. Risk premiums on the government bonds of euro area peripheral countries declined in 2017, thus contributing to positive price developments in this segment.

The robust economic activity combined with continuously favorable financing conditions was reflected in stock market developments, with 2017 witnessing new record highs. While almost all major U.S. indices (i.a. the Standard & Poor's 500 index, the Dow Jones index and the Nasdaq Composite Index) reached new all-time highs, the only euro area index to match this trend was the German stock index DAX. The strong performance of the Austrian stock market in 2017 was reflected in a close to 30% rise in the Austrian Traded Index (ATX). In general, global stock market performance was particularly robust in the reporting year, with the increase in the global MSCI World Index by around 20% being a case in point. While global stock market prices have been rising for a number of years, this

uptrend was accompanied by historically low volatilities in 2017.

Commodity prices also benefited from the cyclical upswing and from increasing global trade, with the price for a barrel of Brent crude oil augmenting by more than 14% and the gold price going up by more than 12% in 2017.

OeNB reserve management characterized by risk-reducing measures and enhanced diversification

In its 2017 investment strategy, the OeNB reacted to developments in financial markets and challenges in foreign currency investment by undertaking risk-mitigating activities and by broadly diversifying its assets. Given the low interest rate environment in the euro area, it was above all the balanced mix of currencies that was instrumental in stabilizing the OeNB's earnings under difficult market conditions. Security, liquidity and returns are the major principles guiding the OeNB's investment activities. The OeNB's investment of reserves is governed by international best practice and is subject to a comprehensive risk management system. In close cooperation with the ECB and the euro area NCBs, the OeNB continues to meet the Austrian banking system's demand for liquidity, thus supporting the economy.

Box 7

Five FAQs on the importance of gold reserves for the OeNB

Why do central banks hold gold reserves?

Gold has traditionally played an important role in the international monetary system. Foreign reserve assets and gold holdings are key elements of a central bank's strategy for crisis prevention and management and have, indeed, invariably proved to build public trust and confidence in difficult times.

The gold held by all euro area central banks is part of the Eurosystem's reserve assets and thus helps stabilize the euro. In terms of the Eurosystem's overall gold reserves, the OeNB's current gold holdings roughly correspond to the OeNB's share in the ECB's capital. From a monetary policy perspective, the volume of gold held by the OeNB is appropriate relative to the size of both its total reserve assets and the Austrian economy.

How much gold does the OeNB hold?

Austria's gold reserves, which are held by the OeNB, amount to 280 tons or some 22,400 gold bars. These figures have remained unchanged since 2007. The OeNB is the sole owner of these gold assets, which it maintains and manages with utmost care. Moreover, the OeNB strives to minimize gold storage costs while keeping in mind the requirements of its strategy for crisis prevention and management.

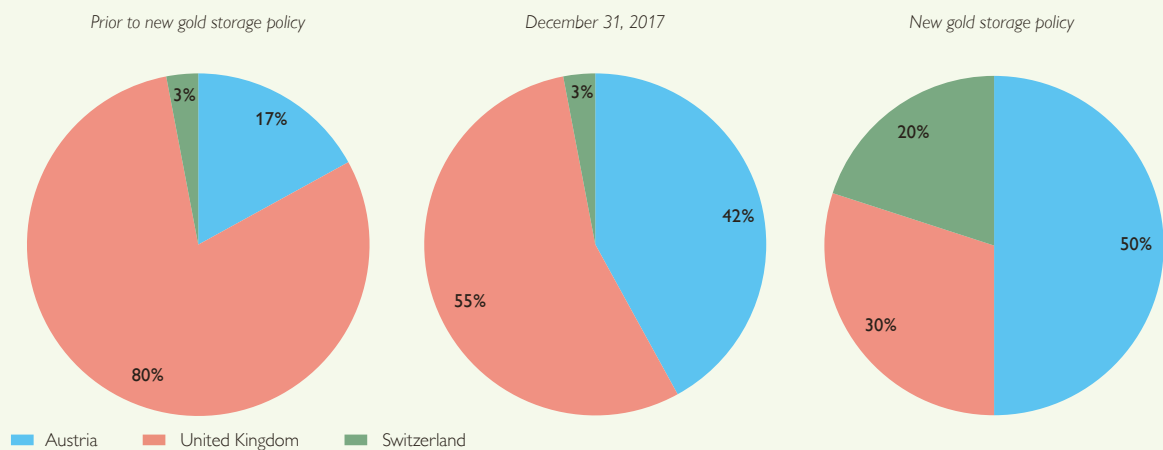
Where does the OeNB store its gold reserves?

Following a regular review of its gold storage policy, the OeNB readjusted this policy in 2015 to the effect that by 2020 at the latest, half of the OeNB's gold holdings are to be stored in Austria. In line with the new policy, 15 tons of gold were repatriated both in 2015 and 2016, followed by another 40 tons in 2017. Since the repatriation process has been faster than envisaged, it is likely to be completed in 2018, two years ahead of schedule.

Once the OeNB's gold storage policy has been fully implemented, approximately 140 tons of gold will be held in Austria, of which some 90 tons will be stored in the OeNB's own vaults and roughly 50 tons in the vaults of Münze Österreich AG. The 140 tons remaining in storage abroad will be divided between the U.K. (presumably 84 tons) and Switzerland (presumably 56 tons). Using different storage locations helps the OeNB reduce concentration risk while still being able to quickly use gold in the London and Zurich gold markets should the need arise.

Chart 14

The OeNB's gold holdings by storage or delivery location



Source: OeNB.

Note: Differences are due to rounding.

How are gold bars checked for authenticity?

All gold bars held by central banks as reserve assets must correspond to the Good Delivery Rules of the London Bullion Market Association specifying, for instance, the dimensions, weight and fineness of a gold bar. The minimum acceptable fineness, which determines a gold bar's actual gold content, must be 995.0 parts per thousand fine gold.

During the repatriation of Austria's gold reserves, each individual gold bar is checked for authenticity. Their weight is measured with high-precision scales, an ultrasonic device is used to check their cores and X-ray fluorescence tests serve to determine their fineness. Authenticity has been confirmed for all Austrian gold bars tested.

How much gold do governments hold worldwide? Which are the major gold trading centers?

According to the IMF, global public sector gold holdings amounted to around 33,600 tons in December 2017, with the United States owning the largest official gold reserves (about 8,133 tons), followed by Germany (about 3,374 tons) and Italy (about 2,452 tons). The gold reserves held by the Eurosystem as a whole currently amount to about 10,782 tons.

Next to comparably smaller trading centers like Zurich, London remains the most important trading center for physical gold. When it comes to trading nonphysical gold, COMEX (Commodity Exchange, Inc.) in the United States is of particular relevance mainly for gold futures and gold options. Important trading centers in China are the Shanghai Gold Exchange and the Shanghai Futures Market. Additional major gold trading centers are located in Dubai, India, Japan, Singapore and Hong Kong. Gold prices are typically quoted in U.S. dollars per troy ounce (1 ounce = 31.103 g).



Spec: Currency Rates
Date: 11/11/11
Unit: Points

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0.05% to 0.05% 0.05% to 0.5% 0.5% to 2.5%
IGN is not available.
Country's Economic Prospects & Policies

The OeNB – a key player in supervision that contributes to financial stability

Austrian banks benefit from positive economic environment and adaptation of business models begins to pay off

Benign credit cycle boosts profitability

Austrian banks benefited from improved economic conditions in Austria and CESEE in the year under review.⁴ In the first three quarters, net profits increased by 14% year on year to reach EUR 5.1 billion at the end of September 2017, a level last seen about ten years ago. This improvement in profitability is mainly attributable to the sharp drop in credit risk costs to historically low levels; whether this level can be sustained, remains to be seen, however. While persistently low interest rates have raised borrowers' debt sustainability, especially for those who have taken out variable rate loans, they have also depressed Austrian banks' interest income. If, however, economic activity slows down and interest rates rise again, credit quality may suffer. Despite falling credit risk costs, Austrian banks' coverage ratio for non-performing loans has remained solid and high by international standards. Operational activities continued to be slow, although fees and commissions income and lending have edged up recently.

Austrian banks' subsidiaries in CESEE posted an aggregate net profit of EUR 2.2 billion in the first three quarters of 2017, up 9% on the previous year,⁵ bringing their profitability almost to the level of 2008. Again, this improvement can be traced to lower credit risk costs, which dropped particularly sharply in the Czech Republic and Russia. The highest profit contributions came from subsidiaries in the Czech Republic, Russia, Hungary and Slovakia. Also, subsidiaries in the Czech Republic and Slovakia posted high credit growth rates. In aggregate terms, however, interest rate margins, which had been comparably high in the CESEE business, have come under pressure. The transfer of UniCredit Bank Austria AG's CESEE segment to its Italian parent UniCredit S.p.A. in 2016 resulted in a marked decrease in Austrian banks' absolute (risk) exposure. Furthermore, banks have restructured, stepping up activities in countries like the Czech Republic and Slovakia, while, overall, business in economically more volatile countries like Russia and Ukraine has lost in importance.

The capitalization of the Austrian banking sector has improved over the past years thanks to capital increases and a reduction in risk-weighted

Box 8

A long-term take on Austrian banks' profitability¹

An OeNB study on the unconsolidated profitability of the Austrian banking sector from 1995 to 2016 shows that domestic banks are still facing challenges despite an increase in operating income and a (relative) decline in operating expenses. The surge in income seen before the crisis of 2008–2009 was attributable to an expansion of business activities, which was also reflected in banks' balance sheets, while interest margins contracted. Pressure on interest margins was particularly high for smaller banks and those that relied more heavily on the domestic market. However, interest margins have recovered somewhat since 2009. Net fees and commissions income, which is the second important component of banks' operating income, was highly cyclical in the period under review and clearly influenced by banks' business models. Most banks recorded rising fee income from payments. While operating expenses increased steadily (mostly driven by inflation), staff costs have declined recently. The latter account for about half of operating expenses, and other administrative expenses make up about one-third.

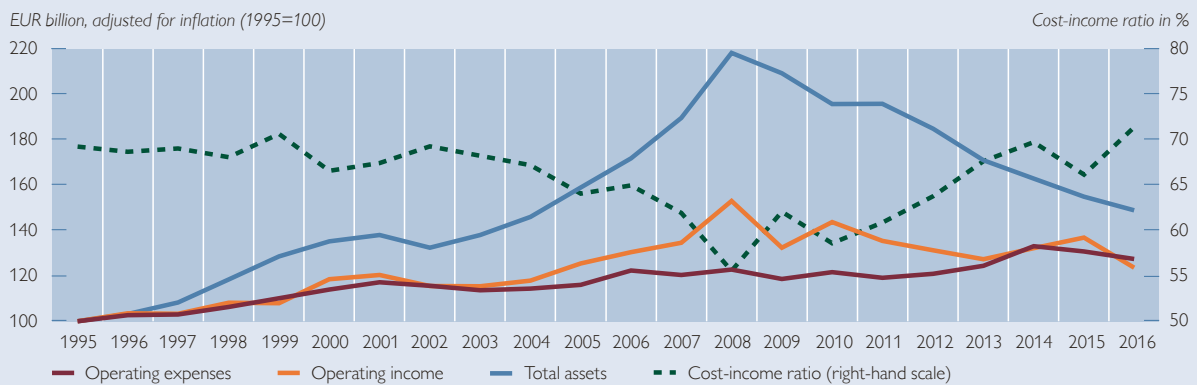
⁴ In this section, a broader definition of Central, Eastern and Southeastern Europe (CESEE) is used that also includes, for instance, Russia, Ukraine and Belarus.

⁵ Adjusted for the figures for UniCredit Bank Austria AG's CESEE subsidiaries, which were no longer included in these data from the fourth quarter of 2016 onward.

In 2016, the cost-income ratio of Austrian banks stood at about 70%, the same level as in 1995. This ratio, which particularly reflects income growth (and hence total asset growth), shows that banks' adaptations of their business models have not had a significant impact yet. Smaller local banks recorded above-average cost-income ratios, but there have been some visible effects of efficiency-enhancing efforts (e.g. mergers within bank sectors). The banking sector's return on assets has recently reached its pre-crisis level again, which, however, is first and foremost attributable to historically low loan loss provisions.

Chart 15

Business and profit performance of Austrian banks in a long-term comparison



Source: OeNB, unconsolidated figures.

¹ OeNB. Financial Stability Report 34. Profitability of Austrian banks' domestic business from 1995 to 2016: driving forces, current challenges and future opportunities.

Common equity tier 1 (CET1) ratio

Common equity tier 1 consists essentially of paid-in capital and retained earnings. It comes first in the liability hierarchy, meaning that CET1 can cover potential losses up to a certain amount, thereby ensuring the viability of an institution.

assets. The consolidated common equity tier 1 (CET1) ratio of Austrian banks stood at 15% in September 2017. Nevertheless, given their specific risk profile, domestic banks must continue to

improve their risk-bearing capacity.

Necessary adjustments show first results

In an environment characterized by relatively low growth, complex and expensive structures, low interest rates, low interest margins and the challenges of digitalization, Austrian banks have been facing growing pressure to adjust their business models. Restructurings, for instance at UniCredit Bank Austria AG, Raiffeisen Zentralbank Österreich AG/Raiffeisen Bank International and Volksbank, have changed the size, strategic focus and risk profile of the Austrian banking sector, with posi-

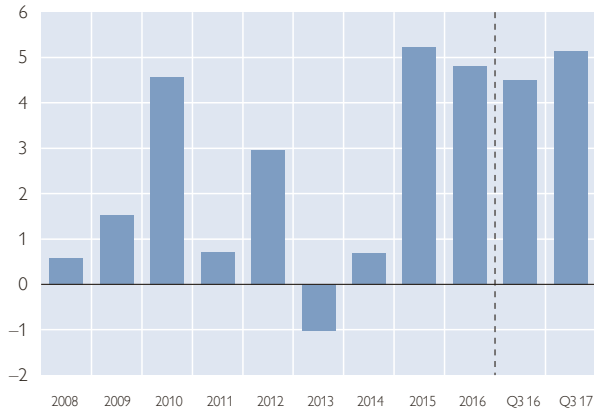
tive implications for financial stability. The sector's total assets contracted by almost 20% between mid-2010 (when a peak was recorded) and 2017, and its foreign claims by 37% (from Q3 2008). Moreover, between 2007 and 2017, the number of banks dropped by one-fourth to 651, and the number of branch offices by 12% to 3,790. The drop in the number of bank branches also resulted in a lower branch density, and the number of banking sector employees fell by 6% over the past ten years. At the same time, banks have increased their capitalization and hence also their risk-bearing capacity. Throughout this adjustment process, banks have been able to maintain a stable supply of credit to the economy.

In any case, additional measures to enhance banks' cost efficiency and, hence, their risk-bearing capacity are called for to achieve a sustainable level of operational profitability. The currently benign macroeconomic conditions provide the ideal environment for implementing such measures.

Chart 16

Austrian banks' consolidated end-of-period profit

EUR billion



Source: OeNB.

The way the Austrian banking sector is perceived by international rating agencies has also improved. Moody's raised its outlook for Austria's banking system from "stable" to "positive" in August 2017, and Standard and Poor's followed suit in October 2017. The reasons given for the improved assessment were the reduction in banks' CESEE exposure, higher capitalization, high provisions for nonperforming loans and prudential lending standards. In addition, the rating agencies positively acknowledged the macroprudential initiatives launched in Austria (including the systemic risk buffer, the law on a macroprudential toolkit to limit systemic risks in real estate financing, sustainable lending standards).

OeNB actively supports macroprudential supervision in Austria

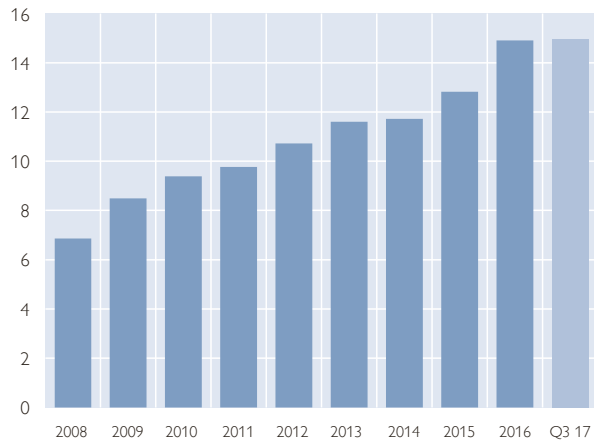
Systemic risk buffer strengthens financial stability

2017 saw the first evaluation of the systemic risk buffer (SyRB),⁶ which has been in force since January 1, 2016, following a proposal by the OeNB and a recommendation for imple-

Chart 17

Capitalization of the Austrian banking system

Common equity tier 1 capital in % of risk-weighted assets; consolidated



Source: OeNB.

mentation by the Financial Market Stability Board (FMSB). The evaluation showed that banks have been building up capital without constraining lending in Austria and their core markets in CESEE. Improvements from a systemic risk perspective were found in terms of capitalization, sector size, foreign exposure as well as ownership and group structures. Regarding their structurally weak profitability, however, banks do not appear to have made any significant progress. In sum, the fundamental assessment that originally led to the activation of the SyRB remains unchanged despite some improvements.

Bank branch density

Bank branch density describes the ratio between a country's population and the number of bank branches. The more inhabitants there are per bank branch, the higher this ratio is. It is an indicator of institutions' business models as well as costs and competition in a banking system.

Given that these systemic risks may manifest themselves both at the consolidated and the unconsolidated level and that, in particular within cross-border banking groups, capital allocation is not flexible in crisis situations, the FMSB issued a recommendation in September 2017 requiring that seven institutions meet the SyRB also at the unconsolidated level. In addition, the FMSB recommended that the SyRB be

⁶ The SyRB has been designed to mitigate long-term noncyclical systemic risks. Its activation was recommended by the FMSB in June and September 2015. At the end of the phase-in period, i.e. from January 1, 2019, the SyRB will amount to up to 2% of risk-weighted assets.

applied to an additional two institutions at the consolidated level. The overall SyRB evaluation will be completed by mid-2018.

Every year the OeNB evaluates whether the malfunctioning or failure of individual banks in Austria would give rise to systemic risks. If so, the banks in question have to apply the O-SII buffer (other systemically important institutions buffer).⁷ In 2017, the OeNB recommended that the FMSB leave both the O-SII buffer rates and the list of banks subject to O-SII requirements unchanged. At the moment, the O-SII buffer recommendation has no impact on the identified banks' capital requirements because banks subject to both the SyRB and the O-SII buffer only have to apply the higher of the two.

As to the countercyclical capital buffer (CCyB), which can be imposed to counteract risks arising from the credit cycle (in particular from excessive credit growth), the FMSB rec-

ommended that the FMA keep the buffer rate at 0% of risk-weighted assets as the OeNB's regular analyses in 2017 had not revealed any signs of excessive credit growth.

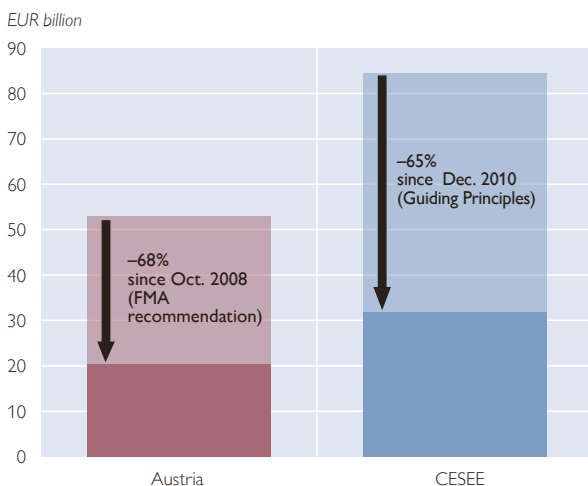
Foreign currency loans continue to contract in Austria and CESEE – new FMA minimum standards in force since June 2017

The measures taken by the Austrian supervisory authorities to curb foreign currency lending have further reduced risks associated with these type of loans. Since October 2008, when the Financial Market Authority (FMA) issued a recommendation to Austrian banks to stop extending foreign currency loans to households that do not have income in the loan currency, the amount of outstanding foreign currency loans has decreased by 68% (exchange rate adjusted), standing at EUR 20.3 billion in November 2017. Nevertheless, the risks arising from foreign currency loans remain high for both households and some banks. Around three-quarters of all foreign currency loans to households are bullet loans linked to repayment vehicles. A survey on foreign currency loans and loans with repayment vehicles that the OeNB conducted in spring 2017 in cooperation with the FMA showed that at end-2016, the shortfall was around 32% of the outstanding volume of repayment vehicle loans. As foreign currency loans and loans with repayment vehicles continue to pose risks, the OeNB recommends that banks, together with foreign currency borrowers, evaluate the latter's risk-bearing capacity in relation to their outstanding loans and, if necessary, take measures to reduce their exposure to these risks.

Together with the FMA, the OeNB has revised its Minimum Standards applicable to foreign currency loans and loans with repayment vehicles. The new Minimum Standards, which entered into force on June 1, 2017, include much broader obligations for banks to inform borrowers, new requirements aimed at

Chart 18

Foreign currency loans of Austrian banks in Austria and CESEE¹



Source: OeNB.

¹ Loans to households and nonfinancial corporations.

Note: The percentages refer to foreign exchange-adjusted changes in the amount of outstanding foreign currency loans in Austria between October 2008 (publication of the relevant FMA recommendation) and November 2017 and in CESEE between December 2010 (publication of the Guiding Principles) and June 2017.

⁷ The O-SII buffer is prescribed for banks whose malfunctioning or failure may trigger a systemic risk which could entail serious negative consequences for the financial system and the real economy (Article 23c in conjunction with Article 2 para. 41 Austrian Banking Act).

improving market transparency and a new chapter on risk provisions to be made by banks.⁸

The volume of foreign currency loans issued by Austrian banking subsidiaries in CESEE has also continued to decline. Between end-2010 and June 2017, the outstanding amount fell by 65% (exchange rate adjusted) to EUR 32 billion. This proves that apart from the effects of restructurings at UniCredit Bank Austria AG, the supervisory measures implemented so far (such as the Guiding Principles of December 2010) have also had a positive impact. On the whole, it is evident that prudent supervisory action, on the one hand, and banks and borrowers solving problems on a case-by-case level, on the other hand, can achieve a significant reduction of risks, thereby supporting financial stability and legal certainty.

Revised sustainability package contributes to financial stability

In 2017, the OeNB and the FMA revised the supervisory guidance they had published in 2012 with the aim of strengthening the sustainability of the business models of major internationally active Austrian banks. The original guidance, also referred to as sustainability package, was designed to support a stable, local refinancing base for Austrian banks' foreign subsidiaries, strengthen parent institutions' capitalization and ensure the timely development of recovery and resolution plans.

These objectives have been accomplished. The sustainability package has successfully strengthened financial stability in Austria without weakening subsidiaries' lending activities. Now that legal and institutional conditions have changed – not least through the establishment of the banking union as well as the implementation of a resolution regime and macroprudential capital buffers – capital requirements as well as recovery and resolution planning were dropped from the sustainability package. However, the monitoring of foreign subsidiaries' stable local funding will continue to play a

key role in preventing excessive credit growth and maintaining financial stability. The OeNB's ongoing analysis confirms that Austrian CESEE subsidiaries have a more balanced funding base now. In September 2017, the loan-to-deposit ratio stood at 80%, compared with 106% in 2011.

Shortfall

In foreign currency lending, shortfall is the difference between the outstanding loan amount in euro and the forecast value of the repayment vehicle upon maturity.

Expansion of macroprudential toolkit to cover real estate financing increases supervisors' scope for action

On June 29, 2017, the Austrian parliament adopted a bill establishing the legal basis for using macroprudential tools for containing systemic risks in real estate financing, responding to calls for such a bill by both the OeNB and the FMSB as well as international institutions, including the IMF, the ECB and the European Systemic Risk Board (ESRB). The toolkit, which was enacted in Article 22b Austrian Banking Act, enables supervisors to prescribe minimum requirements for lending standards in terms of loan-to-value ratios, debt service-to-income ratios and debt-to-income ratios or loan maturities. The FMA will be able to activate these instruments from July 1, 2018, at the earliest. They can be applied to new lending, either individually or combined. Also, it will be possible to impose additional restrictions or apply the measures in a differentiated manner (in terms of scope, exemptions, materiality thresholds). In passing the bill, the legislator had followed the FMSB's advice to the Federal Minister of Finance issued in June 2016 on the initiative of the OeNB. The OeNB supported the Federal Ministry of Finance in developing the specifics of the bill to contribute to its speedy adoption. The comprehensive macroprudential toolkit makes it possible to take preventive action tailored to the nature and level of systemic risk. The aim of this approach is to ensure that the quality of outstanding loans will not deteriorate in the long run because of weaker lending standards.

⁸ The first version of the FMA Minimum Standards was published in October 2003. The standards were expanded and amended in 2010 and 2013.

Five FAQs on macroprudential tools for addressing risks in residential property financing in Austria

Why are real estate bubbles dangerous?

The bursting of credit-driven real estate price bubbles and widespread mortgage defaults may trigger far-reaching negative consequences for the financial and real sectors of a country because large portions of banks' balance sheets are linked to real estate (which often serves as collateral). In the past, overvalued residential property markets, loose lending standards and high debt levels among borrowers in, e.g., Ireland, Spain, Sweden or the U.S.A. triggered financial crises, which in turn had far-reaching consequences for the real economy.

What's the OeNB's assessment of the current situation in Austria?

Residential property prices increased markedly in Austria in the past years after having remained broadly stable for a long time (unlike in a number of other EU countries). In 2017, however, price growth slowed down considerably in Vienna, where prices had been rising most strongly and valuations are higher than in the rest of Austria. When assessing residential property price growth in Vienna, the important roles of subsidized housing and the rental market must also be taken into account. At the moment, the OeNB does not see clear signs of excessive lending driving residential property prices, nor of significantly weakened lending standards that might cause systemic risk. The results of an OeNB survey on new mortgage lending indicate that while risks are increasing in certain areas, the majority of new lending is in line with sustainable lending standards. Current developments confirm that there is an ongoing need for deep and comprehensive analysis and work on improving data availability.

Who can do what to reduce risks in real estate financing?

The FMSB may recommend that the FMA as the competent macroprudential authority make use of macroprudential instruments in real estate financing. This recommendation would be issued on the basis of an analysis conducted by the OeNB. This means that the FMA may prescribe minimum requirements for lending standards, e.g. loan-to-value ratios, debt service-to-income ratios, debt-to-income ratios and loan maturities. These instruments may only be applied if supervisors have identified systemic risks in real estate financing, especially risks arising from unsustainable real estate lending standards. The FMA may use these instruments from July 1, 2018, on. In addition, there are instruments that directly apply to banks and their capitalization (including higher capital buffers, higher risk weights).

What has been done in Austria to address potential dangers?

The OeNB has been conducting analytical work on the residential property market and real estate financing in Austria for years. More than once, it has pointed out risks in connection with foreign currency loans and loans linked to repayment vehicles (mostly taken out to fund residential property) and, together with the FMA, successfully addressed these risks.

In June 2016, the FMSB recommended that the necessary legal basis for applying macroprudential tools in real estate lending be created as a preventive step to ensure that macroprudential supervision can take targeted action also in times of rising systemic risks. This recommendation was based on OeNB analyses. Then, in September 2016, the FMSB underlined the importance of banks ensuring sustainable lending standards in real estate financing, in particular conservative loan-to-value ratios and debt levels that are in line with borrowers' capacity to pay back their loans also under stress scenarios. Parliament adopted the bills providing the legal basis for these instruments on June 29, 2017. In addition, the OeNB also promoted sustainable lending in real estate financing (in Austria and in CESEE) in its publications (like, for instance, its Financial Stability Report).

What is the objective of macroprudential supervision regarding systemic risks in real estate financing?

The main objective of macroprudential supervision is to strengthen financial stability, especially by enhancing banks' risk-bearing capacity. In real estate financing in particular, it is crucial to prevent an excessive loosening of lending standards, not least to (indirectly) reinforce borrowers' risk-bearing capacity. The new (borrower-based) tools are designed to reduce borrowers' probability of default and to contain losses in the event of loan defaults in order to limit negative consequences for households and banks. The tools that have a direct impact on banks' capitalization, such as higher risk-weighted assets, aim at enhancing banks' risk-bearing capacity.

The OeNB again conducted a survey on mortgage lending among selected banks in 2017. The results showed that risks had risen in some areas whereas the majority of loans had been made on the basis of sustainable lending standards. The OeNB also made various efforts to further improve the availability of data on real estate financing and to establish a reporting system that reflects the legal requirements in cooperation with the FMA. Moreover, the OeNB took several measures to step up its dialogue with market participants.

At the moment, the OeNB does not see the need to make use of macroprudential tools to limit systemic risks in connection with residential property financing. With a view to long-term stability, however, the OeNB remains convinced that compliance with sustainable lending standards in real estate financing is necessary to prevent the buildup of systemic risks. The OeNB will continue to closely monitor the sustainability of lending standards and, if necessary, recommend to the FMSB to further specify its relevant communication of September 2016⁹ and/or take necessary measures.

OeNB performs essential role in supervising Austrian banks**OeNB plays integral part in European banking supervision**

Given the decentralized nature of the Single Supervisory Mechanism (SSM), the OeNB still

has far-reaching responsibilities in banking supervision. Together with the FMA, it continues to be in charge of most supervisory activities in Austria. The SSM became operational on November 4, 2014. The ECB is responsible for the direct supervision of currently 119 significant institutions (SIs), with the national supervisory authorities providing major support in ongoing supervision; this cooperation mainly takes place in the form of joint supervisory teams (JSTs). The supervision of less significant institutions (LSIs) falls under the purview of the national competent authorities (NCAs). The extent of oversight of LSIs is guided by the principle of proportionality. This decentralized approach to supervision in the euro area has proved a success so far. Internationally active banks are subject to harmonized supervision, which is particularly advantageous to smaller countries – like Austria – with large, cross-border banks. In a review, the European Commission found that the decentralized supervisory regime in the euro area had made good progress.

The 119 banks currently classified as significant under the SSM¹⁰ account for about 85% of euro area banks' total assets. This group includes seven Austrian banking

Loan-to-value, debt-to-income and debt service-to-income ratios

The loan-to-value ratio expresses the relation between the loan amount and the value of collateral (e.g. real estate). The debt-to-income ratio indicates the overall level of debt in relation to a borrower's income. The debt service-to-income ratio reflects the share of income a borrower needs to service their debt. Minimum requirements help prevent imprudent lending.

⁹ In September 2016, the FMSB underlined the importance of banks complying with sustainable lending standards in real estate financing; in particular, banks were called upon to apply conservative loan-to-value ratios and to ensure that debt levels are in line with borrowers' capacity to pay back their loans also under stress scenarios.

¹⁰ As on December 5, 2017. See the ECB's website for an up-to-date list of supervised entities.

groups,¹¹ whose assets together amount to almost 55% of domestic banks' consolidated assets.¹²

The OeNB actively contributes its expertise and experience to ongoing work under the SSM. In various areas, analytical methods and instruments developed by the OeNB are being used (e.g. tools to evaluate recovery plans and to assess capital and liquidity adequacy on the basis of ICAAP/ILAAP, interest rate risk proxies). Furthermore, the OeNB takes part in cross-border on-site inspections of foreign banking groups and is actively involved in working groups and current SSM projects, such as the targeted review of internal models (TRIM) project. The latter seeks to assess whether internal models used by banks comply with regulatory requirements, to establish harmonized supervisory methodologies and to reduce unjustified variability in capital requirements. The overall objective of TRIM is to create a level playing field for banks under the SSM.

In September 2017, the OeNB published a comprehensive report on its supervisory priorities and the main results of its supervisory work (available in German only).

Supervisory priorities

Supervisory review and evaluation process (SREP)

The annual supervisory review and evaluation process (SREP) is one of the core activities of supervision. During this process, supervisors review and assess a bank's business model, its underlying risk management framework and its capital and liquidity adequacy. The SREP decision resulting from this assessment reflects the bank's individual risk profile and the minimum capital it has to hold to adequately cover its risks. The capital requirements applicable to

Austria's SIs in 2018 are, on average, broadly unchanged from the previous year.

Together with the national supervisory authorities, the ECB has developed a SREP methodology for SIs with the aim of ensuring harmonized supervisory processes and a level playing field. A similar methodology has been drawn up for LSIs; it is set to incorporate proportionality elements and will be phased in from 2018 on. Depending on an LSI's priority categorization, the SREP may vary in terms of frequency (annual, every two/three years), scope and level of detail. In Austria, all LSIs (with the exception of local Raiffeisen banks¹³) are subject to annual SREPs. So far, the OeNB has completed SREP analyses for 25 LSIs.

Reduction of nonperforming loans in European banking system

High stocks of nonperforming loans (NPLs) remain one of the key challenges of banking supervision in Europe. In the euro area, EUR 759 billion or 5.15% of total outstanding loans are currently considered to be nonperforming. In Austria, the NPL ratio stands at 4.18%,¹⁴ which is to a large part attributable to nonperforming exposures in CESEE. The ECB published a guidance to banks on nonperforming loans in March 2017, calling on significant institutions to proceed with resolve with the reduction of NPLs. In fall, the ECB also submitted a draft addendum to this guidance for consultation.¹⁵ This draft specified supervisory expectations regarding prudential provisioning for new NPLs classified as such from 2018 on. The final version of this addendum was published in March 2018. The European Banking Authority (EBA) plans to make this SSM guidance

¹¹ Erste Group Bank AG, Raiffeisen Bank International AG, Promontoria Sacher Holding N.V. ("BAWAG P.S.K."), Raiffeisenbankengruppe OÖ Verbund eGen, VolksbankWien AG, Sberbank Europe AG, VTB Bank (Austria) AG. Raiffeisen-Holding NÖ-Wien ceased to be classified as significant at end-2017 because it had remained below the criterion relating to size – total assets of at least EUR 30 billion – for three consecutive years.

¹² Factoring in UniCredit Bank Austria AG, which is covered by the SSM through its Italian parent, raises this figure to 65%.

¹³ See also the section "Increasing complexity of banking regulation calls for more proportionality."

¹⁴ The data are based on the results of the third quarter of 2017 and refer to SIs.

¹⁵ The consultation period ended on December 8, 2017.

legally binding for all banks in the EU in the course of 2018.

OeNB 2017 stress test

In line with its financial supervision and stability mandate, the OeNB conducts stress tests for all Austrian banks every year. The 2017 OeNB stress test showed that overall, domestic banks have made progress in strengthening their risk-bearing capacity, but they still have some way to go when it comes to sustainably enhancing operational efficiency and reinforcing capitalization, in particular given the low interest rate environment, technological change and increased competition. The stress test looked at the impact of two different scenarios on banks' capital levels. In the baseline scenario, which assumes normal economic developments, banks' aggregate common equity tier 1 (CET1) ratio improved to 15.3% from 14.7% over a period of three years. In the adverse scenario, by contrast, a significant deterioration in economic developments went hand in hand with a 3.9 percentage point decrease in the CET1 ratio to 11.8%.

Other tasks

The OeNB is the competent authority for payment systems oversight in Austria. At present, the cybersecurity of financial market infrastructures (FMIs) is one of the key oversight priorities in Europe and therefore also in Austria. A number of initiatives for improving Austrian FMIs' resilience toward cyberattacks have been launched. At the national level, the OeNB focused its activities on the security of Internet payments. One of the major achievements in this area was the transition to the use of dynamic – i.e. nonreusable – passwords in many applications.

Bank resolution in Austria is governed by the Bank Recovery and Resolution Directive (BRRD) and the Bank Recovery and Resolution Act (BaSAG), by which the BRRD was

enacted in national law. According to the BaSAG, the FMA is the competent resolution authority, with the OeNB providing essential support – mirroring the dual supervisory regime. The main tasks of the OeNB include preparing information and providing the basis for decisions in connection with resolution plans and economic analyses in relation to the resolution of credit institutions. Furthermore, the OeNB regularly conducts impact analyses to gauge the effects of decisions in resolution planning on both the credit institution in question and financial stability.

New developments in regulation

European banking sector legislation

In November 2016, the European Commission presented a comprehensive legislative package to largely complete the regulatory agenda proposed in response to the financial crisis. This set of measures includes changes in supervision, e.g. capital requirements,¹⁶ and revisions of legislation for resolution. The legislative proposals were submitted both to the European Council and the European Parliament. The political negotiations in the trilogue meetings (of the European Commission, the European Council and the European Parliament) are expected to start under the Bulgarian presidency of the EU Council in the first half of 2018 and to be concluded under the Austrian presidency in the second half of the year. Austria attaches particular importance to the following topics: proportionality, credibility and feasibility of the supervisory review process, cooperation between supervisory and resolution authorities (e.g. as regards the minimum requirement for own funds and eligible liabilities – MREL) and workable legal provisions for the supervision of financial holding companies.

Two dossiers of the legislative package were fast-tracked and adopted already in 2017: First, a new debt class (non-preferred senior debt) was created to establish harmonized European provisions on the position of certain unsecured

¹⁶ *Capital Requirements Directive (CRD), Capital Requirements Regulation (CRR).*

debt instruments in the insolvency hierarchy of credit institutions, and, hence, certainty about the treatment of subordinate debt. And second, the application of the accounting standard IFRS 9 on the classification and valuation of financial instruments (replacing IAS 39) became mandatory on January 1, 2018. This means that expected credit losses must now be recognized in the balance sheet at a much earlier stage. A transitional arrangement¹⁷ was put in place to limit the impact of the new accounting rules on regulatory capital, allowing banks over a five-year period to include in their CET1 capital specified percentages of the increased expected credit loss provisions.

Increasing complexity of banking regulation calls for more proportionality

Proportionality, if understood correctly, means that the degree of regulation reflects a business model's riskiness. Austria's banking sector is very diverse, with some large institutions (with a low degree of concentration, by international standards) and many small institutions. The majority of small banks (437 institutions¹⁸) have total assets of less than EUR 500 million. Against this background, the OeNB has looked into the question of how the principle of proportionality could be applied more broadly to the regulation of very small banks with simple, low-risk business models. The conditions under which the regulatory burden could be reduced in line with the principle of proportionality should be laid down in an EU regulation or directive with binding legal effect. For instance, small and less complex institutions should see an easing of requirements under pillar 2 (supervisory review process) and pillar 3 (market

discipline/disclosure requirements). There are also proposals to simplify reporting and monitoring requirements, which include, for instance, the reduction of the scope and level of detail of recovery and resolution plans and remuneration rules. Eventually, the banks concerned should be relieved of some of their regulatory burden.

Concluding the reforms of Basel III

The 2010 capital framework developed by the Basel Committee on Banking Supervision (BCBS) has been subject to a comprehensive revision over the past few years. The aim of "Basel III" is to make the framework simpler but also more responsive to risk and to increase the comparability of capital measures.¹⁹ However, above all protracted discussions about the redesign of the capital floor framework (output floor) for banks that use internal models caused a one-year delay in the completion of the revision, which had originally been scheduled for end-2016.²⁰ For banks using internal models, the agreement achieved in December 2017 establishes an output floor of 72.5% of the capital charge calculated on the basis of the standard model. This implies that the advantages of internal model-based approaches remain limited. Austrian banks are affected by this rule only to a moderate extent because the majority of banks use the standardized approach to calculate adequate capital charges for credit risk, and larger banks that use the internal ratings-based approach²¹ have a comparatively high RWA density²². A reliable assessment of the implications of the Basel III reforms for Austrian banks can be made only after the EBA has completed a quantitative impact study (QIS). The QIS is set to be launched in the first quarter of 2018.

¹⁷ Regulation on transitional arrangements for mitigating the impact of the introduction of IFRS 9.

¹⁸ As on February 1, 2018.

¹⁹ The Basel capital and liquidity standards have been implemented in EU law through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). Both have been applicable since January 1, 2014.

²⁰ By end-2016, the BCBS had reached an agreement on the revision of the standardized approach for credit risk, the internal ratings-based approach and the new standardized approach for operational risk.

²¹ In principle, there are two ways for banks to calculate their capital charges: the standardized approach or the internal ratings-based (IRB) approach.

²² The RWA density is the ratio of risk-weighted assets (RWA) to total assets.

The revised standards will be applicable only from 2022 on, with longer transitional arrangements for some rules. The recommendations of the BCBS are yet to be implemented in European law.

Establishment of a common European deposit insurance scheme

The European Commission proposed to set up a common European deposit insurance scheme (EDIS), which will represent the third pillar of the banking union, already in 2015. In October 2017, it provided fresh impetus to the initiative by publishing a communication which

included some changes to the original proposal. Instead of implementing EDIS in three stages, as originally envisaged, the phase-in should take place in two stages (reinsurance and coinsurance), the European Commission suggested. At the final stage, the protection of bank deposits will be fully financed by EDIS through banks' contributions to a common deposit insurance fund (DIF), which is to be administered by the Single Resolution Board. The DIF amount to be built up gradually until 2024 is EUR 43 billion. The level of protection for individual depositors will remain the same as now: EUR 100,000 per depositor per bank.



Financial statistics: a key input for safeguarding price stability and financial stability

The financial events of recent years have driven home the important role that accurate and timely information about developments in financial markets and underlying patterns plays in identifying emerging crisis events and generating an effective response. Collecting and processing financial data²³ is therefore a core central banking task, as such statistics are a key input for safeguarding stable prices and sound financial markets. In this respect, the OeNB's statistics function continued to enhance the reporting framework as well as the scope of financial statistics for Austria and the euro area in 2017.

Banking statistics: integrated data model facilitates reporting

A major statistics project completed in 2017, internally known as "Start II," enhanced data management processes within the OeNB as well as reporting procedures for domestic reporting agents. As evidenced by the financial crisis, it is difficult to say at a given point in time what kind of data may be relevant for policymaking in future. This uncertainty prompted the establishment of a common reporting platform for the Austrian banking industry ("AuRep") and, with input from the banking industry, the development of a new OeNB data model that allows for quick and easy integration of new reporting features.

The new data model is a multidimensional framework that provides for an integrated approach and covers a wide range of statistical data requirements. It eliminates redundancy and maximizes the consistency of data output. Essentially, banks feed granular data into a "basic cube" and generate their reports by retrieving from this cube whatever data may be relevant for reporting purposes. A key asset for banks is that they may also use the new framework for their internal reporting procedures, which at

the same time means that the OeNB and the banking industry actually work with the same data.

Data processing was streamlined with the roll-out of a uniform state-of-the-art IT system, and reporting and data retrieval processes were improved with the implementation of a one-stop shop system. Following the implementation of a securities smart cube in 2017, which replaces the existing reporting framework for the securities issues statistics, the OeNB is now in a position to generate "smart cube" monetary and supervisory statistics as well as interest rate statistics for onward transmission to the ECB. Likewise, the new data model serves to derive statistics from the supervisory financial information reported by banks at solo level ("FINREP solo"). The new IT system ensures compliance with all regulatory and supervisory requirements that emerged during the project stage, including the Basel III standards and new reporting requirements defined by the ECB, the ESRB and the EBA.

Continued implementation of new requirements

The common reporting (COREP) and the financial reporting (FINREP) frameworks developed

AuRep

Austrian Reporting Services GmbH, AuRep for short, develops and operates a common reporting platform, which is used by most Austrian banks. This platform supports banks in meeting the OeNB's latest "smart cube" reporting requirements as well as in generating their reports based on common reporting frameworks.

Reporting cubes

The cornerstone of the data reporting model is a multidimensional data matrix ("basic cube") which links up data points on individual transactions as well as a wide variety of related data attributes. Banks can use the data included in the basic cube plus additional indicators to build "smart cubes," i.e. extract the reports they are required to submit (as laid down, e.g., in the Austrian Banking Act, the Exchange Control Act, ECB regulations and EBA implementing technical standards). Smart cube reports can be generated, inter alia, for securities, loans, deposits and general ledger accounts.

FINREP solo

Detailed report of unconsolidated financial information based on national accounting standards (including numerous IFRS-based items).

²³ This function compiles supervisory and monetary statistics, external statistics and financial account statistics; manages the related data reporting process; and monitors compliance with minimum reserve requirements.

by the EBA were further revised in 2017. At the same time, new requirements were defined for significant international secondary statistics, in particular for the country risk statistics compiled by the BIS and the consolidated banking statistics compiled by the ECB as well as the financial soundness indicators published by the IMF. As to insurance statistics required by the ECB, the reporting requirement has been broadened to include also annual data in line with the Solvency II regime.

Beyond the regular statistical reporting schedule, a number of data are collected for supervisory purposes in ad hoc surveys. In 2017, such surveys were conducted, inter alia, for quantitative impact studies of the EBA, detailed data collection exercises of the SSM, the OeNB's mortgage lending survey as well as in response to requests for assessment of resolution strategies and resolution plans developed by the FMA as the designated resolution authority or the SRB.

OeNB supports ECB initiatives for monetary and supervisory statistics

The OeNB cooperates closely with the ECB and other ESCB central banks in order to harmonize the collection, storage and documentation of data needed to provide statistics at the European level in line with an integrated approach. The long-term goal is to organize all ECB and EBA data requirements vis-à-vis banks in the EU in a European Reporting Framework

ERF and BIRD

The idea behind the European Reporting Framework (ERF), which is currently work in progress, is to develop a single comprehensive and harmonized reporting framework for banks based in EU countries that is to be applied consistently across countries and sectors. A parallel initiative, entitled BIRD (Banks' Integrated Reporting Dictionary), is to compile a database of definitions, based on a harmonized data model, to support reporting agents in streamlining and harmonizing their data management. This initiative is aimed at alleviating the reporting burden on banks and improving the quality of data reported to the authorities.

(ERF), with a view to ensuring data integration and consistency across countries and across sectors. The uniform ERF framework is meant to replace the national reporting requirements. Together with representatives from the financial industry, work is ongoing on developing uniform definitions, modeled on the integrated data model

used in Austria, for the data to be reported by reporting agents (Banks' Integrated Reporting Dictionary – BIRD) as well as for all reports to be produced on the basis of such data (Single Data Dictionary – SDD).

Preparations for implementing AnaCredit

From the fall of 2018 onward, banks based in the euro area will have to report to their national central banks “analytical credit datasets” (AnaCredit) on individual credit exposures exceeding EUR 25,000 to all corporate legal persons and partnerships (including credit lines). AnaCredit serves to build a European credit register, the purpose of which is to enhance banks' credit risk management and improve the monitoring of risks to financial stability. Ultimately, this will help increase the resilience of the international financial architecture. The OeNB's statistical function has been gearing up for the implementation of AnaCredit and has also played a central role in managing the working group established for that purpose at the ECB.

Improved credit assessment of nonfinancial corporations

The Deutsche Bundesbank and the OeNB jointly operate a single platform called Common Credit Assessment System (CoCAS) for conducting credit assessments of enterprises. Such information is important because, subject to the respective eligibility criteria, euro area banks may obtain central bank liquidity and overnight loans from the Eurosystem against eligible assets, including loans to nonfinancial corporations. In 2017, the CoCAS expert analysis process was revised, and the underlying technical procedures were adjusted. The framework for monitoring compliance with the Eurosystem eligibility criteria (inhouse credit assessment system – ICAS) was also enhanced in 2017. The relevant ESCB working group is now chaired by an OeNB representative.

G-20 initiative for producing sectoral national accounts

A key priority under the G-20 Data Gaps Initiative, launched in 2009 with a view to closing information gaps highlighted by the crisis, is to disseminate financial accounts data in such a way that the data shed light on the sectoral composition of assets and liabilities and on the from-whom-to-whom relationships. While not being a G-20 country, Austria already meets the major requirements arising from this initiative. In this respect, Statistics Austria is in charge of the nonfinancial accounts, whereas the OeNB publishes the financial flow and stock accounts for all institutional sectors. The OeNB also provides from-whom-to-whom data on selected financial instruments and aggregates on its website.

Greater consistency of national accounts aggregates with the balance of payments thanks to closer cooperation between OeNB and Statistics Austria

The balance of payments data published by the OeNB for 2014, 2015 and 2016 have been updated to reflect all revisions arising from the

latest input-output calculations of Statistics Austria. Statistics Austria, in turn, relies on the OeNB's asset income figures for calculating the gross national income. Reconciling and revising the data is an integral part of the aggregation exercises made each September. These harmonization measures are meant to ensure full consistency between the major nonfinancial and financial macroeconomic aggregates.

Financial statistics to keep the public informed

The OeNB considers reliable economic and financial statistics to be an essential public good. Therefore, the OeNB is committed to making the statistical information it publishes readily accessible to its audiences. OeNB staff field data inquiries and provide guidance on the available financial statistics. Positive feedback and an excellent media response are an incentive for the OeNB to keep enhancing its statistical products and services. In this respect, particular efforts were made in 2017 to contribute to the publication of open government data at www.data.gv.at.



Issuance of the fourth banknote of the Europa series and new developments in the Eurosystem's market infrastructure for payments and securities settlement

The OeNB's role in the cash cycle

In cooperation with its branch offices and subsidiaries, the OeNB ensures the efficient supply of secure banknotes and coins. This core task covers all stages of the cash cycle, from planning and production to provision, including safe storage and adequate stockholding. The OeNB is thus a key player in the Austrian cash cycle.

Given its vast experience in domestic cash handling and the international importance of the euro, the OeNB has established itself as a cash supply hub reaching beyond Austria's borders. Since a number of Austrian banks are active in CESEE countries where the euro, while not being the official currency, is widely used as a means of payment and store of value, the OeNB has become an important partner for these countries.

Distribution of the new EUR 50 banknote

The fourth euro banknote of the Europa series entered into circulation on April 4, 2017. The new EUR 50 banknote features modern design elements and contains enhanced security features. Accounting for almost half (46%) of all euro banknotes in circulation, the EUR 50 banknote is the most widely used denomination in the euro area. To meet this demand, 9.5 billion EUR 50 banknotes of the Europa series were produced and distributed among the individual euro area NCBs. The euro banknotes of the first series will be gradually withdrawn from circulation until the remaining stocks have been used up.

The banknotes of the first series will always retain their value: they can be exchanged free of charge at all euro area NCBs for an unlimited period of time. The date when euro banknotes

of the first series cease to be legal tender will be announced well in advance.

Like the EUR 5, EUR 10 and EUR 20 banknotes of the Europa series, the new EUR 50 banknote carries enhanced security features to prevent counterfeiting. A highly innovative feature, for instance, is the transparent portrait window, which was first used on the EUR 20 banknote of the Europa series. The last denominations of the Europa series, namely the EUR 100 and EUR 200 banknotes, will be launched together in the first half of 2019.

The ECB has decided to stop producing the EUR 500 banknote and to exclude it from the Europa series. The EUR 500 banknotes of the first series that are still in circulation will remain legal tender and can be exchanged for an unlimited period of time at all euro area NCBs. They may thus be used as a means of payment and a store of value also in the future.

Austrian schilling banknotes with exchange deadlines

Austrian schilling banknotes that ceased to be legal tender before the introduction of the euro may be exchanged into euro at the OeNB until their 20-year exchange deadlines expire. The exchange deadline for the ATS 500 banknote "Otto Wagner" and the ATS 1,000 banknote "Erwin Schrödinger" will expire on April 20, 2018; after that, both banknotes will cease to be valid. At end-2017, these two banknotes accounted for a share of ATS 1.5 billion (around EUR 109 million) in total Austrian schilling banknotes outstanding, worth ATS 8.5 billion (EUR 616.9 million). Any other outstanding Austrian schilling banknotes that belong to the last series of Austrian schilling banknotes may be exchanged for an unlimited period of time.



ATS 500 – Otto Wagner



ATS 1,000 – Erwin Schrödinger

Demand for cash remains high

At end-2017, the total value of euro cash, i.e. banknotes and coins, in circulation came to EUR 1,198.7 billion, up 4% against the previous year. Cash continues to be an important means of payment in the euro area despite the ongoing media debate about abolishing banknotes and coins. The steady rise in demand for euro cash does, however, also reflect the increasing role of the euro as a store of value. A current ECB study²⁴ estimates that, in terms of value, around one-third of euro banknotes in circulation are held outside the euro area.

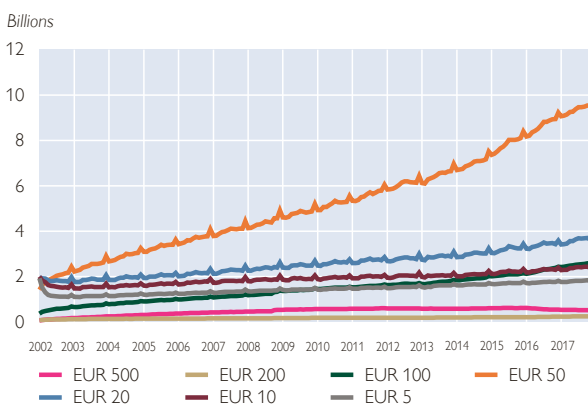
Chart 19 shows the development of euro cash demand broken down by denominations. The low and medium denominations, which are usually the denominations dispensed by cash machines, are used most often in everyday transactions. With 9.8 billion banknotes in circulation at end-2017, the EUR 50 banknote in particular has become significantly more important in the euro area and is currently the most widely used denomination. It is used both for everyday payments and for hoarding purposes.

Since the introduction of maximum limits for cash payments in some euro area countries, demand for EUR 500 banknotes has been on the decrease. This trend was amplified when the Governing Council of the ECB decided to stop producing EUR 500 banknotes. In turn, the EUR 100 banknote as well as the EUR 200 and EUR 50 banknotes have become more sought after.

As it is not possible to collect exact data on banknote circulation in the individual countries of the single currency area, the OeNB bases its estimations of the circulation of euro banknotes in Austria on data on the amounts initially put into circulation by the OeNB and later lodged with the OeNB, on the velocity of circulation and on amounts processed by cash handlers other than the OeNB or the GSA as well as data reported by banknote wholesalers. The OeNB currently estimates the value of euro banknotes in circulation in Austria at around EUR 29.6 billion²⁵.

Chart 19

Total euro banknotes in circulation by denomination



Source: OeNB, ECB.

²⁴ See ECB. 2017. Estimation of euro currency in circulation outside the euro area. April.

²⁵ The estimated value of euro banknotes in circulation differs from the value of banknotes in circulation recognized in the balance sheet, which is calculated on the basis of the ECB's capital key. In addition, the estimated value takes national particularities in payment behavior into account.

High quality of banknotes and few incidences of counterfeit banknotes are key in building public confidence

In cooperation with the GSA, the OeNB processes lodged banknotes and recirculates them if they pass authentication and fitness checks. As a result, counterfeit euro banknotes can be withdrawn from circulation quickly and efficiently. This way, the OeNB ensures the high quality of euro cash in circulation and contributes essentially to cash security in Austria.

In 2017, the OeNB and the GSA delivered a total of 1.47 billion banknotes to banks and processed 1.69 billion banknotes returned from circulation. The number of banknotes processed annually by the OeNB and the GSA increased significantly in 2017 (see chart 20) after having gone down slightly in the period from 2014 to 2016. This decrease had reflected a rise in the number of cash recycling machines operated by cash handlers other than the OeNB. While the number of these machines continued to rise in 2017, the number of processed banknotes remained more or less at the level observed in 2016. Therefore, the 2017 increase in euro banknotes in circulation was mainly reflected in the number of banknotes lodged with the OeNB or the GSA.

Cash handlers in Austria must report data to the OeNB on a regular basis to ensure that

they meet the provisions on the processing and recirculation of cash by cash handlers other than the OeNB. In addition, on-site inspections were stepped up in 2017.

Professional cash handlers
Cash handlers within the meaning of laws and regulations are primarily credit institutions, bureaux de change and cash-in-transit companies, as well as traders and casinos if they are involved in sorting and issuing cash by operating cash dispensers.

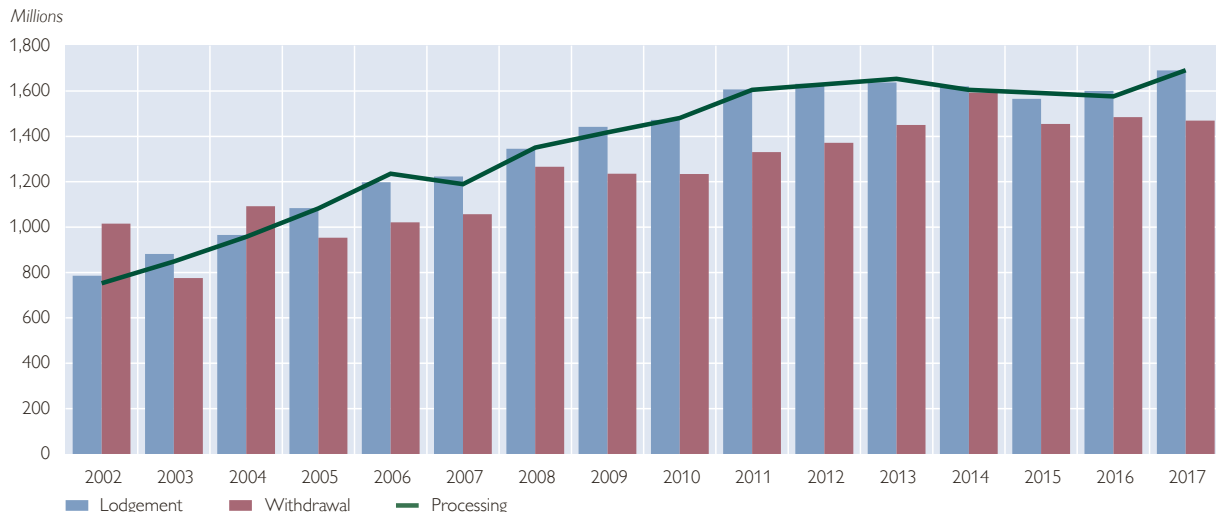
In line with ECB standards, the OeNB Test Center moreover tested banknote authentication devices, banknote counting and sorting machines as well as related innovative banknote authentication sensor technologies. This helped ensure that the necessary technical adjustments to banknote authentication devices and cash machines were completed in time for the issuance of the new EUR 50 banknotes. The related test results are published both on the OeNB's and on the ECB's websites.

Fewer incidences of counterfeiting in Austria

In 2017, a total of 9,892 counterfeit euro banknotes were recovered from circulation in Austria compared with 12,234 counterfeits in 2016 (see chart 21). This decrease is primarily attributable to the change from the first series of euro banknotes to the Europa series and to a rise in the number of counterfeits seized by the police before they even entered circulation.

Chart 20

Lodgement, withdrawal and processing of euro banknotes by the OeNB and the GSA



Source: OeNB.

Across Europe, counterfeits of the EUR 50 banknote of the first series top the list of counterfeit banknotes removed from circulation (52.5%); together with counterfeits of the EUR 20 and the EUR 100 banknotes, they accounted for 94.2% of all counterfeits recovered in Europe in 2017. The situation in Austria is very similar, with counterfeits of the EUR 50, EUR 20 and EUR 100 banknotes accounting for around 93.5% of all counterfeits recovered.

Most incidences of counterfeit banknotes in Austria (around 42%) continued to be recorded in the greater Vienna area. In 2017, the overall damage caused by counterfeits in Austria came to EUR 567,075, compared with EUR 768,515 in 2016. As in previous years, at 1.43%, Austria's share in the total volume of counterfeits recovered from circulation in the euro area remained relatively low. Most people still have only a minimal chance of coming across a counterfeit banknote in Austria. Euro banknotes can be easily checked for authenticity by using the FEEL, LOOK and TILT method, which does not require any technical equipment.

Efficient and secure payment systems for the Austrian financial market

Together with other Eurosystem providers, the OeNB offers secure and efficient high-capacity interbank payment systems for the Austrian

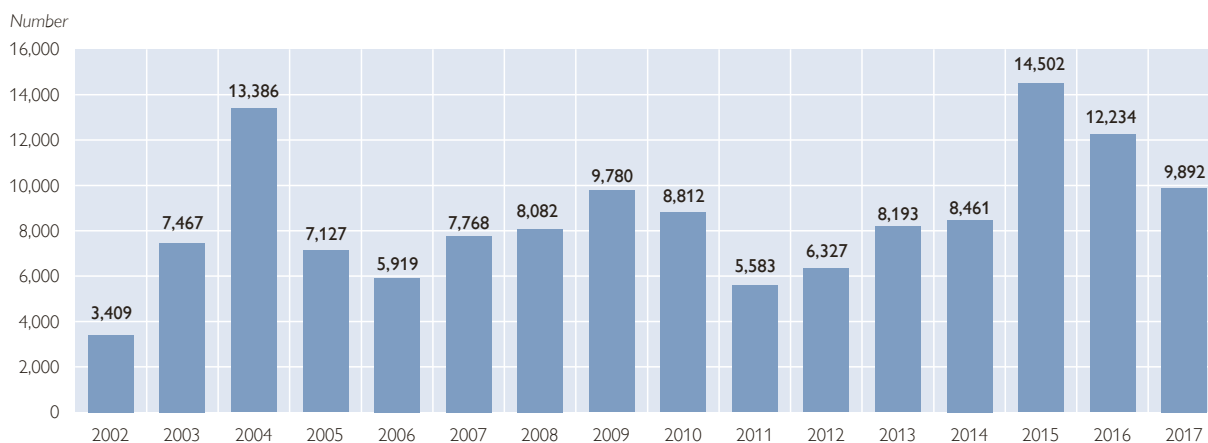
financial market. TARGET2 is the Eurosystem's payment system for the settlement of large-value payments in euro. It is used by central banks and commercial banks to settle payments in real time. The OeNB's Home Accounting Module Austria (HOAM.AT) was replaced by the Austrian Settlement & Transaction Interface (ASTI). For the Austrian financial market, around 3.4 million payment orders totaling around EUR 13,276 billion were settled via TARGET2 and HOAM.AT in 2017.

Following a four-year project phase, ASTI – the OeNB's new state-of-the-art domestic payment system – went live on January 2, 2018. With its modern and intuitive graphic user interface, the new ASTI e-account puts a convenient and secure payment settlement and liquidity management solution at users' fingertips. ASTI meets high reliability standards for the settlement of liquidity transfers, cash withdrawal and lodgement transactions as well as transactions related to the deposit facility and the marginal lending facility and for the management of minimum reserves, liquidity and collateral for clearing services transactions.

Clearing services are provided by Clearing Service Austria (CS.A), operated by Geldservice Austria (GSA), and Clearing Service International (CS.I), operated by the OeNB. Domestic interbank payments are settled via CS.A. CS.I, in turn, is used to settle cross-border interbank

Chart 21

Counterfeit euro banknotes recovered from circulation in Austria



Source: OeNB.

Cash, card or other means of payment: payment trends in the euro area

In 2016, the ECB conducted a comprehensive study in 17 euro area countries to analyze people's payment behavior. In addition, Germany and the Netherlands collected corresponding data in independent national surveys. In total, some 92,000 persons were interviewed and 198,600 payment transactions were recorded.

Respondents were asked to record their use of cash, cards and other payment instruments at points of sale (POS) in a one- or three-day payment diary, respectively. Results show that 79% of all POS transactions in terms of numbers were carried out using cash; in terms of the value of transactions, 54% of all POS transactions were conducted using cash. Accounting for more than 80% of all POS transactions, cash was found to be the most frequently used payment instrument in the southern countries of the euro area and in Germany, Austria and Slovenia. Cash was the instrument of choice for purchases under EUR 45 in particular. In Greece, Cyprus and Malta, cash was used for more than 70% of all POS transactions (in terms of value). By contrast, cash was found to be least popular in the Netherlands, Estonia and Finland, where only between 45% and 54% of all POS payments were made using cash.

These findings indicate that the use of cash at POS is still widespread in most euro area countries. It is safe to assume, however, that in countries that still lack sufficient card payment infrastructures, the use of cash will decline as payment infrastructures are being enhanced.

While the share of contactless payments in overall payment transactions is still low today, such payment methods will be increasingly embraced and will quickly become more frequent as the related technologies become more readily available. In the long run, this development might have a significant impact on the number of cash transactions (averaging EUR 12 at present), given that particularly low-value transactions – 81% of all POS transactions in Austria are below EUR 25 – are conducted using contactless cards or mobile phones.

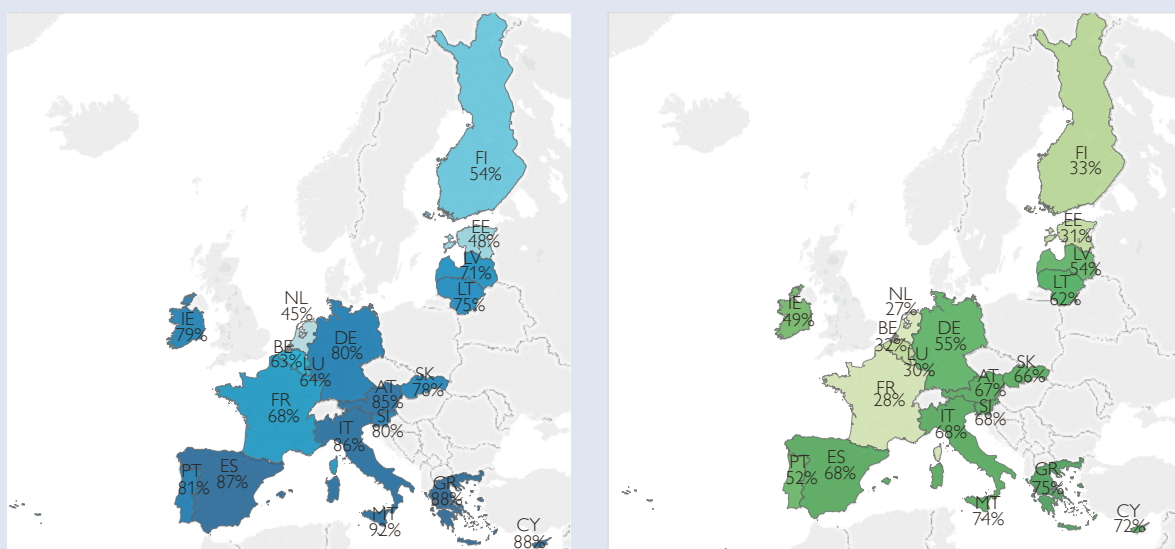
Banknotes are not only used as a means of payment, however, but also serve as a store of value. One-quarter of euro area consumers said that they stored cash (mainly higher denominations, i.e. EUR 200 and EUR 500 banknotes) at home. The results confirm OeNB observations of the past few years: while the use of cash continues to decline in favor of card payments, cash remains by far the most popular payment instrument.

Chart 22

Share of point-of-sale cash transactions by country

Number of POS transactions

Value of POS transactions



Source: ECB, Deutsche Bundesbank, De Nederlandsche Bank.

payments within Europe via the EBA STEP2 access provided by the OeNB and via cooperation agreements with other infrastructures (currently provided by Germany, Italy and the Netherlands). As of November 2018, the Eurosystem will provide a service for instant payment settlement called TIPS (TARGET instant payment settlement service), which will enable instant payments in real time and around the clock, 365 days a year.

A new legal framework for payment services

The revised Payment Services Directive (PSD2), which had entered into force on January 13, 2016, was transposed into Austrian law in the first quarter of 2018 in an amendment to the Payment Services Act (ZaDiG), which mainly provides for extending the scope of application to payment initiation services and account information services. This is intended to facilitate the market entry of new providers (also of fintechs) and increase competition. Moreover, the new legal framework will improve security in the rapidly growing e-commerce market (in particular for card and Internet payments as well as payments via mobile devices such as

TARGET instant payment settlement (TIPS) service

A Eurosystem service for commercial banks facilitating the final settlement of payments in real time in central bank money.

smartphones or tablets) and take account of the high speed of innovation in this area. The PSD2 lays down stricter security requirements (e.g. “strong customer authentication”) for electronic payments, which will apply almost invariably. These requirements are to ensure that consumers are better protected against fraud or problematic situations during payment transactions.

The Eurosystem’s Vision 2020

Central bank money

Central bank money refers to money that can only be created by central banks. Central bank money comprises sight deposits commercial banks hold with the central bank as well as currency in circulation (banknotes and coins).

Presented by the ECB in October 2015, the Eurosystem’s Vision 2020 envisages three projects whose implementation was approved by the Gov-

erning Council in 2017. First, the TARGET2 payment system and the TARGET2-Securities (T2S) securities settlement platform are to be consolidated on a single technical platform by November 2021. By doing so, the Eurosystem reacts to new market requirements identified in a series of market consultations. This major upgrade will facilitate enhanced liquidity management procedures for market participants across the Eurosystem.

The second project concerns the establishment of a common Eurosystem Collateral Management System (ECMS). The ECMS will provide a harmonized technical platform for collateral operations across the Eurosystem and will replace the systems of the 19 NCBs for those functions that can be harmonized in time for the launch of the ECMS scheduled for November 2022. Changes to the existing collateral management framework will be implemented efficiently and consistently across the euro area.

The third project, namely the development of the TARGET instant payment settlement (TIPS) service, was approved by the Governing Council in June 2017. Due to be launched in November 2018, TIPS will offer a common platform to payment service providers for settling domestic and cross-border payments in euro in real time and around the clock, 365 days a year. By providing this innovative infrastructure, the Eurosystem will contribute essentially to the integration of the euro retail payments market.

Migration to T2S completed successfully

TARGET2-Securities (T2S) is a technical platform operated by the Eurosystem enabling participating central securities depositories (CSDs) to provide integrated real-time cash and securities settlement services in central bank money according to harmonized rules as well as transparent and uniform conditions.

T2S helps overcome the previously high fragmentation in the European securities settlement infrastructure and contributes to the realization of the EU Single Market by further harmonizing the cross-border settlement of

securities, following the removal of related barriers. The European Commission's Action Plan on Building a Capital Markets Union names T2S as the technical basis for facilitating cross-border investment.

Between June 2015 and September 2017, 22 CSDs migrated to T2S in five waves, which means that migration has now been successfully completed. Settling an average of 550,000 transactions per day, T2S is today one of the world's largest securities settlement platforms. The OeNB has been offering cash accounts in T2S since the third migration wave in September 2016. Most of the Austrian financial market participants migrated to T2S in February 2017, in close cooperation with the OeNB and the Austrian CSD, i.e. OeKB CSD GmbH.

One of the T2S platform's key design features is its multi-currency capability. As of October 2018, T2S will provide settlement services for securities transactions denominated in Danish kroner.

Subsidiaries support the OeNB in fulfilling its tasks

The following companies support the OeNB in performing its core tasks in cash production, cash provision and cashless payments: Münze Österreich Aktiengesellschaft (MÜNZE), the Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS) and GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H. (GSA). These subsidiaries carry out their tasks as separate business entities. In fulfilling their mandates, the OeNB's subsidiaries continue to set great store by quality, security and cost effectiveness.

Within European monetary union, MÜNZE is the official mint of the Republic of Austria. Its exclusive right to mint coins in Austria is laid down in the provisions of the Coinage Act. In line with the prevailing legal provisions, MÜNZE meets the domestic demand for legal tender coins. In 2017, MÜNZE supplied the OeNB with a total of 244.2 million euro coins with a face value of EUR 76.1 million. In terms of technology and products, MÜNZE is an

international leader with exclusive know-how in precious metal processing and gold investment products. Complying with the main principles of its mandate, MÜNZE disposed of its minority interests in ARGOR Heraeus SA (ARGOR), the world's largest precious metal processor, in mid-2017. The holdings were sold to the Heraeus Group.

The OeBS is a global market leader in banknote printing technologies and ranks among the top innovators in terms of security printing, working e.g. on detectors for cash processing systems. Within the Eurosystem, the OeBS produces the share of annual euro banknote production volumes assigned to Austria on the basis of the OeNB's share in the ECB's capital key. In 2017, the OeBS thus produced 176.19 million EUR 100 banknotes of the first series.

Individual tasks defined in the Eurosystem's R&D strategy have been assigned to specific NCBs. The OeBS, for example, has been entrusted with performing test prints and monitoring patents in the field of prototype banknote production for the Eurosystem.

In the reporting year, the OeBS, supported by the OeNB, succeeded in setting up cooperations with Eurosystem partners after several years of negotiations. For example, the OeBS purchased a minority interest in Banque de France's banknote paper mill. Moreover, contractual foundations were laid for enhanced future technical cooperation with selected central banks operating their own banknote printing works. The OeBS will continue to pursue cooperation initiatives across Europe with a view to ensuring, and further increasing, efficiency and security in both banknote production and supply in Austria.

In addition, the OeBS fulfills important tasks in the development and production of the second series of euro banknotes, the so-called Europa series, which serves to improve banknote security significantly. The OeBS thus helps ensure that banknote producers retain their advantage over banknote counterfeiters.

The GSA, whose core tasks include cash logistics, was established as a limited liability company. The GSA's majority owner is the

OeNB, which holds a 95.34% share, with the remaining shares primarily held by stakeholder Austrian commercial banks. The successful cooperation between the OeNB and the commercial banks in their capacity as the GSA's shareholders makes it possible to realize synergies. Thus, the GSA contributes to the overall efficiency of cash supply in Austria.

Banknotes in circulation are processed in the GSA's cash centers in Vienna, Graz, Linz, Salzburg, Innsbruck, Klagenfurt and Bregenz. Banknotes are checked for authenticity and fitness and recirculated if deemed fit for circulation. In 2017, the total value of banknotes processed by the GSA came to more than EUR 102 billion.

In another field of business, the GSA operates a clearing house for the settlement of national interbank retail payments, Clearing Service Austria (CS.A). By providing this payment infrastructure, the GSA contributes to making payments in Austria more efficient and

secure. In 2017, a total of 608.7 million payment transactions were settled in CS.A.

On behalf of the OeNB, the GSA is responsible for operating Clearing Service International (CS.I), which Austrian commercial banks may use to settle cross-border payments within the Single European Payments Area (SEPA). In 2017, a total of 55.8 million payment transactions were settled in CS.I.

The real estate investment group IG-Immobilien Gruppe serves to optimally manage the OeNB's real estate investments. It is, inter alia, responsible for preserving and raising the value of OeNB real estate holdings and for optimizing current earnings on the individual properties. The premises management group BLM Betriebs-Liegenschafts-Management GmbH is in charge, in particular, of the provision of premises required or utilized by the OeNB or its subsidiaries.

Table 9 (p. 79) provides a comprehensive list of the OeNB's direct and indirect equity interests.

The OeNB – a sustainable enterprise



Modern knowledge management

Pursuing a sustainable and forward-looking strategy

The 2030 Agenda for Sustainable Development, comprising 17 global sustainability goals adopted by the United Nations, provides guidance on how to achieve economic, environmental and social development. Ultimately, together with established principles of corporate social responsibility, these goals constitute a broad decision-making framework also for the OeNB. The OeNB's commitment to sustainability and health is reflected in its strategy for 2017–2020 as well as in its day-to-day practices and processes. Thus, the OeNB has taken action to promote preventive health measures within the central bank but also supports activities beyond the central bank, such as initiatives helping refugees or fighting poverty and hunger in the world. Furthermore, the OeNB has made significant efforts to support gender equality, promote the advancement of women and ensure a sound work-life balance. Finally, the OeNB provides dedicated funding, generated by its Anniversary Fund, to promote the next generation of young scientists in Austria.

Pursuing a modern HR strategy

In the area of human resources development, the defining topic of 2017 was the issue of

mobility of OeNB staff members. At the level of the European System of Central Banks (ESCB) and the Single Supervisory Mechanism (SSM), 2017 saw the launch of the Schuman program. With more than 50 projects implemented in 2017, this program aims at promoting exchanges and enhancing knowledge sharing between the individual institutions. The OeNB advertised four projects and eventually hosted three colleagues from other central banks, whereas two OeNB staff members were seconded for projects of other Eurosystem central banks.

At the national level, the OeNB and the Austrian Financial Market Authority (FMA) established a joint initiative aimed at “Supporting mobility for the SSM.” This initiative includes training and information events on mobility and secondment options for OeNB staff members



Source: <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Table 2

Indicators of knowledge-based processes

Indicator	Unit	2014	2015	2016	2017
Process efficiency					
Certified areas	number	10	10	10	10
Entries in the OeNB's terminology database	number	21,545	21,892	22,289	22,628
Degree of automation in the procurement process	%	31	45	39	33
Error-free payment transactions	%	99.96	99.98	99.97	99.97
Staff suggestions for improvements	number	26	36	36	30
Technical infrastructure					
IT services for the ESCB/Eurosystem	number	4	4	3	3
Major IT projects	number	7	6	6	6
Mobile devices (excluding mobile phones)	number	776	800	871	911

Source: OeNB.

Note: For a definition of the indicators, see the list of indicators available at <https://www.oenb.at/en/Publications/Oesterreichische-Nationalbank/Annual-Report/Intellectual-Capital-Report.html>.

working on banking supervision, providing them with the required know-how to successfully apply for ECB positions. The numbers testify to the initiative's success: For instance, the number of staff members who completed working visits to national and international institutions has remained consistently high (see table 3).

As envisaged during the strategy review of 2016, the OeNB has furthermore evaluated and repositioned the training and development programs established for OeNB managers. The goal of this exercise was to complement the existing seminar series with new programs that reflect current challenges faced by managers and that act as a catalyst for discussion and peer learning among managers of all levels. The new programs also mirror the OeNB's commitment to support the desired cultural change.

After a successful pilot phase, the management shadowing scheme is now open to all OeNB staff members. All in all, training and continued education remain important issues at the OeNB. The average number of yearly training days per employee has remained stable at a high level, amounting to 4.1 days in 2017 despite heavy workload.

Focusing on diversity

The 2017 Diversity Day at the OeNB, one of the measures defined in the action plan for the advancement of women, invited staff members to reflect in depth on their own contribution to making diversity work at the OeNB. Moreover, the OeNB also continued to raise awareness of sexual orientation as a diversity issue: Raising

Table 3

Indicators of investment in knowledge-based capital

Indicator	Unit	2014	2015	2016	2017
Staff structure					
Full-time equivalent staff (year-end) ¹	number	1,084	1,086	1,091.8	1,100
aged up to 30 years	%	11.3	10.6	11.5	10.9
aged 31 to 40 years	%	27.6	28.1	28.4	28.3
aged 41 or older	%	61.1	61.3	60.1	60.8
Fluctuation rate	%	1.7	1.9	1.7	1.3
Share of university graduates in total staff	%	56.4	59.3	61.5	63.2
Staff-to-manager ratio	number	6.8	6.8	7.1	7
Gender management					
Share of women in total staff	%	39.1	38.5	39.5	39.1
Share of women in the specialist career track	%	37.6	37.0	35.8	33.1
Share of women in management positions	%	25.5	27.5	27.9	28.7
Flexible working arrangements					
Part-time employees	%	11.6	11.6	13.9	15.3
Staff in teleworking scheme	%	7.6	8.9	9	10
Staff on sabbatical	number	6	4	2	4
Mobility					
Participants in in-house job rotation program	number	46	42	46	39
Working visits to national and international organizations (external job rotation)	number	48	45	52	52
Working visits at the OeNB (incoming) ²	number	3	1	3	7
Interns	number	56	55	67	66
Knowledge acquisition					
Education and training days per employee (annual average)	days	3.7	4.8	4.5	4.1
Education and training participation rate (share of employees that attended at least one training event per year) ³	%	57.6	61.3	81.3	73.9

Source: OeNB.

Note: For a definition of the indicators, see the list of indicators available at <https://www.oenb.at/en/Publications/Oesterreichische-Nationalbank/Annual-Report/Intellectual-Capital-Report.html>.

¹ Figures include part-time employees on a pro rata basis.

² Including participants in the ESCB's External Work Experience and SSM trainee scheme.

³ From 2016, the calculation also takes into account half-day training events.

the rainbow flag on the OeNB building on the occasion of Vienna Pride 2017 sent a clear signal of tolerance and diversity both within and outside of the OeNB, demonstrating its strong commitment to diversity.

Working with a disability

In fulfilling its commitment to diversity management, the OeNB placed particular emphasis on the subject of employment and disability in 2017. As a stakeholder of the DisAbility Talent Program¹ that advocates a modern and confident approach to this subject, the OeNB offered eight students with disabilities the opportunity to gain practical insights into the OeNB's daily work. Moreover, the OeNB cooperates with various institutions and universities – such as Public Employment Service Austria (AMS) or Career Moves, a job platform for people with disabilities – to proactively target this group of people with the aim to generate interest for the OeNB.

With a view to accelerating efforts to meet-ing statutory obligations under the Disability Equality Act in line with the objectives formulated in the “National Action Plan on Disability 2012–2020,” the OeNB hired two persons with disabilities beyond the number of staff envisaged by the OeNB's staffing plan.

Furthermore, the OeNB meets its responsibility as a company addressing the needs of people with disabilities by setting new barrier-free standards. To this end, accessibility issues will be addressed systematically during future construction or reconstruction projects. Last but not least, the OeNB created its website and intranet, and publishes digital content, with web accessibility in mind.

Information technologies: gearing up for the future

Distributed ledger technologies and blockchain

The financial sector sees great potential in distributed ledger technologies (DLTs), particularly in blockchain technologies, as they enable, among other things, the secure and verifiable transfer of ownership from one entity to another without the need for a third-party intermediary. Together with external partners, the OeNB is working on pilot projects to accumulate know-how in order to reap the benefits of these technologies early and better understand as well as address the business and technical challenges involved. In this context, the OeNB is specifically investigating, in bilateral cooperation with another central bank, how to harness these technologies for the purpose of exchanging payment data. In multilateral cooperation within the ESCB, the OeNB is furthermore evaluating the technical implications arising from the use of blockchain technologies. These projects are carried out in a dedicated environment and run on a single shared platform to maximize synergies with other initiatives in Europe. In the course of a diploma project on blockchain technologies, the OeNB additionally cooperates with an IT training facility in Austria.

Artificial intelligence and big data

When it comes to processing large amounts of (unstructured) data, there is a wide range of technical trends that increasingly rely on big data and artificial intelligence technologies. In the near future, these trends may also become relevant to central banks in areas that have not, or only partially, been automated. The technologies

¹ The DisAbility Talent Program initiated by myAbility helps students with disabilities to connect with companies, allowing them to experience different workplaces first-hand through job shadowing opportunities.

employed in this respect (big data analytics, machine learning, web scraping, natural language recognition, bots, etc.) are highly complex and require extensive expertise in data processing in order to be applied successfully. In close cooperation with the OeNB's IT divisions, the statistical reporting function is planning to conduct a pilot project that is aimed at detecting inconsistencies in existing datasets using pattern recognition and further improving the quality of data using automated means.

Identifying and managing compliance risks across the organization

Compliance risk assessment

The OeNB started to conduct compliance risk assessments (CRAs) in 2014. The OeNB's Compliance Office updates these assessments on a

Fraud

Fraud is a collective term that refers to different types of economic crime (such as misappropriation, embezzlement, etc.).

regular basis by reviewing the entire list of risks and identifying additional risks that may have emerged. Given the increased emphasis on fraud issues both at the international and ESCB level, the OeNB's 2017 review was focused on this area.

Third-party compliance

Particular attention is paid to compliance risks that may arise from contractors. The OeNB therefore assesses compliance risks related to prospective contractors by collecting relevant data before entering into a contract. This preventive assessment includes mandatory database inquiries; furthermore, above a predefined benchmark, contractors have to sign a declaration of compliance, assuring proper conduct with regard to anti-corruption, conflicts of interest, confidentiality/data protection as well as observance of competition and antitrust law.

Risk management

Financial risk

The financial risk categories relevant to the OeNB are market, credit and market liquidity risk. Reserve asset and risk management principles are laid down in a rule book adopted by the OeNB's Governing Board. Reserve assets are invested by the OeNB's Treasury Department on the basis of a risk budget that reflects the risk limits designated by the Governing Board, as adopted by the latter on proposal of the Risk Committee. The Risk Committee monitors continuous compliance with the risk budget based on specific risk measurement systems and methods. These systems and methods serve to quantify market and credit risk, accounting for balances on revaluation accounts to the extent they may be used to absorb losses. The Risk Committee receives regular reports on risk management and in turn reports to the Governing Board. Strategies for broadening diversification to include new currencies and types of investment as well as the methods and limits used in risk measurement must be authorized by the Governing Board.

Market risk

Market risk is the risk of exposure arising from movements in markets, in particular exchange rate and interest rate changes. To account for risk budget constraints, the Investment Committee defines a strategic asset allocation framework subject to the conditions endorsed by the Governing Board, which include concentration limits for each currency and a standard conservative investment policy in line with central bank requirements. The risk budget also provides benchmarks for managing currency risk and interest rate risk. Compliance with the Treasury Department's risk budget is monitored with value at risk (VaR) calculations for market risk. The ECB calculates market risk associated with the conduct of Eurosystem monetary policy operations by using the expected shortfall (ES) as a risk measure. VaR and ES calculations are uniformly based on one-year

horizons and confidence intervals of 99%. Moreover, a three-month risk horizon is calculated in addition to the risk range.

The actual risk exposure depends on the amount of assets invested, including gold and Special Drawing Rights (SDRs), as well as on the amount of own funds and earmarked funds invested.

In addition, the OeNB makes provision commensurate to its relative share in the ECB's paid-up capital for ECB investment risk and for risks arising for the ECB from conducting single monetary policy operations.

The OeNB calculates the risk involved in real estate holdings using an index for real estate stocks that is also based on VaR calculations with a one-year horizon and a confidence interval of 99%.

Credit risk

Credit risk is the risk that a counterparty will fail to meet some or all of its obligations. In principle, the OeNB manages the credit risk arising from its own funds portfolio and related investment activities with a limit system which provides up-to-date information on all risk limits and exposures. Credit risk arising from monetary policy operations is calculated by the ECB and accounted for on a pro rata basis in OeNB risk reporting. Credit risk arising from holdings for own account and investments of own funds is calculated by the OeNB and taken into account when monitoring the use of the risk budget. All VaR and ES calculations of ECB and OeNB risk are based on a one-year horizon and a confidence interval of 99%.

Market liquidity risk

Market liquidity risk is the risk that a market may be too thin or may not be able to fully accommodate all trades, so that the securities trading volume is lower than desired and securities cannot be traded quickly enough or perhaps only at a discount. To prevent incurring market

liquidity risk, the OeNB analyzes the market liquidity of financial products, adjusts holdings to issuing volumes and limits the maximum residual maturities of transactions. Security and liquidity considerations take precedence over yield in managing assets.

Operational risk

Operational risk is the risk of incurring losses due to deficiencies or inadequacies in internal processes or systems, human errors or disruptions from external events. Management of operational risk at the OeNB is governed by the rules laid down in its Risk and Crisis Management Handbook (ORION). The OeNB is aware of its responsibility as an operator of critical infrastructure and has therefore identified current security requirements in the event of failure in the context of the “Relaunch Business Continuity Management” project conducted during 2017. These requirements are reflected in the OeNB’s contingency plans to minimize

the impact resulting from disruptive events on the OeNB’s business activities.

Information security risk

The OeNB’s IT operates an information security management system certified to ISO 27001, examining and dealing with information security risks on a systematic basis. Technical and organizational vulnerabilities are identified in line with protection requirements defined by the OeNB to ascertain whether they present a confidentiality, an integrity or availability risk. In this context, protection and security of information need to be balanced with costs and usability.

Over the past year, the OeNB has been increasingly exposed to cyber attacks (such as attempted fraud, denial-of-service attacks and hacking attacks at a technical level). Looking ahead, cyber attacks will remain a threat. The OeNB therefore aims to further enhance its resilience to information security attacks (cyber resilience) throughout the entire enterprise.

New and enhanced communication channels

Improved access to content through use of new media and new publications webpage

In fall 2017, the OeNB redesigned its publications page to improve the visibility of central bank studies, analyses and reports. As a new feature, some contributions are made available online as First View articles as soon as they are ready for publication, before being released in the corresponding series. The First View format and corresponding outreach activities enable OeNB experts to share their expertise with the media and the interested public directly and more efficiently, strengthening the OeNB's position as an economic think tank.

The OeNB uses Twitter to announce publications as well as press conferences, events and interviews, some of which can be followed via livestream. This helped, among other things, to increase the number of followers. Through its Twitter channel, the OeNB furthermore publishes press releases and job vacancies. The OeNB's website was visited most frequently via Twitter in response to news about the new EUR 50 banknote of the Europa series that the Eurosystem started to issue in April 2017.

The number of short video clips available on the OeNB's YouTube channel was increased to 86 in 2017, with the video on facts about the new EUR 50 banknote being the most-watched clip, followed by the video published on the occasion of the International Women's Day. Targeting different audiences with different communication channels enabled the OeNB to effectively share its expertise on virtual currencies, economic forecasts, interest rate developments and other topical issues of 2017.

The wide range of measures made it possible to further broaden the OeNB's outreach and strengthen public trust, as reflected in the regular OeNB Barometer survey results.

Contributing to financial literacy in Austria

Following the launch of its financial literacy platform *www.eurologisch.at* in 2015, the OeNB further expanded its range of financial literacy products. Hence, 2017 was also characterized by various activities and innovations: Since September, the quarterly "Eurologisch" newsletter has kept teachers – the main target group – informed about the OeNB's current topics and offers. A section termed "In 2.000 Zeichen" (In 2,000 characters), for instance, serves to make complex issues accessible. An OeNB Round Table on financial literacy, launched in 2016, continues to bring together representatives of non-commercial institutions twice a year and has since become an important platform for connecting different financial literacy stakeholders.

As a full member of the OECD's International Network on Financial Education (OECD/INFE), the OeNB contributes substantially to establishing financial education at the international level. Since 2017, the OeNB has done so, inter alia, in its capacity as co-leader of the "Digital Financial Literacy" working group. In the Financial Core Competencies for Austria (FINCCA) project, the OeNB has partnered with the Vienna University of Economics and Business to analyze curricula as well as school books used for economy-related subjects, comparing and contrasting them with the core competencies defined by the OECD/INFE. The aim of this project is to develop core competencies in financial education that cater to Austria's specific needs.

As a further financial literacy initiative, the OeNB produced short radio broadcasts in cooperation with the Austrian radio station Ö3. Thus, when listening to traffic news in the run-up to Christmas, radio listeners received bits of advice on how to handle money responsibly.

In August, the OeNB's Money Museum opened the special exhibition "Storylines of money." Overall, the Money Museum team hosted 369 guided tours and workshops in 2017. Highlights included the opening party of the "Holiday Game" organized in cooperation with wienXtra in Vienna's Danube Park, where 950 people visited the Money Museum's stand. Moreover, the annual Museum Night organized by the Austrian Broadcasting Corporation ORF proved to be a big success for the Money Museum, drawing around 1,300 visitors. Finally, the "Samm-lung Leypold," one of the most outstanding Austrian collections of ancient coins, was physically transferred to the Money Museum in 2017.

Supporting knowledge exchange

Joint Vienna Institute turns 25

On the occasion of its 25th anniversary, the Joint Vienna Institute (JVI) hosted a conference on "Globalization, Technology, and Life-long Learning" in June 2017, bringing together numerous renowned guests from various countries. The positive feedback underscored the JVI's success story as well as its sustained importance for strengthening Vienna's reputation as an ideal location for international organizations and a key information hub for Central, Eastern and Southeastern Europe (CESEE). The Institute is co-sponsored by the Austrian Federal Ministry of Finance, the International Monetary Fund (IMF) and the OeNB; other stakeholders include the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the International Bank for Reconstruction and Development (IBRD), the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO).

Since its foundation in 1992, the JVI has trained nearly 41,500 course participants. In 2017, as many as 115 training weeks were completed at the JVI. The OeNB designed and offered nine training courses for central bank/public sector officials working in the following

areas: supervision and financial stability, stress tests, European integration, international cooperation, cash and payment systems, financial literacy as well as translation and terminology management. Some of these courses were offered in cooperation with partners, in particular with the Federal Ministry of Finance and the ECB. In 2017, almost half of all course participants came from countries in the Commonwealth of Independent States (CIS); about 40% came from countries in CESEE.

Technical cooperation within the ESCB

As part of the ESCB Task Force on Central Bank Cooperation, the OeNB coordinates its activities with ESCB experts. The aim of this cooperation is to use the scarce resources available as efficiently as possible and to adequately respond to beneficiaries' needs. Activities in 2017 focused on establishing best practices for international central bank cooperation as well as making technical preparations for an EU-funded technical assistance program for EU candidates and potential candidates in the Western Balkans.

Large audiences at high-level meetings

The largest audiences (several hundred participants each) are reached with the annual Economics Conference and the annual Conference on European Economic Integration (CEEI). In 2017, the OeNB partnered with SUERF – The European Money and Finance Forum to organize the Economics Conference on "The Financial System of the Future," which took place in late May. Later on in November, the OeNB hosted the CEEI on the subject of "A modern take on structural reforms – past and future challenges for CESEE and Europe at large." Moreover, the OeNB regularly hosts seminars and workshops catering to domestic and international participants. At the same time, OeNB experts also contributed widely to external events as speakers.

Embracing social responsibility

Providing shelter for refugees: the Anissa project

Since the summer of 2015, the world has been facing one of the greatest migration movements since the end of World War II. Over the last two years, more than 130,000 women, men and children have sought asylum in Austria, hoping to find refuge and protection. This prompted the OeNB to set up a container village – called “Anissa” – on the premises of its seminar and sports center in the Vienna suburbs to give shelter to a number of asylum seekers. Anissa, which is managed by the Viennese section of the Austrian charity Caritas, has since become home to more than 70 asylum seekers who receive not only basic care, but also support to facilitate integration and training. Volunteers from the OeNB as well as the local community lend a helping hand to the Caritas team in charge. The openness and

cordiality shown by unaccompanied minor refugees, adults and families has been very well received, contributing to the successful integration of the refugees into the local community.

Supporting development aid projects

Supported by the OeNB’s Governing Board, the development aid group within the OeNB has been run by dedicated volunteers for 30 years. In line with the UN Sustainable Development Goals, the group’s main objectives are to eradicate extreme poverty and hunger, achieve universal primary education, improve the health of mothers and children, promote the economic participation of women and ensure the sustainable use of resources. In 2017, the group supported development aid projects in Uganda, Burkina Faso, Ecuador, Niger, Vietnam and Bangladesh.

Table 4

Indicators of knowledge-based output

Indicator	Unit	2014	2015	2016	2017
Cooperation and networks					
National bodies with OeNB representatives	number	78	82	86	86
International and European bodies with OeNB representatives (ESCB, etc.) ¹	number	278	287	303	364
Technical assistance activities with CESEE and CIS central banks	days	565	563	410	557
Course participants at the Joint Vienna Institute (JVI)	number	2,286	2,197	2,060	2,155
OeNB-hosted national and international events	days	194	181	163	186
Lectures delivered by OeNB staff to external audiences	number	665	686	760	828
Communication and information					
Queries to OeNB hotlines	number	25,212	17,376	14,518	13,335
Research cooperation projects with external partners	number	56	90	83	90
Visitors to the Money Museum	number	16,059	13,732	11,703	13,027
Cash training course participants (including Euro Shop Tour) ²	number	14,192	15,322	8,279	16,159
Children and teachers reached through school activities	number	20,182	18,802	23,546	22,565
Contacts during the Euro Info Tour	number	36,103	35,892	30,143	45,562
Press conferences	number	14	12	18	12
Press releases	number	187	153	190	177
Publications					
Articles published by OeNB staff	number	117	139	106	111
of which: refereed papers	number	40	39	35	30
Confidence and image					
Confidence index in the second half of the year	%	57	57	61	67
Image index in the second half of the year (values between 5.5 and 10.0 signal a positive image)	value	6.8	6.3	6.5	6.9

Source: OeNB.

Note: For a definition of the indicators, see the list of indicators available at <https://www.oenb.at/en/Publications/Oesterreichische-Nationalbank/Annual-Report/Intellectual-Capital-Report.html>.

¹ Increase due to the rise in the number of bodies under the SSM.

² In 2016, the Euro Shop Tour did not take place because no new euro banknote was launched.



Promoting research, science, art and culture

Providing research funding

Set up in 1966 to celebrate 150 years of central banking in Austria, the OeNB's Anniversary Fund has since provided EUR 775 million in funding for some 9,900 projects in scientific research. Following a reorganization of the process for the submission and selection of research proposals, only one funding decision meeting took place in 2017, which was the first meeting governed by the new guidelines adopted in 2016.

In 2017, funding was granted for research in the following areas:

- economics (19 projects): EUR 2.40 million
- medical sciences (14 projects): EUR 1.83 million
- social sciences (8 projects): EUR 0.94 million
- humanities (8 projects): EUR 0.91 million

In addition, funding in the amount of EUR 0.6 million and EUR 0.49 million, respectively, went into economic research projects addressing the two focus areas defined for 2017, namely "Competitiveness in Austria – stylized facts, economic analysis, challenges and policy options" (4 projects) and "Financial market and financial stability" (3 projects). As in the past, two submission periods will be offered every year from 2018 onward. For the time being, "Financial markets and financial stability" will remain the focus area for projects in economics.

A continued role in ERP funding

2017 marked the 70th anniversary of the European Recovery Program (ERP), commonly known as the Marshall Plan. The objective of the economic program funded by the United States was to help war-torn Europe get back on its feet. The portfolio of ERP assets managed by the OeNB, which played an instrumental role in implementing the program from the start, reached a record high of EUR 1 billion in 2017. The outstanding amount of corresponding ERP loans – 448 loans granted by the ERP credit approval committee established by the federal

government's economic development bank Austria Wirtschaftsservice Gesellschaft mbH (aws) to businesses in the manufacturing industry or trades and services companies – totaled EUR 705 million in the OeNB's balance sheet for 2017. Over the past decade alone, credit operations earned around EUR 120 million in income. In addition, the OeNB is represented on the ERP audit committee in a monitoring capacity and on the ERP expert committees in an advisory capacity.

Committed to Austria's cultural heritage

The OeNB's collection of historical string instruments numbers 40 instruments, all of them crafted by the most renowned violinmakers of the Italian school. The OeNB lends these instruments to Austrian musicians free of charge, thus making a modest contribution to Austria's outstanding international reputation as a musical nation. An expansion of the string instrument collection is in the pipeline.

In the course of its long-standing cooperation with the Austrian radio station Ö1, the OeNB organized eight concerts throughout Austria in 2017 at which Austrian musicians played instruments from the OeNB's collection. Particular highlights of this concert series included the world premiere of a work by the young composer Yongbom Lee as well as a concert in Absam (Tyrol) featuring a violin that Jacob Stainer, the most renowned violinmaker in the German-speaking world, had crafted in Absam in 1671.

Remaining committed to keeping Austrian artwork in the country, the OeNB added three museum-quality paintings from the 1920s to its collection in 2017. Specifically, the OeNB acquired two major works by the painter Rudolf Wacker², the key representative of the Neue Sachlichkeit (New Objectivity) movement in

² "Stilleben mit Ölkanne, Topfpflanze und Chinesenbild" (Still life with oil can, potted plant, and Chinese painting), 1925; "Taubenschlag, Goslar" (Pigeonry, Goslar), 1927.

Austria, as well as an exceptional painting by Karl Hauk³, member of the Hagenbund artist association.

The OeNB loaned 25 of its most valuable paintings of the interwar years to the Zinkenbacher Malerkolonie museum in St. Gilgen (Salzburg) for an exhibition during the summer of 2017. Another painting was loaned to the Albertina Museum in Vienna for a retrospective exhibition on Eduard Angeli's oeuvre. For

its exhibition on "Maria Lassnig. Woman Power," the Uffizi Gallery in Florence (Italy) received a painting on loan by Maria Lassnig⁴ that was also featured on the cover of the invitation to the exhibition opening.

In line with the OeNB's new art collection management framework, a body of three independent experts will ensure that the quality of the OeNB's art collection remains high and continues to grow in accordance with the defined strategy.

³ "Nächtlicher Spaziergang" (*Night walk*), 1926.

⁴ "Mit einem Tiger schlafen" (*Sleeping with a tiger*), 1975.

Environmental Statement 2017: ten years of sustainability reporting

Updated Environmental Statement under EMAS Regulation (EC) No 1221/2009

The OeNB has been strongly committed to sustainability for many years: It has been publishing annual sustainability reports since 2007, and it has been recertified on a regular basis since 1999 according to EMAS (Eco-Management and Audit Scheme, an ambitious scheme for sustainable environmental management).

The EMAS label rewards the efforts of organizations that comply with the obligations laid down in the EMAS Regulation. In its Environmental Statement, the OeNB reports on its green objectives and their implementation as well as on its agenda for the following year.

At the global level, there are huge challenges relating to the protection of the environment and to climate change that still need to be tackled. The 21st UN Climate Change Conference

held in Paris in 2015 led to the adoption of sustainability goals that aim, among other things, at limiting global warming to well below 2 degrees Celsius compared to pre-industrial levels. This requires the consistent implementation of climate change policies in order to drastically reduce greenhouse gas emissions – particularly fossil fuel emissions – worldwide in the decades ahead. The environmental measures taken by the OeNB show that it is willing to do its part in achieving the environmental and climate policy goal set out above.

Enhanced energy management and district cooling reduce electricity consumption

Data on the use of district cooling for offices and server rooms – recorded for the first time for the whole calendar year in 2017– showed

Table 5

The OeNB's ecological indicators

	Site	2015	2016	2017	Unit	Benchmark ¹		
						+	~	-
Energy								
Electricity consumption per employee ²	Vienna	6.44	6.59	5.95	MWh	< 4.5	6	> 8
Heat consumption	Vienna	62	52	54	kWh per m ²	< 110	130	> 150
District cooling	Vienna	35	31	36	kWh per m ²			
Total energy consumption ³	Vienna	12,066	11,085	10,992	MWh			
of which: renewable energy ⁴	Vienna	6,417	5,523	4,957	MWh			
Water								
Water consumption per employee	Vienna	98	80	82	liters per day	< 60	100	> 120
Consumption of materials and products								
Total paper consumption per employee ⁵	All sites	56	68	44	kg	< 100	200	> 500
Consumption of printing/photocopying paper per employee	All sites	4,098	6,037	4,745	sheets	< 8,000	10,000	> 12,000
Share of recycled photocopying paper	All sites	85	85	85	%	> 30%	20%	< 10%
Consumption of cleaning agents ⁶	Vienna	15	15	14	g per m ²			not available
Total CO₂ emissions per employee⁷	All sites	2.4	2.3	2.3	tons	< 2.8	4	> 4.5

Source: OeNB.

¹ Source: Association of Environmental Management in Banks, Savings Banks and Insurance Companies, guideline of the Austrian Society for Environment and Technology (ÖGUT).

² The decline in electricity consumption is the result of optimized processes and the use of district cooling.

³ From 2015, expansion of the cooling system and of the district cooling system. Total energy consumption excludes the Money Center's electricity consumption, but includes district cooling. The CO₂ conversion factor was selected in analogy to that applied to district heating.

⁴ Since 2010, the OeNB has purchased green electricity from certified providers.

⁵ Measurement of paper consumption is based on paper purchased and therefore includes stocks.

⁶ Total consumption in 2017: 907 kg.

⁷ Operation of facilities and business travel; total in 2017: 2,348 tons; the increase is due to updated conversion factors according to the Environment Agency Austria (January 2017) including indirect greenhouse gas emissions. Including energy consumption, business travel, transport and emergency generators.

Note: The following indicators required by EMAS are not provided in this table because of negligible levels: biodiversity (land use) as well as greenhouse gases and air pollutants such as CH₄, N₂O, HFC, PFC, SF₆ or SO₂, NO_x and fine dust.

that the energy savings expected have materialized. By further optimizing its energy management, the OeNB was also successful in reducing its electricity consumption to below 6 MWh per employee. Moreover, distance heat and water consumption remained unchanged at the low level of the previous year.

The OeNB continued to exclusively procure electricity from renewable sources certified with the Austrian Ecolabel. Further measures to reduce the emission of greenhouse gases included setting up a heat recovery system, integrating a photovoltaic system into the building facade, ensuring sustainable use of the building, implementing an optimized lighting concept, improving technical facilities such as pump and ventilator controls, raising ecological awareness among employees (e.g. encouraging the use of public transport for getting to work and for business travel) and supporting research programs financed by the OeNB Anniversary Fund. The fact that the OeNB has been certified under energy management standard ISO 50001 since 2014 underlines its commitment to energy efficiency.

Decrease in paper consumption

Total paper consumption (including publications, brochures and the like) was reduced to

well below 50 kg per employee for the first time in 2017 thanks to the increased use of electronic media and further optimized processes. The corresponding CO₂ equivalents were calculated on the basis of updated conversion factors according to the Environment Agency Austria, taking into account indirect greenhouse gas emissions. Variations in consumption of printing and photocopying paper are partly due to stocking/destocking of paper supplies.

Outreach activities

In line with its green policy, the OeNB offers information and training on current environmental issues and encourages ecological awareness and behavior across the organization. The OeNB's Environmental Officer regularly attends EMAS conferences organized by the Austrian Federal Ministry of Sustainability and Tourism. In 2017, the OeNB was invited, for the third time, to hold presentations on its in-house environmental management system. In cooperation with the Club of Rome - Austrian Chapter, the OeNB furthermore organizes relevant events, such as a panel discussion on how to tackle social inequality, unemployment and climate change despite weak economic growth on June 19, 2017.

Environmental database enables efficient controlling

For many years, the OeNB has been using an internal database to log its consumption of energy and materials and monitor compliance with statutory environmental standards. Moreover, the database serves to document data on environmental audits and improvements and to generate regular reports to management.

Table 6

Transport mileage

	2015	2016	2017
Business travel by airplane, km	2,656,300	2,871,330	2,919,000
Business travel by car, km	527,800	459,186	402,000
Business travel by train, km	208,200	195,000	215,000
Fuels for transport, liters	36,865	36,940	34,879

Source: OeNB.

Table 7

Waste generation by the OeNB, 2015–2017

Waste code number	2015	2016	2017
	kg		
Nonhazardous materials	84,075	101,420	91,265
Commercial waste ¹	91101	73,640	68,080
Electronic scrap ²	35202	2,030	3,545
Large and small electrical appliances	35221, 53231	105	135
Bulky waste ³	91401	0	10,624
Treated and untreated wood waste ³	17201, 17202	1,500	12,036
Sand filter contents	94704	6,800	7,000
Nonhazardous waste per employee	77	93	84
Hazardous materials	6,313	10,638	9,959
Waste paint and varnish containing solvents	55502, 59405	0	0
Cooling apparatuses	35205	290	194
Air conditioning devices	35206	40	0
Unsorted batteries, lithium-ion and nickel-cadmium batteries	35338, 35337, 35323	210	489
Lead accumulators ⁴	35322	680	112
Oil separator contents ⁵	54702	3,700	4,280
Fluorescent tubes, PCB-free capacitors	35210, 35339, 35209	491	186
Laboratory waste	59305	0	116
Monitors, waste from electronic equipment	35212, 35201, 35220	765	1,231
Solvent-water mixture	55374	0	0
Cleaning agent and solvent waste ⁶	59405, 55377	0	4,000
Gases in pressure containers (fire extinguishers), aerosol cans	59802, 59803	107	0
Wastes from pharmaceuticals	53510	30	30
Hazardous waste per employee	6	10	9
Recyclables	111,333	177,460	102,840
Colored glas	31469	2,110	2,720
Clear glas	31468	2,110	2,720
Metal/cans	35315	2,840	2,840
Biodegradable waste ⁷	91701	12,890	12,890
Plastic packaging material	57118	5,800	7,560
PET waste	57130	1,320	0
Scrap metal ⁸	35103, 35105	15,880	51,470
Scrap paper ²	18718	59,230	93,460
Styrofoam	57108	90	200
Coated paper and cardboard	18702	9,063	3,600
Total	201,721	289,518	204,064

Source: OeNB.

¹ The reduction of commercial waste was attributable to rigorous waste separation and reuse of recyclable materials.

² Temporary increases due to relocations.

³ In 2015 and 2017, bulky waste only consisted of pieces of furniture, which were disassembled and disposed of with wood and metal waste.

⁴ Lead accumulators are required for safeguarding uninterrupted power supply.

⁵ Oil separators in the parking garage.

⁶ Increase due to tank cleaning.

⁷ Including green waste (garden/park waste).

⁸ Metal containers had to be disposed of in 2016.

The OeNB's environmental performance up to 2017 and environmental program for 2018

	Responsible	Deadline	Status
Further greening of procurement Procurement of environmentally friendly printers	specialist division	2018	planned
Responsible resource use, reduction of emissions, further reduction of electricity consumption by 2% against the year 2014 Enhancing energy management, evaluating energy expenditures in the OeNB's Money Center Assessing combination of basement ventilation systems Controlling room cooling via window sensors (extension) Continued use of certified green electricity Implementing a demand-dependent lighting concept for work lamps Regulating cleaning agent use by applying dosage systems Developing a mobility strategy Electricity saving projects Evaluating energy saving potential LED safety lighting and hallway lighting in the OeNB's Money Center Central ventilation unit Replacement of boiler in northern office building	specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division specialist division	ongoing 2017/2018 2018 2017 2018 ongoing 2018 2018 2018 2018 2018 2018 2017	at the implementation stage at the implementation stage at the implementation stage implemented continued implemented planned planned continued continued continued implemented
Promoting environmental awareness, training Promoting green mobility (bicycle use, including Citybike rental system)	specialist division	2018	continued
Networking and communication Environmental research initiative – discussion fora, analyses, reports Information campaign, including, e.g., lectures and more information on the intranet Cooperation with environmental organizations such as the WWF, the Clube of Rome and B.A.U.M. Auditing the waste disposal contractor	EPT ¹ EPT EPT waste management officer	2018 2018 2018 2017	planned continued continued implemented

Source: OeNB.

¹ EPT= environmental protection team.

EMAS validation

This updated Environmental Statement published by the Oesterreichische Nationalbank, Otto-Wagner-Platz 3, 1090 Vienna, has been validated in accordance with the EMAS Regulation by Quality Austria Trainings, Zertifizierungs und Begutachtungs GmbH, located at Zelinkagasse 10/3, 1010 Vienna, Austria, AT-V-0004.



The Lead Verifier of Quality Austria Trainings, Zertifizierungs und Begutachtungs GmbH herewith confirms that the OeNB's environmental policy, its environmental program and environmental management system, its environmental review and its environmental audit procedures conform to Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 (EMAS Regulation), taking into account Commission Regulation (EU) 2017/1505 of 28 August 2017, and validates the relevant information for the Environmental Statement in accordance with Annex IV point B (a) to (h).

Vienna, January 30, 2018

Martin Nohava, Lead Verifier

The next Environmental Statement will be published in the spring of 2019.

Direct and indirect equity interests

Table 9

Direct and indirect equity interests of the OeNB as on December 31, 2017

Share in %	Company	Capital issued
100	Münze Österreich Aktiengesellschaft, Vienna (Austria)	EUR 6,000,000.00
100	Schoeller Münzhandel GmbH, Vienna (Austria)	EUR 1,017,420.00
(100)	100 Schoeller Münzhandel Deutschland GmbH, Freiburg (Germany)	EUR 6,000,000.00
50	PRINT and MINT SERVICES GmbH, Vienna (Austria)	EUR 35,000.00
16.67	World Money Fair Holding GmbH, Berlin (Germany)	EUR 30,000.00
(16.67)	100 World Money Fair Berlin GmbH, Berlin (Germany)	EUR 25,000.00
(16.67)	100 World Money Fair AG, Basel (Switzerland)	CHF 300,000.00
100	Oesterreichische Banknoten- und Sicherheitsdruck GmbH, Vienna (Austria)	EUR 10,000,000.00
50	PRINT and MINT SERVICES GmbH, Vienna (Austria)	EUR 35,000.00
0.25	Europafi S.A.S., Vic-le-Comte (France)	EUR 133,000,000.00
95.34	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H., Vienna (Austria)	EUR 3,336,336.14
25	Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H., Vienna (Austria)	EUR 100,000.00
100	IG Immobilien Invest GmbH, Vienna (Austria)	EUR 40,000.00
100	Austrian House S.A., Brussels (Belgium)	EUR 5,841,610.91
(100)	100 MA-Viso Sprl., Brussels (Belgium)	EUR 99,157.41
100	City Center Amstetten GmbH, Vienna (Austria)	EUR 72,000.00
100	EKZ Tulln Errichtungs GmbH, Vienna (Austria)	EUR 36,000.00
100	HW Hohe Warte Projektentwicklungs- und ErrichtungsgmbH, Vienna (Austria)	EUR 35,000.00
100	IG Belgium S.A., Brussels (Belgium)	EUR 19,360,309.87
100	IG Döbling Herrenhaus-Bauträger GmbH, Vienna (Austria)	EUR 40,000.00
100	IG Hungary Irodaközpont Kft., Budapest (Hungary)	EUR 11,852.00
100	IG Immobilien Beteiligungs GmbH, Vienna (Austria)	EUR 40,000.00
100	IG Immobilien M97 GmbH, Vienna (Austria)	EUR 120,000.00
100	IG Immobilien Management GmbH, Vienna (Austria)	EUR 40,000.00
100	IG Immobilien Mariahilfer Straße 99 GmbH, Vienna (Austria)	EUR 72,000.00
100	IG Immobilien O20-H22 GmbH, Vienna (Austria)	EUR 110,000.00
100	IG Netherlands N1 and N2 B.V., Uithoorn (Netherlands)	EUR 91,000.00
40	U2 Stadtentwicklung GmbH, Vienna (Austria)	EUR 100,000.00
100	BLM Betriebs-Liegenschafts-Management GmbH, Vienna (Austria)	EUR 40,000.00
100	BLM-IG Bauträger GmbH, Vienna (Austria)	EUR 35,000.00
(100)	100 OWP5 Betriebs-Liegenschafts-Management GmbH, Vienna (Austria)	EUR 35,000.00

Source: OeNB, subsidiaries.

Note: Figures in parentheses represent the OeNB's indirect equity investments; figures without parentheses represent the shares held by the direct equity investor. The OeNB's share of the paid-up capital of the European Central Bank (ECB), Frankfurt (Germany), which totals EUR 10,825,007,069.61, amounted to 1.9631% as at December 31, 2017. The OeNB also holds 8,000 shares (at SDR 5,000 each) and 564 nonvoting shares in the Bank for International Settlements (BIS), Basel (Switzerland), as well as 83 shares (at EUR 125.00 each) in S.W.I.F.T. (Society for Worldwide Interbank Financial Telecommunication), La Hulpe (Netherlands).

Table 9 shows the OeNB's direct and indirect equity interests in line with Article 68 paragraph 4 Nationalbank Act.



Financial statements
of the Oesterreichische Nationalbank
for the year 2017

Balance sheet as at December 31, 2017

Assets

	December 31, 2017 EUR	December 31, 2016 EUR
1 Gold and gold receivables	9,739,210,762.77	9,884,732,593.30
2 Claims on non-euro area residents denominated in foreign currency	8,228,811,658.23	12,209,715,056.93
2.1 Receivables from the IMF	2,575,290,640.01	3,049,210,388.05
2.2 Balances with banks and security investments, external loans and other external assets	5,653,521,018.22	9,160,504,668.88
3 Claims on euro area residents denominated in foreign currency	1,103,167,186.67	1,939,890,544.19
4 Claims on non-euro area residents denominated in euro	1,128,301,343.87	1,245,741,625.67
4.1 Balances with banks, security investments and loans	1,128,301,343.87	1,245,741,625.67
4.2 Claims arising from the credit facility under ERM II	–	–
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	20,112,390,000.00	11,346,040,000.00
5.1 Main refinancing operations	285,000,000.00	1,510,000,000.00
5.2 Longer-term refinancing operations	19,827,390,000.00	9,836,040,000.00
5.3 Fine-tuning reverse operations	–	–
5.4 Structural reverse operations	–	–
5.5 Marginal lending facility	–	–
5.6 Credits related to margin calls	–	–
6 Other claims on euro area credit institutions denominated in euro	88,472.37	87,637.80
7 Securities of euro area residents denominated in euro	62,823,202,513.36	46,192,165,558.32
7.1 Securities held for monetary policy purposes	53,970,733,703.22	37,087,132,326.18
7.2 Other securities	8,852,468,810.14	9,105,033,232.14
8 General government debt denominated in euro	399,345,338.73	401,493,685.48
9 Intra-Eurosystem claims	31,048,083,462.51	30,317,848,467.51
9.1 Participating interest in the ECB	221,613,272.84	221,613,272.84
9.2 Claims equivalent to the transfer of foreign reserves	1,137,636,924.67	1,137,636,924.67
9.3 Claims related to the issuance of ECB debt certificates ¹	x	x
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	29,688,833,265.00	28,958,598,270.00
9.5 Other claims within the Eurosystem (net)	–	–
10 Items in course of settlement	–	–
11 Other assets	9,133,802,729.63	9,018,108,322.36
11.1 Coins of euro area	99,876,771.51	93,357,387.19
11.2 Tangible and intangible fixed assets	134,934,925.95	141,058,691.31
11.3 Other financial assets	7,288,507,931.72	7,247,992,853.52
11.4 Off balance sheet instruments' revaluation differences	–	–
11.5 Accruals and prepaid expenses	687,067,180.60	567,109,902.12
11.6 Sundry	923,415,919.85	968,589,488.22
	143,716,403,468.14	122,555,823,491.56

¹ Only an ECB balance sheet item.

Liabilities

	December 31, 2017	December 31, 2016
	EUR	EUR
1 Banknotes in circulation	30,034,718,980.00	28,893,071,480.00
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	35,658,747,001.60	27,445,812,846.01
2.1 Current accounts (covering the minimum reserve system)	31,638,747,001.60	23,154,812,846.01
2.2 Deposit facility	4,020,000,000.00	4,291,000,000.00
2.3 Fixed-term deposits	–	–
2.4 Fine-tuning reverse operations	–	–
2.5 Deposits related to margin calls	–	–
3 Other liabilities to euro area credit institutions denominated in euro	–	–
4 Debt certificates issued¹	×	×
5 Liabilities to other euro area residents denominated in euro	9,250,130,380.49	11,500,089,412.20
5.1 General government	2,171,922,121.52	3,370,275,230.40
5.2 Other liabilities	7,078,208,258.97	8,129,814,181.80
6 Liabilities to non-euro area residents denominated in euro	939,579,533.34	998,927,977.92
7 Liabilities to euro area residents denominated in foreign currency	82,909.68	74,312.65
8 Liabilities to non-euro area residents denominated in foreign currency	–	–
8.1 Deposits, balances and other liabilities	–	–
8.2 Liabilities arising from the credit facility under ERM II	–	–
9 Counterpart of Special Drawing Rights allocated by the IMF	2,062,046,335.39	2,213,105,640.86
10 Intra-Eurosystem liabilities	45,804,508,534.96	31,138,074,757.88
10.1 Liabilities equivalent to the transfer of foreign reserves ¹	×	×
10.2 Liabilities related to the issuance of ECB debt certificates	–	–
10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem	–	–
10.4 Other liabilities within the Eurosystem (net)	45,804,508,534.96	31,138,074,757.88
11 Items in course of settlement	–	–
12 Other liabilities	457,723,807.90	439,616,240.52
12.1 Off balance sheet instruments' revaluation differences	43,148,251.58	109,429,508.14
12.2 Accruals and income collected in advance	84,244,179.81	19,643,789.05
12.3 Sundry	330,331,376.51	310,542,943.33
13 Provisions	6,287,561,767.23	5,952,984,639.92
14 Revaluation accounts	8,898,368,220.69	9,661,973,913.68
15 Capital and reserves	4,303,606,838.57	4,294,016,348.43
15.1 Capital	12,000,000.00	12,000,000.00
15.2 Reserves	4,291,606,838.57	4,282,016,348.43
16 Profit for the year	19,329,158.29	18,075,921.49
	143,716,403,468.14	122,555,823,491.56

¹ Only an ECB balance sheet item.

Profit and loss account for the year 2017

	Year ending December 31, 2017 EUR	Year ending December 31, 2016 EUR
1.1 Interest income	1,546,072,620.59	1,227,636,175.45
1.2 Interest expense	-882,360,466.27	-577,336,146.79
1 Net interest income	663,712,154.32	650,300,028.66
2.1 Realized gains/losses arising from financial operations	239,265,990.42	108,852,078.89
2.2 Writedowns on financial assets and positions	-187,090,466.90	-110,910,126.36
2.3 Transfer to/from provisions for foreign exchange, interest rate, credit and gold price risks	-275,000,000.00	-150,000,000.00
2 Net result of financial operations, writedowns and risk provisions	-222,824,476.48	-152,058,047.47
3.1 Fees and commissions income	6,931,763.73	5,543,197.80
3.2 Fees and commissions expense	-5,791,731.81	-4,440,627.29
3 Net income from fees and commissions	1,140,031.92	1,102,570.51
4 Income from equity shares and participating interests	113,447,362.25	146,544,486.56
5 Net result of pooling of monetary income	72,278,380.89	17,241,888.10
6 Other income	37,185,648.23	29,783,629.93
Total net income	664,939,101.13	692,914,556.29
7 Staff costs	-146,628,517.27	-156,893,523.61
8 Expenses for retirement	-108,500,325.89	-142,066,310.06
9 Administrative expenses	-80,884,011.01	-83,863,170.38
10 Depreciation of tangible and intangible fixed assets	-14,933,646.89	-14,549,936.73
11 Banknote production services	-18,035,302.32	-15,116,586.96
12 Other expenses	-9,599,397.20	-12,633,599.10
Total expenses	-378,581,200.58	-425,123,126.84
Operating profit	286,357,900.55	267,791,429.45
13 Corporate income tax	-71,589,475.14	-66,947,857.36
	214,768,425.41	200,843,572.09
14 Transfer to the pension reserve and central government's share of profit	-195,439,267.12	-182,767,650.60
15 Profit for the year	19,329,158.29	18,075,921.49

Notes on the financial statements 2017

General notes on the financial statements

Legal framework

The Oesterreichische Nationalbank (OeNB) is obligated under Article 67 paragraph 2 of the Federal Act on the Oesterreichische Nationalbank 1984¹ (hereinafter Nationalbank Act), Federal Law Gazette No. 50/1984, as amended, to prepare its balance sheet and its profit and loss account in conformity with the rules established by the Governing Council of the ECB under Article 26.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB and of the ECB). The OeNB has adopted the ESCB's accounting rules² and applied them to these financial statements in their entirety. Activities not covered by these rules are to be treated as regulated by the generally accepted accounting principles referred to in Article 67 paragraph 2 second sentence Nationalbank Act and, according to Article 67 paragraph 3 Nationalbank Act, the provisions of the third volume of the *Unternehmensgesetzbuch* (Commercial Code) are to be applied in addition. The OeNB is exempt i.a. from Article 199 Commercial Code (contingent liabilities arising from guarantees) and from Articles 244 et seq. Commercial Code (consolidated financial statements). Moreover, Article 68 paragraph 3 Nationalbank Act exempts the OeNB from the obligation to include management's discussion and analysis under Article 243 Commercial Code. In light of the provisions of Article 72 Nationalbank Act, the OeNB is not required to draw up a balance sheet for taxation purposes. Thus, no differences can arise between the carrying values reported by the OeNB in the balance sheet for commercial and for tax purposes. Following an amendment of the Federal Act governing the National Foundation for Research, Technology and Development (hereinafter National Foundation Act), Federal Law Gazette I No. 81/2017,

the OeNB is entitled, from 2018 to 2020 – and hence for the first time based on the financial statements 2017 – to transfer up to EUR 66.67 million of the central government's share of profit to the National Foundation for Research, Technology and Development (hereinafter National Foundation). The OeNB's annual payout to the National Foundation (under Article 4 paragraph 5 item 2 National Foundation Act) must be deducted from this amount. For the financial years 2018 to 2020, transfers reducing the central government's share of profit reduce the corporate income tax base of the OeNB under Article 72 paragraph 1 Nationalbank Act.

Format of the balance sheet and the profit and loss account

The balance sheet and the profit and loss account in the financial statements 2017 were prepared in the format laid down by the Governing Council of the ECB.

Valuation rules and accounting policies

The OeNB's financial statements are prepared in conformity with valuation rules and accounting policies which are applied in the whole Eurosystem and which follow accounting principles harmonized by EU law and generally accepted international accounting standards. These standards comprise the following accounting principles: economic reality and transparency, prudence, recognition of post-balance sheet events, materiality, going-concern basis, accruals principle, consistency and comparability.

Time of recording

Foreign exchange transactions, financial instruments denominated in foreign currency and related accruals must be recorded at trade date (economic approach) while securities transactions

¹ The Nationalbank Act was last amended with effect from November 10, 2017.

² Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting of the European System of Central Banks (ECB/2016/34).

(including transactions with equity instruments) denominated in foreign currency may be recorded according to the cash/settlement approach. Interest accrued in relation to foreign currency transactions, including premiums or discounts, must be recorded on a daily basis from the spot settlement date. To record specific euro-denominated transactions, financial instruments and related accruals, either the economic or the cash/settlement approach may be used.

Foreign currency transactions whose exchange rate is not fixed against the accounting currency are recorded at the euro exchange rate prevailing on the day of the transaction.

Basis of accounting

At year-end valuation is based on current market prices or rates. This applies equally to transactions that are disclosed in the balance sheet and to transactions that are not.³

The revaluation of foreign currency holdings comprises the entire position in a given currency (including off balance sheet instruments). Moreover, holdings of Special Drawing Rights (SDRs), including holdings of specific foreign currencies that serve to hedge the SDR currency risk, are treated as a single holding. Own funds invested in foreign exchange assets are treated as a separate currency item under *Other financial assets*, as are any equity instruments (equity shares or equity funds) denominated in foreign currency.

Revaluation of securities and investment fund shares/units takes place on a security-by-security basis, i.e. securities with the same ISIN number/type are grouped together.

Securities currently held for monetary policy purposes are accounted for at amortized cost (subject to impairment). Marketable securities (other than securities held for monetary policy purposes and those classified as held-to-maturity⁴) and similar assets are valued either at the mid-market prices or on the basis of the

relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. Options embedded in securities are not separated for valuation purposes. For the year ending December 31, 2017, mid-market prices on December 29, 2017, were used.

Marketable securities classified as held-to-maturity and non-marketable securities are all valued at amortized cost subject to impairment. Illiquid equity shares and any other equity instruments held as permanent investments are valued at cost, subject to impairment.

Participating interests are valued on the basis of the net asset value of the relevant company.

Income recognition

Realized gains and losses may only occur in the course of transactions that entail a reduction in securities or currency positions. They correspond to the difference between the transaction value and the acquisition value calculated according to the average cost method and must be included in the profit and loss account.

Unrealized gains and losses arise during revaluation and correspond to the difference between the market value and the acquisition value calculated according to the average cost method. Unrealized gains must not be taken to the profit and loss account but must be transferred to a revaluation account on the liabilities side of the balance sheet. Unrealized losses are recognized in the profit and loss account when they exceed previous revaluation gains registered in the corresponding revaluation account. They may not be reversed against new unrealized gains in subsequent years. Unrealized losses in any one security or currency are not netted against unrealized gains in other securities or currencies (prohibition of netting).

Premiums or discounts arising on purchased securities are calculated and presented as part of interest income and are amortized over the remaining life of the securities.

³ Transactions that are not disclosed in the balance sheet are recorded and disclosed separately because the Eurosystem's accounting format does not provide for off balance sheet transactions.

⁴ Held-to-maturity securities are securities with fixed or determinable payments and a fixed maturity that the OeNB intends to hold until maturity.

Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at cost less depreciation. As a rule, depreciation is calculated on a straight-line basis from the quarter after acquisition throughout the expected economic lifetime of the assets. Tangible fixed assets below the cost of EUR 10,000 including value added tax are depreciated in the year of acquisition. Acquisitions of string instruments and art objects as well as additions to the coins of the OeNB's Money Museum are excluded from this provision: they are capitalized at cost, and no amortization according to the straight-line method is carried out as these assets do not lose value on a regular basis. Extraordinary depreciation is required if permanent impairment is expected. In line with the ESCB's accounting rules, no write-ups are added to amortized cost should the reasons for impairment no longer apply. The depreciation periods applicable to the individual assets are listed in table 1.

Realized gains and losses and revaluation differences and their treatment in the financial statements of December 31, 2017

Realized gains and losses as well as revaluation differences are shown in table 2.

Banknotes in circulation, intra-Eurosystem balances and interim ECB profit distribution

Banknotes in circulation

The ECB and the 19 euro area national central banks (NCBs), which together comprise the Eurosystem, issue euro banknotes. The banknotes in circulation presented in the balance sheet of the OeNB (and of the other NCBs in the Eurosystem) are calculated on the last working day of each month in accordance with the banknote allocation key of the Eurosystem⁵.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the OeNB is disclosed

Table 1

Asset	Depreciation period
Computers, related hardware and software, motor vehicles	4 years
Intangible assets	5 years
Equipment, furniture and plant in building	10 years
Buildings	25 years
Fixed assets costing less than EUR 10,000 including value added tax (low-value assets)	no capitalization

Table 2

	Realized gains profit and loss account item 2.1 (posted to profit and loss account) EUR million	Realized losses profit and loss account item 2.1 (posted to profit and loss account) EUR million	Unrealized losses profit and loss account item 2.2 (posted to profit and loss account) EUR million	Change in unrealized gains (posted to revaluation accounts) EUR million
Gold	–	–0.001	–	–145.521
Foreign currency				
Holdings for own account	186.396	–9.400	–174.213	–859.570
Securities				
Holdings for own account	70.642	–21.457	–11.861	+163.948
Investment of own funds	20.005	–6.919	–1.016	–8.753
Monetary policy operations	–	–0.000	–	–
Participating interests (investment of own funds)	–	–	–	+35.125
Total	277.043	–37.777	–187.090	–814.771

⁵ Banknote allocation key means the percentages that result from taking into account the ECB's share (8%) in the total euro banknote issue and applying the capital key to the NCBs' share (92%) in such total.

in the balance sheet under liability item 1 *Banknotes in circulation*.

The difference between the value of the euro banknotes allocated to the OeNB in accordance with the banknote allocation key and the value of the euro banknotes that the OeNB actually puts into circulation gives rise to remunerated intra-Eurosystem balances. If the value of the euro banknotes put into circulation exceeds the value of the euro banknotes allocated in accordance with the banknote allocation key, the OeNB records *net liabilities related to the allocation of euro banknotes within the Eurosystem*. Conversely, the OeNB records *net claims related to the allocation of euro banknotes within the Eurosystem*.

From the cash changeover year until five years following the cash changeover year, the intra-Eurosystem balances arising from the allocation of euro banknotes are adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the reference period and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the first day of the sixth year after the cash changeover year, when income on banknotes (seigniorage) will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. In the year under review, the adjustments resulted from the accession of Lithuania (in 2015) and Latvia (in 2014) to the euro area and will terminate at the end of 2020 and 2019, respectively.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under the profit and loss account item 1 *Net interest income*. In the year under review, no such interest income or expense was reported because the interest rate on the main refinancing operations was 0% throughout the year.

Intra-Eurosystem balances

Intra-Eurosystem balances result primarily from cross-border payments in the European Union (EU) that are settled in central bank money in euro. They are primarily settled in TARGET2 and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-à-vis the ECB only. The OeNB's intra-Eurosystem balances vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (e.g. interim ECB profit distributions to NCBs, monetary income results), are presented net under liability item 10.4 *Other liabilities within the Eurosystem (net)*. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed either under *Claims on non-euro area residents denominated in euro* or *Liabilities to non-euro area residents denominated in euro*.

Intra-Eurosystem claims arising from the OeNB's participating interest in the ECB are reported under asset item 9.1 *Participating interest in the ECB*.

Intra-Eurosystem claims arising from the transfer of foreign reserves to the ECB by the OeNB at the time of joining the Eurosystem are denominated in euro and reported under asset item 9.2 *Claims equivalent to the transfer of foreign reserves*.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are reported net under asset item 9.4 *Net claims related to the allocation of euro banknotes within the Eurosystem*.

Interim ECB profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, as well as the income arising from the securities held under the securities markets programme (SMP), the third

covered bond purchase programme (CBPP3), the asset-backed securities purchase programme (ABSPP) and the public sector purchase programme (PSPP) is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit. It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

The amount distributed by the ECB to the OeNB is disclosed in the profit and loss account item 4 *Income from equity shares and participating interests*.

Provisions for financial risks and loss-absorbing capital

This item comprises financial provisions to directly cover risks and losses. They are part of

the OeNB's net equity and shown in table 5. In line with the principle of universality, the OeNB's financial risks are covered by the designated financial provisions. Taking into account the prohibition of netting, balances on revaluation accounts are used as risk-mitigating factors in calculating risk exposure. At the balance sheet date, provisions for financial risks were high enough to offset the OeNB's exposure.

Table 3 shows the provisions for financial risks and loss-absorbing capital as on December 31, 2016, and December 31, 2017.

Related-party transactions

Article 238 paragraph 1 no. 12 Commercial Code stipulates that the notes on the financial statements must include information about material transactions with related parties that were concluded under other than normal market conditions. The OeNB has in place a special reporting framework and internal control measures for such instances.

Any business the OeNB transacted with related parties in 2017 was at market conditions.

In the financial year 2017, the OeNB provided funding to economic research institutions (Austrian Institute of Economic Research (WIFO), Institute for Advanced Studies (IHS),

Table 3

	December 31, 2016 EUR million	Increase EUR million	Decrease EUR million	December 31, 2017 EUR million
I. Provisions for financial risks				
L 15.2 Reserve for nondomestic and price risks	1,973.263	–	–	1,973.263
L 13 Risk provisions equivalent to reserves	3,675.000	+275.000	–	3,950.000
	5,648.263	+275.000	–	5,923.263
II. Loss-absorbing capital				
L 15.2 Profit-smoothing reserve	114.224	+6.876	–	121.099
L 15.2 OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
OeNB Anniversary Fund National Foundation ¹ endowment	1,500.000	–	–	1,500.000
OeNB Anniversary Fund (initial funding)	37.500	–	–	37.500
	1,651.724	+6.876	–	1,658.599
Total	7,299.986	+281.876	–	7,581.862

¹ National Foundation for Research, Technology and Development.
Note: L = liability item.

Table 4

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Gold and gold receivables	9,739.211	9,884.733	-145.522	-1.5
Claims on non-euro area residents denominated in foreign currency	8,228.812	12,209.715	-3,980.903	-32.6
Claims on euro area residents denominated in foreign currency	1,103.167	1,939.891	-836.723	-43.1
Other assets	39.033	58.803	-19.770	-33.6
less:				
Liabilities to euro area residents denominated in foreign currency	0.083	0.074	+0.009	+11.6
Counterpart of Special Drawing Rights allocated by the IMF	2,062.046	2,213.106	-151.059	-6.8
Other liabilities	2.964	6.513	-3.550	-54.5
Revaluation accounts ¹	24.804	51.012	-26.208	-51.4
	17,020.325	21,822.436	-4,802.110	-22.0
Transactions not disclosed in the balance sheet (net)	1,327.119	-1,817.777	+3,144.896	+173.0
Total	18,347.444	20,004.659	-1,657.215	-8.3

¹ Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities and off balance sheet transactions as on December 31, 2016, and December 31, 2017, respectively.

Table 5

	December 31, 2016	Increase	Decrease	December 31, 2017
	EUR million	EUR million	EUR million	EUR million
L 13 Risk provisions (equivalent to reserves)	3,675.000	+275.000	–	3,950.000
L 14 Revaluation accounts ¹	9,661.974	–	-763.606	8,898.368
L 15.1 Capital	12.000	–	–	12.000
L 15.2 Reserves				
Reserve for nondomestic and price risks	1,973.263	–	–	1,973.263
Profit-smoothing reserve	114.224	+6.876	–	121.099
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
OeNB Anniversary Fund National Foundation endowment	1,500.000	–	–	1,500.000
OeNB Anniversary Fund (initial funding)	37.500	–	–	37.500
Net equity	16,973.960	+281.876	-763.606	16,492.231

¹ Includes unrealized valuation gains as well as revaluation effects from the revaluation of participating interests recorded in the opening balance sheet of January 1, 1999.

Note: L = liability item.

The Vienna Institute for International Economic Studies (wiiw)), the Austrian Society for European Politics (ÖGfE) and the Joint Vienna Institute (JVI), with total funding running to EUR 6.649 million (2016: EUR 6.751 million).

The Republic of Austria is the holder of 100% of the OeNB's shares. Pursuant to Article 69 paragraph 3 Nationalbank Act, the central government's share of profit corresponds to 90% of the OeNB's operating profit after

corporate income tax; from the remaining share of the profit for the year, the central government additionally receives, by decision of the General Meeting, a dividend of up to 10% of its share of the OeNB's capital.

The OeNB's net currency position

Table 4 shows the OeNB's net currency position as on December 31, 2016, and December 31, 2017.

Table 6

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Total claims (Austrian quota) equivalent to SDR 3,932.0 million ¹	4,669.643	5,011.727	-342.084	-6.8
less:				
Balances at the disposal of the IMF	4,261.332	4,437.676	-176.344	-4.0
Receivables from the IMF	408.311	574.051	-165.740	-28.9
SDR holdings	1,928.184	2,069.818	-141.633	-6.8
Other claims on the IMF	238.796	405.342	-166.546	-41.1
Total	2,575.291	3,049.210	-473.920	-15.5

¹ Pursuant to federal law as promulgated in Federal Law Gazette No. 309/1971, the OeNB manages the entire quota on its own account on behalf of the Republic of Austria.

Net equity

The presentation of net equity by the NCBs of the Eurosystem is in line with that of the ECB (table 5).

Notes on the balance sheet

Assets

1 Gold and gold receivables

Closing balance	EUR million	
December 31, 2017	9,739.211	
December 31, 2016	9,884.733	
Change	-145.522	(-1.5%)

The OeNB's gold holdings amounted to 9,002,109.070 fine ounces or 279,996.89 kg of fine gold on December 31, 2017. At a market value of EUR 1,081.881 per fine ounce (i.e. EUR 34,783.28 per kg of fine gold), the OeNB's gold holdings were worth EUR 9,739.211 million on the balance sheet date.

The annual change reflects valuation as on December 31, 2017.

2 Claims on non-euro area residents denominated in foreign currency

Closing balance	EUR million	
December 31, 2017	8,228.812	
December 31, 2016	12,209.715	
Change	-3,980.903	(-32.6%)

⁶ Pursuant to federal law as promulgated in Federal Law Gazette No. 440/1969, the OeNB is entitled to participate in the SDR system on its own account on behalf of the Republic of Austria and to enter the SDRs purchased or allocated gratuitously on the asset side of the balance sheet.

Table 6 shows asset item 2.1 *Receivables from the IMF*.

Balances at the disposal of the IMF increased by EUR 132.017 million in 2017 on account of net credit and debit entries. Moreover, valuation changes and the net effects of exchange rate gains and book value reconciliation totaled -EUR 33.724 million. In sum, receivables from the IMF decreased by EUR 165.740 million to EUR 408.311 million.

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2017, this rate hovered between 0.244% and 0.747% per annum, mirroring the prevailing SDR interest rate.

SDR holdings⁶ were recognized in the balance sheet at SDR 1,623.597 million (EUR 1,928.184 million) at December 31, 2017. The reduction in 2017 by EUR 141.633 million on balance resulted largely from SDR valuation (-EUR 140.787 million) and the sale of SDRs (-EUR 3.081 million). In contrast, the remuneration of the participation in the IMF, interest credited and realized gains/losses increased by EUR 2.235 million on balance.

Under the IMF's Articles of Agreement, the OeNB is obligated to provide currency on demand in exchange for SDRs up to the point at which its SDR holdings are three times as high as its gratuitously allocated SDRs (see liability item 9 *Counterpart of Special Drawing Rights allocated by the IMF*). The OeNB's net cumulative allocation of SDRs totaled

SDR 1,736.3 million at the balance sheet date. See the *Notes on transactions not disclosed in the balance sheet* for information about this obligation to provide currency on demand, which would result in a claim of the same size.

The OeNB's claims arising from the New Arrangements to Borrow (NAB) in connection with IMF assistance programs are shown under *Other claims on the IMF*. Federal law as promulgated in Federal Law Gazette I No. 114/2010 authorized the OeNB to increase its credit line under the NAB to up to SDR 3.6 billion on behalf of the Republic of Austria. The maximum credit amount under the NAB agreed between the IMF and Austria is SDR 1.82 billion. The NAB entered into effect on March 11, 2011, and on November 4, 2016, the IMF approved a renewal of the NAB for five years (November 2017 to November 2022), with the credit amounts and the applicable terms and conditions remaining unchanged.

So far, resources totaling SDR 637.4 million have been drawn from the OeNB's credit line under the NAB. Repayments ran to SDR 436.3 million, bringing net drawings to SDR 201.1 million, which is equivalent to EUR 238.8 million.

As on December 31, 2017, a contingent liability to the IMF for the undrawn part under the NAB was included. Against remuneration the IMF could call on these resources for lending purposes, which would result in a claim of the same size (see *Notes on transactions not disclosed in the balance sheet*).

Federal law as promulgated in Federal Law Gazette I No. 101/2013 authorized the OeNB to provide a temporary credit line with a maximum amount of EUR 6.13 billion under a bilateral agreement with the IMF. In this connection, a contingent liability to the IMF for the undrawn part under the NAB has been included since December 31, 2013, which the IMF could call on against remuneration and which would result in a claim of the same size (see *Notes on transactions not disclosed in the balance sheet*). Since the bilateral loan agreement hitherto applicable expired in 2017, the OeNB and the IMF, on April 21, 2017, signed a new bilateral loan agreement with immediate effect, with the credit amount remaining unchanged. The agreement is valid for two years and may be renewed once for one year. At the same time, it was acknowledged that – based on the original agreement – this would not require a new law.

Table 7 shows asset item 2.2 *Balances with banks and security investments, external loans and other external assets*.

3 Claims on euro area residents denominated in foreign currency

Table 8 shows *claims on euro area residents denominated in foreign currency*.

Under the swap line agreed between the ECB and the Federal Reserve Bank of New York, an additional USD 1,725 million was made available in 2017 (2016: USD 3,084 million) in

Table 7

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	573.555	374.362	+199.192	+53.2
Securities	5,079.966	8,786.142	–3,706.176	–42.2
Total	5,653.521	9,160.505	–3,506.984	–38.3

Table 8

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	688.068	631.278	+56.790	+9.0
Securities	415.100	1,308.613	–893.513	–68.3
Total	1,103.167	1,939.891	–836.723	–43.1

the form of further EUR/USD swaps. The ECB entered into back-to-back swap transactions with Eurosystem NCBs, which in turn used these funds to provide their counterparties with U.S. dollar liquidity in the form of reverse repo transactions. At the balance sheet date, the amount outstanding was USD 825 million (compared with USD 665 million as on December 31, 2016).

4 Claims on non-euro area residents denominated in euro

Table 9 shows the composition of asset item 4.1 *Claims on non-euro area residents denominated in euro* on December 31, 2016, and December 31, 2017.

As in 2016, on the balance sheet date, there was no requirement to impair the portfolio of held-to-maturity securities. Securities other than held-to-maturity are recognized at market value.

5 Lending to euro area credit institutions related to monetary policy operations denominated in euro

Table 10 shows the liquidity-providing transactions executed by the OeNB.

Income accruing to the Eurosystem NCBs in their performance of monetary policy operations is allocated to the NCBs (see profit and loss account item 5 *Net result of pooling of monetary income*). In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from monetary policy operations, if they were to materialize, are to be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

Losses can only materialize if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. For specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

5.1 Main refinancing operations

The Eurosystem's main refinancing operations provide credit institutions in the euro area with liquidity on a weekly basis. They are executed with a maturity of normally one week, on the basis of standard tenders⁷. Since October 2008, these operations have been conducted as fixed rate tender procedures with full allotment. These operations play a key role in achieving

Table 9

	December 31, 2017 EUR million	December 31, 2016 EUR million	Change EUR million	%
Securities	876.187	658.147	+218.040	+33.1
Held-to-maturity securities	252.114	587.594	-335.480	-57.1
Total	1,128.301	1,245.742	-117.440	-9.4

Table 10

	December 31, 2017 EUR million	December 31, 2016 EUR million	Change EUR million	%
5.1 Main refinancing operations	285.000	1,510.000	-1,225.000	-81.1
5.2 Longer-term refinancing operations	19,827.390	9,836.040	+9,991.350	+101.6
Total	20,112.390	11,346.040	+8,766.350	+77.3

⁷ Guideline of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60), as amended on May 18, 2017 (ECB/2017/12).

the aims of steering interest rates, managing market liquidity and signaling the monetary policy stance.

The interest rate on the main refinancing operations has stood at 0% per annum since March 16, 2016.⁸

5.2 Longer-term refinancing operations

Longer-term refinancing operations aim to provide counterparties with longer-term liquidity, in addition to the main refinancing operations. In 2017, these operations were conducted as fixed rate tender procedures with full allotment with maturities between 3 and 48 months. The interest rate on longer-term refinancing operations (except on targeted longer-term refinancing operations (TLTROs) under TLTRO II, see below) is equivalent to the interest rate on the main refinancing operations.

In 2016, the Governing Council of the ECB decided to launch four targeted longer-term refinancing operations (TLTROs II). These operations have a four-year maturity, with a possibility of repayment after two years.⁹ The applicable interest rate for TLTROs II depends on the individual lending benchmark of the respective counterparty between the date of allotment and January 2018. The actual rate will be set in 2018 and will be between the interest rate on the main refinancing operations and the deposit facility rate at the time of the allotment. Given that the actual rate is only known in 2018 and a reliable estimate is not

possible at this juncture, the deposit facility rate was used for calculating the TLTRO II interest for 2017, as this is deemed a prudent approach.

The Eurosystem conducted three of the four operations announced under TLTRO II in 2016. The OeNB conducted 41 operations with Austrian credit institutions in the total amount of EUR 7.9 billion (Eurosystem: EUR 506.7 billion); the maturity periods of these operations are June 29, 2016, to June 24, 2020; September 28, 2016, to September 30, 2020; and December 21, 2016, to December 16, 2020). Early mandatory repayments by one Austrian credit institution and several euro area credit institutions resulted in a decrease year on year to EUR 7.7 billion (Eurosystem: EUR 506.2 billion).

Under the fourth and final TLTRO II in 2017, the OeNB conducted 22 operations with Austrian credit institutions in the total amount of EUR 12.1 billion (Eurosystem: EUR 233.5 billion) with a maturity period from March 29, 2017, to March 24, 2021.

6 Other claims on euro area credit institutions denominated in euro

Closing balance	EUR million	
December 31, 2017	0.088	
December 31, 2016	0.088	
Change	+0.001	(+1.0%)

This balance sheet item comprises claims not related to monetary policy operations.

Table 11

	December 31, 2017	December 31, 2016	Change	%
	EUR million	EUR million	EUR million	
7.1 Securities held for monetary policy purposes	53,970.734	37,087.132	+16,883.601	+45.5
7.2 Other securities	8,852.469	9,105.033	-252.564	-2.8
of which:				
Securities	7,471.033	7,346.691	+124.342	+1.7
Held-to-maturity securities	1,381.436	1,758.342	-376.906	-21.4
Total	62,823.203	46,192.166	+16,631.037	+36.0

⁸ Decision of the Governing Council of the ECB of March 10, 2016.

⁹ Decision of the ECB of 28 April 2016 on a second series of targeted longer-term refinancing operations (ECB/2016/10), as amended on October 31, 2016 (ECB/2016/30).

Table 12

	December 31, 2017	December 31, 2016	Change					
	Book value			Market value				
	EUR million	EUR million	EUR million	%	EUR million	EUR million	EUR million	%
CBPP1	–	80.666	–80.666	–100.0	–	81.349	–81.349	–100.0
CBPP2	336.683	383.000	–46.317	–12.1	360.810	416.593	–55.783	–13.4
CBPP3	5,723.330	4,314.484	+1,408.846	+32.7	5,775.583	4,388.222	+1,387.361	+31.6
SMP	2,389.038	2,890.478	–501.440	–17.3	2,639.187	3,220.359	–581.172	–18.0
PSPP ¹	45,521.683	29,418.504	+16,103.178	+54.7	45,635.017	29,784.250	+15,850.767	+53.2
Total	53,970.734	37,087.132	+16,883.601	+45.5	54,410.597	37,890.774	+16,519.824	+43.6

¹ Government/agency bonds.

7 Securities of euro area residents denominated in euro

Table 13

Table 11 shows the composition of this balance sheet item on December 31, 2016, and on December 31, 2017.

7.1 Securities held for monetary policy purposes

This balance sheet item consists of securities acquired by the OeNB within the scope of the three CBPP¹⁰, the SMP¹¹ and the PSPP¹².

Tables 12 and 13 show the amortized cost (= book value), the market value (which is provided here for information only and is not disclosed in the balance sheet) and the nominal value of the securities purchased under the programs mentioned above.

Under the CBPP1 and CBPP2, the ECB and the NCBs purchased euro-denominated covered bonds issued in the euro area with the objective of easing funding conditions for credit institutions and enterprises and encouraging credit institutions to maintain and expand lending to customers. These programs were concluded on June 30, 2010, and October 31, 2012, respectively. The final redemption of covered bonds purchased by the OeNB under the CBPP1 took place in September 2017. The CBPP2 ultimately led to securities

	December 31, 2017	December 31, 2016	Change	
	Nominal value			
	EUR million	EUR million	EUR million	%
CBPP1	–	80.562	–80.562	–100.0
CBPP2	336.900	382.900	–46.000	–12.0
CBPP3	5,606.111	4,190.917	+1,415.194	+33.8
SMP	2,428.767	2,950.967	–522.200	–17.7
PSPP ¹	38,930.883	24,711.343	+14,219.540	+57.5
Total	47,302.661	32,316.689	+14,985.972	+46.4

¹ Government/agency bonds.

purchases in the Eurosystem totaling EUR 16.4 billion in nominal terms, with the OeNB's share coming to some EUR 0.5 billion.

Under the SMP, the ECB and the NCBs purchased euro area public and private debt securities to address the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. By decision of the Governing Council of the ECB, the SMP was discontinued in September 2012.

Since October 2014, the ECB and the NCBs have been making both primary and secondary market purchases of covered bonds denominated in euro and issued in the euro

¹⁰ Decision of the ECB of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), Decision of the ECB of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17) and Decision of the ECB of 15 October 2014 on the implementation of the third covered bond purchase programme (ECB/2014/40), as amended on November 20, 2017 (ECB/2017/37).

¹¹ Decision of the ECB of 14 May 2010 establishing a securities markets programme (ECB/2010/5).

¹² Decision of the ECB of 4 March 2015 on a secondary markets public sector asset purchase programme (ECB/2015/10), as amended on January 11, 2017 (ECB/2017/1).

area under the CBPP3 with the objective of easing funding conditions for credit institutions.

In January 2015, the Governing Council of the ECB decided that asset purchases be expanded to include a secondary market public sector asset purchase programme (PSPP). This program is aimed at further easing monetary and financial conditions, including borrowing conditions for nonfinancial corporations and households in the euro area, to support consumption and corporate investment in the euro area as a whole. Under the PSPP, the ECB and the NCBs may purchase euro-denominated bonds issued by euro area governments or agencies (PSPP government/agency bonds) and by European institutions (PSPP supranational bonds) on the secondary market.

In 2016, the corporate sector purchase programme (CSPP)¹³ was added to the expanded asset purchase programme (APP), which already comprised the CBPP3, the ABSPP¹⁴ and the PSPP. Securities purchases under the ABSPP and the CSPP are not conducted by the OeNB but by the ECB and some Eurosystem NCBs.

In 2017, the Eurosystem continued its securities purchases under the APP. The monthly pace of combined net APP purchases by the NCBs and the ECB was EUR 80 billion on average until March 2017, and, afterward, EUR 60 billion until the end of the year. Based on the Governing Council decision taken in October 2017, these purchases are intended to continue at a monthly pace of EUR 30 billion from January to September 2018, or beyond, if necessary, and, in any case, until the Governing Council sees a sustained adjustment in the path of inflation that is consistent with its inflation aim.¹⁵ The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

Profits or losses on securities held for monetary policy purposes are pooled and redistributed within the framework of the allocation of monetary income within the Eurosystem. For securities purchased under the CBPP1 and CBPP2 as well as government/agency bonds purchased under the PSPP, remuneration at the interest rate on the main refinancing operations is assumed. Any losses incurred under these programs are not shared by the Eurosystem NCBs.

For securities purchased under the SMP, CBPP3, ABSPP and CSPP as well as supranational bonds purchased under the PSPP, remuneration is based on the actual interest income within the framework of the allocation of monetary income within the Eurosystem. In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, losses from securities held under the SMP, CBPP3, ABSPP and CSPP or from supranational bonds held under the PSPP, if they were to materialize, are shared in full by the Eurosystem NCBs, in proportion to the ECB capital key shares prevailing in the financial year in which the relevant losses occur.

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held under these programs. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council.

As a result of an impairment test conducted on the CSPP portfolio at the end of 2017, it was concluded that the holding of one security is impaired. In accordance with the principle of prudence, the Governing Council has deemed it appropriate to establish a provision against losses in monetary policy operations. As a result, a provision of EUR 1.921 million was established in the 2017 financial statements of the OeNB, which corresponds to 2.7888% of the Eurosystem's total provision of

¹³ Decision of the ECB of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16), as amended on May 18, 2017 (ECB/2017/13).

¹⁴ Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45), as amended on May 18, 2017 (ECB/2017/15).

¹⁵ Decision of the Governing Council of the ECB of October 26, 2017.

EUR 69 million¹⁶ (see liability item 13 *Provisions*). The affected security was sold in January 2018.

As a result of an impairment test conducted on securities purchased under the CBPP1, CBPP2, CBPP3, SMP, PSPP and ABSPP, the Governing Council of the ECB decided that all future cash flows on these securities are expected to be received. As in the previous year, the impairment test did not result in any requirement to impair as at December 31, 2017.

7.2 Other securities

The change in *other securities* resulted chiefly from transactions. On the balance sheet date, there was no requirement to impair the portfolio of held-to-maturity securities. Securities other than held-to-maturity are recognized at market value.

8 General government debt denominated in euro

Closing balance	EUR million
December 31, 2017	399.345
December 31, 2016	401.494
Change	-2.148 (-0.5%)

This balance sheet item corresponds fully to the claim on the Austrian Federal Treasury from silver commemorative coins issued before 1989, based on the 1988 Coinage Act as promulgated in Federal Law Gazette No. 597/1988, as amended; Article 21 paragraph 1 item 2 of this

Table 14

	EUR million
Government remuneration for silver commemorative coins returned to Münze Österreich AG	+5.821
Proceeds from metal recovery	-2.156
Redemptions made from the central government's share of profit in 2016	-5.814
Total	-2.148

Act expressly authorizes the OeNB to include in its balance sheet an unremunerated claim on the central government in the amount of the face value of the accumulated silver coins. Table 14 shows the changes in 2017.

The central government will have to repay any redeemable amount outstanding on December 31, 2040, in equal annual installments over the five following years (2041 to 2045). The liability side of the OeNB's financial statements (see liability item 13 *Provisions*) contains a provision for the estimated unredeemable amount outstanding. The actual amount can be determined only at the end of 2040.

9 Intra-Eurosystem claims

Closing balance	EUR million
December 31, 2017	31,048.083
December 31, 2016	30,317.848
Change	+730.235 (+2.4%)

Table 15 shows the composition of *intra-Eurosystem claims* on December 31, 2016, and December 31, 2017.

Table 15

	December 31, 2017 EUR million	December 31, 2016 EUR million	Change EUR million	%
9.1 Participating interest in the ECB	221.613	221.613	-	-
9.2 Claims equivalent to the transfer of foreign reserves	1,137.637	1,137.637	-	-
9.4 Net claims related to the allocation of euro banknotes within the Eurosystem	29,688.833	28,958.598	+730.235	+2.5
Total	31,048.083	30,317.848	+730.235	+2.4

¹⁶ Decision of the Governing Council of the ECB of January 17, 2018.

Table 16

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
11.1 Coins of euro area	99.877	93.357	+6.519	+7.0
11.2 Tangible and intangible fixed assets	134.935	141.059	-6.124	-4.3
11.3 Other financial assets	7,288.508	7,247.993	+40.515	+0.6
11.5 Accruals and prepaid expenses	687.067	567.110	+119.957	+21.2
11.6 Sundry	923.416	968.589	-45.174	-4.7
Total	9,133.803	9,018.108	+115.694	+1.3

9.1 Participating interest in the ECB

Pursuant to Article 28 of the Statute of the ESCB and of the ECB, the NCBs of the ESCB are the sole subscribers to the capital of the ECB. This balance sheet item shows the OeNB's share in the ECB's capital under Article 29 of the Statute of the ESCB and of the ECB; the ECB capital key must be adjusted every five years. The most recent adjustment took effect on January 1, 2015. Since then, the OeNB's share in the ECB's paid-up capital (capital key) has remained unchanged at 2.7888%.

9.2 Claims equivalent to the transfer of foreign reserves

This balance sheet item represents the OeNB's claims arising from the transfer of foreign reserve assets¹⁷ to the ECB. The claims are presented at the euro value the corresponding assets had at the time they were transferred to the ECB. The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component. The OeNB does not have a claim on the ECB for retransfer of these foreign reserve assets as the corresponding claims are denominated in euro. See the *Notes on transactions not disclosed in the balance sheet* for information about additional capital contributions transferred to the ECB.

9.4 Net claims related to the allocation of euro banknotes within the Eurosystem

This balance sheet item consists of the OeNB's claims vis-à-vis the Eurosystem relating to the

allocation of euro banknotes within the Eurosystem (see also *Banknotes in circulation, intra-Eurosystem balances and interim ECB profit distribution*).

11 Other assets

Table 16 shows *other assets*.

11.1 Coins of euro area

This balance sheet item represents the OeNB's stock of fit coins issued by euro area countries.

11.2 Tangible and intangible fixed assets

This balance sheet item comprises premises, assets under construction, equipment (including office equipment, art collection, IT hardware and software, and motor vehicles), tangible real assets and intangible fixed assets (rights of use and exploitation) as shown in table 17.

Tangible real assets comprise the coins of the OeNB's Money Museum and the OeNB's collection of historical string instruments. On December 31, 2017, the OeNB's collection of historical string instruments encompassed 31 violins, 6 violoncellos and 3 violas. The string instruments are on loan to renowned musicians under the OeNB's cultural promotion program.

11.3 Other financial assets

Table 18 shows *other financial assets*.

EUR 1,635.158 million of the OeNB's total securities portfolio represent investments of *pension reserve* assets, another EUR 1,592.048 million

¹⁷ According to Article 30 of the Statute of the ESCB and of the ECB.

Table 17

	Purchase and production costs as at January 1, 2017	Purchases	Sales	Transfer	Purchase and production costs as at December 31, 2017
	Accumulated depreciation as at January 1, 2017	Annual depreciation	Depreciation sales	Depreciation transfer	Accumulated depreciation as at December 31, 2017
	Book value as at January 1, 2017				Book value as at December 31, 2017
	EUR million	EUR million	EUR million	EUR million	EUR million
Premises ¹	122.728 ²	0.984	-4.363	-	119.350
	-70.227	-4.609	3.938	-	-70.898
	52.502				48.452
Assets under construction	4.659	-	-	-4.659	-
	-	-	-	-	-
	4.659				-
Equipment	99.733	8.242	-8.313 ³	4.659	104.321
	-66.004	-10.265	8.313	-	-67.956
	33.730				36.365
Tangible real assets	53.187	0.009	-	-	53.196
	-3.037	-0.042	-	-	-3.078
	50.150				50.118
Intangible fixed assets	0.090	-	-	-	0.090
	-0.072	-0.018	-	-	-0.090
	0.018				-
Total	280.397	9.235	-12.676	-	276.957
	-139.339	-14.934	12.251	-	-142.022
	141.059				134.935

¹ The book value of developed land equals EUR 0.

² Premises acquired prior to December 31, 1956, were booked at the cost recorded in the schilling opening balance sheet (Federal Law Gazette No. 190/1954).

³ The disposal of assets at book value (i.e. the underlying historical purchase and production costs less accumulated depreciation) amounts to zero.

Table 18

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Securities	6,603.334	6,599.610	+3.724	+0.1
Participating interests	684.495	647.852	+36.643	+5.7
Other investment	0.679	0.530	+0.148	+28.0
Total	7,288.508	7,247.993	+40.515	+0.6

reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* (of which EUR 1,551.987 million were earmarked as an endowment for the National Foundation). Under its own funds management, the OeNB had invested EUR 3,376.128 million.¹⁸

Revaluations of the own funds portfolio resulted in unrealized price gains of EUR 24.879 million and unrealized price losses totaling EUR 1.016 million.

Of the participating interests, EUR 383.483 million formed part of the own funds portfolio

¹⁸ The OeNB's own funds shown under liabilities include its capital, the reserve for nondomestic and price risks, the profit-smoothing reserve, earmarked ERP capital and the risk provisions.

Table 19

	EUR million
Net asset value on December 31, 2016	647.852
Purchases in 2017	–
Sales in 2017 (at book value)	–
Annual depreciation in 2017	–
Revaluation in 2017	+36.643
Net asset value on December 31, 2017	684.495

and EUR 301.012 million part of the investment portfolio relating to investments of the pension reserve assets. Table 19 shows participating interests.

Other investment mainly consists of investment income tax repayment claims.

11.5 Accruals and prepaid expenses

Table 20 shows the composition of *accruals and prepaid expenses*.

Table 20

	December 31, 2017 EUR million	December 31, 2016 EUR million	Change EUR million	%
Accrued income	13.016	14.547	–1.531	–10.5
Prepaid expenses	674.052	552.563	+121.488	+22.0
Total	687.067	567.110	+119.957	+21.2

Table 21

	December 31, 2017 EUR million	December 31, 2016 EUR million	Change EUR million	%
Claims arising from ERP loans to companies	705.136	702.800	+2.336	+0.3
Schilling coins	4.049	5.530	–1.480	–26.8
Advances on salaries	9.783	9.734	+0.049	+0.5
Employer loans	22.325	24.812	–2.486	–10.0
Advances	6.968	7.859	–0.890	–11.3
Claims on the tax authorities arising from corporate income tax prepayment	17.007	21.649	–4.642	–21.4
Accounts receivable	13.506	13.170	+0.336	+2.6
Claims on Münze Österreich AG in respect of the simultaneous capitalization of the dividend claim in 2017 and 2016	76.287	65.726	+10.561	+16.1
unsettled schilling coin returns	0.070	0.062	+0.009	+14.0
Balancing item relating to forward sales or purchases	66.999	116.066	–49.067	–42.3
Other accounts receivable	1.285	1.183	+0.102	+8.6
Total	923.416	968.589	–45.174	–4.7

11.6 Sundry

Table 21 shows the composition of *sundry assets*.

Pursuant to Article 3 paragraph 2 ERP Fund Act, the OeNB's maximum financing commitment corresponds to the sum by which the federal debt was written down initially (EUR 341.955 million) plus interest accrued on a reserve account (EUR 659.744 million on December 31, 2017). The ERP loan portfolio managed by the OeNB thus totaled EUR 1,001.700 million on December 31, 2017. The provisions governing the extension of loans from this portfolio are laid down in Article 83 Nationalbank Act.

The residual terms of advances on salaries almost exclusively exceed one year. All advance payments and employer loans are secured by life insurance or credit default insurance contracts.

Table 22

	December 31, 2017	December 31, 2016	Change
	EUR million	EUR million	EUR million
Total value of euro banknotes put into circulation	345.886	−65.527	+411.413
Adjusted for: net claims related to the allocation of euro banknotes within the Eurosystem	29,688.833	28,958.598	+730.235
of which:			
Claims related to the allocation of euro banknotes within the Eurosystem	32,300.777	31,471.259	+829.517
less:			
Liabilities resulting from the ECB's share in euro banknotes in circulation ¹	−2,611.943	−2,512.661	−99.282
Euro banknotes in circulation²	30,034.719	28,893.071	+1,141.648

¹ The amount corresponds to the OeNB's share in the 8% of the total value of euro banknotes in circulation that is recorded in the balance sheet of the ECB.

² This corresponds to 2.5655% of the total amount of euro banknotes in circulation as at December 31, 2017, and December 31, 2016.

Table 23

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
2.1 Current accounts (covering the minimum reserve system)	31,638.747	23,154.813	+8,483.934	+36.6
2.2 Deposit facility	4,020.000	4,291.000	−271.000	−6.3
Total	35,658.747	27,445.813	+8,212.934	+29.9

Liabilities

1 Banknotes in circulation

Closing balance	EUR million
December 31, 2017	30,034.719
December 31, 2016	28,893.071
Change	+1,141.648 (+4.0%)

This item consists of the OeNB's share of total euro banknotes in circulation (table 22).

See section *Banknotes in circulation, intra-Eurosystem balances and interim ECB profit distribution* for further explanations on this item.

2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

Table 23 shows the composition of this balance sheet item.

2.1 Current accounts (covering the minimum reserve system)

This balance sheet item contains the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances have been remunerated since January 1, 1999, at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Since June 2014, the reserve holdings exceeding the required minimum reserves have been remunerated at 0% or the deposit facility rate, whichever is lower.

2.2 Deposit facility

The item *deposit facility* refers to overnight deposits placed with the OeNB by credit institutions that access the liquidity-absorbing standing facility at a prespecified rate. The interest rate on the deposit facility has stood at −0.40% per annum since March 16, 2016.

5 Liabilities to other euro area residents denominated in euro

Closing balance	EUR million	
December 31, 2017	9,250.130	
December 31, 2016	11,500.089	
Change	-2,249.959	(-19.6%)

This balance sheet item comprises general government deposits of EUR 2,171.922 million (-EUR 1,198.353 million) and current account holdings to the amount of EUR 7,078.208 million (-EUR 1,051.606 million) of credit institutions not required to hold minimum reserves and of enterprises.

6 Liabilities to non-euro area residents denominated in euro

Closing balance	EUR million	
December 31, 2017	939.580	
December 31, 2016	998.928	
Change	-59.348	(-5.9%)

This balance sheet item consists of balances of central banks, credit institutions and supra-national financial institutions headquartered outside the euro area.

9 Counterpart of Special Drawing Rights allocated by the IMF

Closing balance	EUR million	
December 31, 2017	2,062.046	
December 31, 2016	2,213.106	
Change	-151.059	(-6.8%)

This balance sheet item represents the euro equivalent of the SDR 1,736.314 million allocated gratuitously to the OeNB by the IMF, measured at current market values. The OeNB was allocated SDRs on each January 1, from 1970 to 1972 and from 1979 to 1981 as well as on August 28 and September 9, 2009 (see asset item 2.1 *Receivables from the IMF*). The decrease in this item resulted mainly from valuation effects.

10 Intra-Eurosystem liabilities

Closing balance	EUR million	
December 31, 2017	45,804.509	
December 31, 2016	31,138.075	
Change	+14,666.434	(+47.1%)

This balance sheet item shows the OeNB's net liabilities arising from transactions with the NCBs participating in TARGET2 and with the ECB. It also comprises the nonremunerated liabilities to the ECB resulting from EUR/USD swap transactions between the ECB and the OeNB. Moreover, this item covers the Eurosystem balance arising at year-end from the monetary income reallocation and the balances arising from the interim ECB profit distribution.

Intra-Eurosystem liabilities with the ECB (excluding the above-mentioned swap transactions) are remunerated on a daily basis at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

12 Other liabilities

Table 24 shows the composition of *other liabilities*.

Table 24

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
12.1 Off balance sheet instruments' revaluation differences	43.148	109.430	-66.281	-60.6
12.2 Accruals and income collected in advance ¹	84.244	19.644	+64.600	n.a.
12.3 Sundry	330.331	310.543	+19.788	+6.4
Total	457.724	439.616	+18.108	+4.1

¹ Accrued expenses.

Table 25

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Central government's share of profit of 90% under Article 69 paragraph 3 Nationalbank Act	173.962	162.683	+11.279	+6.9
Liability from schilling banknotes in circulation with an exchange deadline	108.508	109.720	-1.212	-1.1
Earmarked funds of the OeNB Anniversary Fund				
OeNB Anniversary Fund (initial funding)	32.988	30.990	+1.998	+6.4
OeNB Anniversary Fund National Foundation endowment	7.132	1.907	+5.225	n.a.
Sundry	7.741	5.243	+2.498	+47.6
Total	330.331	310.543	+19.788	+6.4

12.3 Sundry

Table 25 shows the composition of *sundry liabilities*.

Pursuant to Article 69 paragraph 3 Nationalbank Act, the *central government's share of profit* corresponds to 90% of the profit for the year after tax and after transfers to the pension reserve.

On July 14, 2017, the amendment to the National Foundation Act (Federal Law Gazette I No. 81/2017) establishing the legal basis for the transfer of an additional EUR 100 million per annum to the National Foundation in 2018, 2019 and 2020 was promulgated. These funds come from bank levy receipts (EUR 33.33 million) and from the OeNB (EUR 66.67 million). As entitled by the National Foundation Act the OeNB will transfer EUR 59.5 million of the central government's share of profit to the National Foundation, deducting the 2017 investment income of EUR 7.1 million.

The *liability from schilling banknotes in circulation with an exchange deadline* is attributable to schilling banknotes with an exchange deadline which were still outstanding on December 31, 2017. Like 2016, 2017 did not mark the end of the exchange period of any schilling banknotes.

According to the General Meeting's decision, EUR 10 million of the profit for the year 2016 were apportioned to the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching*. The initial OeNB Anniversary Fund was thus endowed with EUR 41.413 million. Of these funds, EUR 8.425 million were paid out in 2017; the remaining amount of EUR 32.988 million are funds that had not been disbursed by December 31, 2017; of this

amount, EUR 14.648 million had been committed. In 2017, the OeNB's General Council endorsed 49 new projects which will receive funding amounting to EUR 6.078 million. Since 1966, when funds were first pledged as financial assistance, a total of EUR 789.033 million has been paid out.

Under the initial OeNB Anniversary Fund, above all research projects in the fields of economics and medical science (clinical research) receive funding, but also research projects in social sciences and the humanities. In 2017, funding in the amount of EUR 0.6 million and EUR 0.5 million, respectively, went into two special research focus areas, namely "Competitiveness in Austria – stylized facts, economic analysis, challenges and policy options" and "Financial market and financial stability."

13 Provisions

Table 26 shows *provisions*.

Risk provisions are made for foreign exchange rate, interest rate, credit and gold price risks. To calculate the potential need to allocate or release risk provisions, the OeNB uses bandwidths for all financial risks it incurs, including the risks arising from the Eurosystem's single monetary policy. These bandwidths are based on risk calculations using VaR (value at risk) and ES (expected shortfall) calculations with a confidence level of 99% over a one-year horizon (plus a three-month horizon for market risk). The bandwidths also reflect stress scenarios and anticipated scenarios for the risks associated with the conduct of Eurosystem monetary

Table 26

	December 31, 2016	Transfer from	Transfer to	December 31, 2017
	EUR million	EUR million	EUR million	EUR million
Risk provisions	3,675.000	–	+275.000	3,950.000
Pension reserve	1,946.106	–	+54.467	2,000.573
Personnel provisions				
Severance payments	62.682	–3.605	+4.468	63.545
Supplementary contributions to pension plans	44.734	–0.145	+9.995	54.583
Anniversary bonuses	14.895	–1.421	+1.681	15.156
Residual leave entitlements	13.785	–0.161	+0.426	14.050
Death gratuity payments	1.239	–	+0.861	2.100
Pension fund contributions	1.298	–0.554	+0.640	1.384
Overtime entitlements	0.788	–0.016	–	0.772
Prepaid salaries in 2016 and 2017	0.455	–0.455	+0.424	0.424
Compulsory social security contributions	0.126	–0.126	+0.112	0.112
Sabbaticals	0.081	–	+0.021	0.102
Pending employment lawsuits	0.572	–	+0.260	0.832
Other provisions				
Schilling banknotes without an exchange deadline	138.923	–2.545	–	136.378
Estimated unredeemable amount outstanding from the Austrian Federal Treasury for silver commemorative coins issued before 1989	34.103	–	+0.100	34.203
Accounts payable	3.388	–2.579	+3.727	4.536
Accounts payable to subsidiaries	2.630	–2.630	+2.987	2.987
Pending lawsuits	9.669	–9.669	–	–
Provision against losses in monetary policy operations	–	–	+1.921	1.921
Sundry	2.509	–0.850	+2.245	3.905
Total	5,952.985	–24.757	+359.335	6,287.562

policy operations. Taking into account the prohibition of netting, balances on revaluation accounts are used as risk-mitigating factors in calculating risk exposure.

The Governing Board determines the size of the risk provisions every year on the basis of the risk bandwidths, giving due consideration to monetary policy, macroeconomic and financial stability considerations. In the financial statements for 2017, EUR 275 million were allocated to the risk provisions. As defined by the ECB, these risk provisions constitute central bank-specific provisions equivalent to reserves and are to be included in *net equity*.

The OeNB's retirement plan for employees recruited up to April 30, 1998, is based on internally funded pensions. The legal basis of this plan is the Nationalbank Act. It obligates the OeNB to hold a *pension reserve* to cover its

liability under this retirement plan. All employees recruited from May 1, 1998, are covered by the pension system under the General Social Security Act (Allgemeines Sozialversicherungsgesetz, ASVG). With effect from May 1, 1999, a contract between the OeNB and a pension fund was concluded for these employees. This means that the OeNB's direct liability to pay retirement benefits is limited to staff recruited before May 1, 1998, and that, as a result, the pension reserve set up to secure this liability has become a closed system.

Pursuant to Article 81 Second Stability Act 2012 (2. Stabilitätsgesetz 2012), for claim periods from January 1, 2013, until December 31, 2014, the OeNB retained a specified share of legal pension contributions and transferred this amount to the central government. This affected all employees that joined the OeNB until

March 30, 1993, with 3% and all retired OeNB employees under the first and second generations of the OeNB's Conditions of Service with 3.3%.

The Act to Limit Specific Pension Benefits (Sonderpensionenbegrenzungsgesetz, SpBegrG) amended Article 81 Second Stability Act 2012, which means previous provisions became ineffective as from December 31, 2014, and were replaced by new ones. Since January 1, 2015, staff members employed under the first and second generations of the OeNB's Conditions of Service have been obliged to pay pension contributions to the OeNB (first generation: 9% in 2017; second generation: 10.25% of basic salaries up to the earnings cap as defined in the General Social Security Act, and in 2017, 5% for any part of salaries in excess of this earnings cap). Under the Act to Limit Specific Pension Benefits, retired staff who are entitled to pension or supplementary pension payments under the first and second generations of the OeNB's Conditions of Service have been obliged since January 1, 2015, to make a special pension contribution (of between 3.3% and 25%) to the OeNB from their monthly pension benefits as well as from special payments they are entitled to.

The actuarial present value of projected pension benefits amounted to EUR 2,540.038 million on December 31, 2017; it was covered by the pension reserve and hidden reserves in the real estate portfolio in the amount of EUR 2,352.883 million. The EUR 187.155 million funding gap as at December 31, 2017, was recorded as a contingent liability in the *transactions not disclosed in the balance sheet* (table 29).

The annual determination of the discount rate is derived from the seven-year moving average of the yield on a zero coupon euro interest rate swap curve with an average residual maturity of 15 years as published by the Deutsche Bundesbank on November 30, 2017, i.e. 2.84% (2016: 3.28%). In the calculation, it was assumed that the relevant assessment bases in the

qualifying period increase by 1.7% per annum (2016: 1.5%) and that current pension payments increase by 1.7% per annum (2016: 1.3%).

Moreover, like in 2016, the most recent mortality tables¹⁹ were used to calculate the actuarial present value of the reserve. The calculation takes death, disability or withdrawal from employment upon attainment of pension entitlement age into account as reasons that entitle employees or their dependents to receive benefits from the pension reserve. Fluctuations are not taken into account. The pension entitlement age is governed by the provisions in the applicable Conditions of Service and service contracts, in observance of the Act to Limit Specific Pension Benefits. The pension scheme liabilities for current employees with pension entitlements are stated pro rata; those for retired employees and for prospective beneficiaries that have attained pension entitlement age are stated at their net present value.

The change in the discount rate and in the assumed increase of the assessment bases had an impact of +EUR 274.464 million on the amount of reserve assets required to meet future pension obligations.

Provisions for severance payments, anniversary bonuses, residual leave entitlements, death gratuity payments and supplementary contributions to pension plans are calculated according to actuarial principles. The discount rate used for calculating the provisions for severance payments and the provisions for sabbaticals is the seven-year moving average of the yield on a zero coupon euro interest rate swap curve with an average residual maturity of seven years as published by the Deutsche Bundesbank on November 30, 2017, i.e. 2.07%. Assuming an average residual maturity of nine years, this discount rate as applied to the calculation of the provisions for anniversary bonuses equals 2.33%. Last year, a discount rate of 2.64% was used, with the average residual maturity assumed to be eight years in each case. The relevant assessment bases were

¹⁹ AVÖ 2008-P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler (actuarial basis for pension insurance published by the Actuarial Association of Austria AVÖ).

all assumed to increase by 1.7% per annum in 2017 (2016: 1.5%).

The change in the discount rate and in the assumed increase of the assessment base had an impact of +EUR 1.979 million on the provisions for severance payments and an impact of +EUR 0.340 million on the provisions for anniversary bonuses.

The calculation of the provisions for death gratuity payments and for supplementary contributions to pension plans is based on the same parameters like the calculation of the pension reserve. The change in the discount rate and in the assumed increase of the assessment base resulted in a EUR 2.441 million increase in the provisions for supplementary contributions to pension plans.

The changes in the provisions for anniversary bonuses and other long-term personnel provisions are recorded in the profit and loss account item 7 *staff costs* under *salaries*; the changes in the provisions for severance payments are recorded under *expenses for severance payments and contributions to severance funds*. The changes in the provisions for supplementary contributions to pension plans are recorded in the profit and loss account item 8 *expenses for retirement*. If the netting of transfers to and transfers from the respective provisions yields a positive balance, this amount is recorded as other income.

The provisions for pending lawsuits in the amount of EUR 9.669 million for the lawsuit which the OeNB's Central Staff Council and 1,394 actively employed and retired OeNB staff members filed against the OeNB and the Republic of Austria for retaining regular and special pension contributions pursuant to Article 81 Second Stability Act 2012, as applicable until December 31, 2014, were completely reversed in 2017 given that all national appeal procedures had been exhausted.

The level of the provisions for schilling banknotes without an exchange deadline, which were not recognized in the profit and loss

account in 2002, relates to the expected amount of schilling banknote exchanges as adjusted for past annual exchange amounts. The provisions were drawn down in 2017 for exchanges of schilling banknotes.

As a result of an impairment test conducted on its CSPP portfolio, the Governing Council of the ECB deemed it appropriate to establish a provision totaling EUR 69 million against losses in monetary policy operations in relation to a security held by an NCB of the Eurosystem. The size of this provision was calculated taking into account the information regarding the security sale in January 2018. This is in line with the framework for accounting and financial reporting in the ESCB for post balance sheet events²⁰. In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, this provision is funded by all the NCBs of the Eurosystem in proportion to their subscribed capital key shares in the ECB prevailing in 2017. As a result, a provision of EUR 1.921 million was established in the 2017 financial statements of the OeNB, which is equivalent to 2.7888% of the Eurosystem's total provision.

14 Revaluation accounts

Table 27 shows the composition of this balance sheet item on December 31, 2016, and December 31, 2017. The amounts on the *revaluation accounts* reflect the valuation gains established in the course of the valuation of assets (by individual valuation units) as on December 31, 2017. These gains are realizable only in the context of future transactions in the respective categories or may be used to reverse revaluation losses that may arise in future years. Any other use is inadmissible.

15 Capital and reserves

According to Article 8 Nationalbank Act, the *capital* of the OeNB is EUR 12 million and is divided equally into 150,000 shares. The Republic

²⁰ Article 4 paragraph 3 of the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting of the European System of Central Banks (ECB/2016/34).

Table 27

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Revaluation accounts				
Gold	7,521.381	7,666.902	-145.521	-1.9
Foreign currency	71.975	931.545	-859.570	-92.3
Securities	938.934	734.091	+204.843	+27.9
Participating interests	94.046	57.403	+36.643	+63.8
Coins of the OeNB's Money Museum	9.269	9.269	-	-
Revaluation accounts total	8,635.605	9,399.210	-763.606	-8.1
Valuation gains from January 1, 1999				
Participating interests	262.764	262.764	-	-
Total	8,898.368	9,661.974	-763.606	-7.9

Table 28

	December 31, 2017	December 31, 2016	Change	
	EUR million	EUR million	EUR million	%
Profit-smoothing reserve	121.099	114.224	+6.876	+6.0
Reserve for nondomestic and price risks	1,973.263	1,973.263	-	-
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching	1,537.500	1,537.500	-	-
Earmarked capital funded with net interest income from ERP loans	659.744	657.030	+2.715	+0.4
Total	4,291.607	4,282.016	+9.590	+0.2

of Austria has been the sole shareholder of the OeNB since May 27, 2010, with the Ministry of Finance acting as the shareholder's representative.

Table 28 shows *reserves*.

The change in the *profit-smoothing reserve* resulted from allocations out of the profit for the year 2016, which were made according to the General Meeting's decision of March 30, 2017.

The *reserve for nondomestic and price risks* serves to cover the OeNB's financial risks.

The capital of the *OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching* consists of its initial funding (EUR 37.5 million) and an endowment to support the National Foundation (EUR 1.5 billion), which was established in 2003 by earmarking funds reappropriated from the *freely disposable reserve fund* (EUR 545 million) and from the *general reserve fund* (EUR 955 million).

Funds earmarked for appropriation by the Anniversary Fund may be used to obtain a balanced operating result.

Earmarked capital funded with net interest income from ERP loans represents the cumulative interest income accruing to the OeNB from lending out of the ERP loan portfolio managed by the OeNB. Appropriation of this ERP capital is subject to international law; this item is earmarked exclusively for ERP loans. ERP capital must not be used to cover any loss for the year.

Notes on transactions not disclosed in the balance sheet

Table 29 shows *transactions not disclosed in the balance sheet*.

Notes on the profit and loss account

Table 30 shows the *profit and loss account*.

Table 29

	December 31, 2017	December 31, 2016
	<i>EUR million</i>	<i>EUR million</i>
Obligation under the IMF's Articles of Agreement to provide currency for SDRs up to the point at which the OeNB's SDR holdings are three times as high as its gratuitously allocated SDRs ¹	4,257.955	4,569.499
Contingent liabilities to the IMF under the New Arrangements to Borrow (NAB) ¹	1,920.843	1,912.506
Contingent liabilities to the IMF under a bilateral agreement ¹	6,130.000	6,130.000
Obligation to make supplementary contributions to the stake in the capital of the BIS (8,564 shares of SDR 5,000 each)	38.140	40.934
Forward purchases (euro- and foreign currency-denominated forward transactions and swaps)	2,696.732	1,824.413
Forward sales (euro- and foreign currency-denominated forward transactions and swaps)	2,696.732	1,824.413
Liabilities from foreign currency investments effected in the OeNB's name for third account	31.325	49.033
Repayment obligation equivalent to the interest accrued on pension contributions paid by OeNB staff terminating employment	15.343	14.321
Contingent liabilities relating to the funding gap in the pension reserve	187.155	46.085
Contingent liabilities equivalent to the OeNB's share of the maximum of EUR 50 billion of reserve assets that the ECB may require the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB	981.550	981.550
Contingent liabilities arising from bank guarantees given	111.000	111.000
Contingent assets arising from bank guarantees received	2.025	8.276
Contingent asset from a guarantee of the OeKB in respect of payment transactions	1,000.000	1,000.000
Financial assistance granted under the ERP Fund	7.684	9.844

¹ These contingent liabilities may be activated by the IMF against remuneration, giving rise to a corresponding claim of the same size.

Table 30

	2017	2016	Change ¹	
	<i>EUR million</i>	<i>EUR million</i>	<i>EUR million</i>	%
1 Net interest income	663.712	650.300	+13.412	+2.1
2 Net result of financial operations, writedowns and risk provisions	-222.824	-152.058	+70.766	+46.5
3 Net income from fees and commissions	1.140	1.103	+0.037	+3.4
4 Income from equity shares and participating interests	113.447	146.544	-33.097	-22.6
5 Net result of pooling of monetary income	72.278	17.242	+55.036	n.a.
6 Other income	37.186	29.784	+7.402	+24.9
Total net income	664.939	692.915	-27.975	-4.0
7 Staff costs	-146.629	-156.894	-10.265	-6.5
8 Expenses for retirement	-108.500	-142.066	-33.566	-23.6
9 Administrative expenses	-80.884	-83.863	-2.979	-3.6
10 Depreciation of tangible and intangible fixed assets	-14.934	-14.550	+0.384	+2.6
11 Banknote production services	-18.035	-15.117	+2.919	+19.3
12 Other expenses	-9.599	-12.634	-3.034	-24.0
Total expenses	-378.581	-425.123	-46.542	-10.9
Operating profit	286.358	267.791	+18.566	+6.9
13 Corporate income tax	-71.589	-66.948	+4.642	+6.9
	214.768	200.844	+13.925	+6.9
14 Transfer to the pension reserve and central government's share of profit	-195.439	-182.768	+12.672	+6.9
15 Profit for the year	19.329	18.076	+1.253	+6.9

¹ Absolute increase (+) or decrease (-) in the respective item.

1 Net interest income

Net interest income represents the balance of interest income and interest expense (table 31).

2 Net result of financial operations, writedowns and risk provisions

Table 32 shows realized gains/losses arising from financial operations.

Table 33 shows writedowns on financial assets and positions.

In 2017, EUR 275 million were transferred to the risk provisions (2016: EUR 150 million).

4 Income from equity shares and participating interests

Table 34 shows income from equity shares and participating interests.

The dividend payout from Münze Österreich AG in 2017 in the amount of EUR 76.287 million is fully equivalent to the simultaneous capitalization of the dividend claim. The dividend in 2016 comprised the simultaneous capitalization of the dividend claim worth EUR 65.726 million and an additional payout of EUR 43.631 million resulting from the profit for the year 2015.

Table 31

	2017	2016	Change	
	EUR million	EUR million	EUR million	%
Net interest income from foreign currency investments	132.167	149.565	-17.397	-11.6
Net interest income from euro investments	89.007	129.563	-40.556	-31.3
Monetary policy instruments	381.907	359.382	+22.526	+6.3
Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem	–	3.051	-3.051	-100.0
Transfer of foreign reserve assets to the ECB	–	0.101	-0.101	-100.0
TARGET2 balances	–	-3.512	-3.512	-100.0
Sundry	60.630	12.151	+48.479	n.a.
Total	663.712	650.300	+13.412	+2.1

Table 32

	2017	2016	Change	
	EUR million	EUR million	EUR million	%
Realized gains/losses arising from exchange/interest rate changes of				
currencies (gold and foreign currencies)	176.996	28.107	+148.889	n.a.
securities	62.270	80.745	-18.474	-22.9
Total	239.266	108.852	+130.414	+119.8

Table 33

	2017	2016	Change	
	EUR million	EUR million	EUR million	%
Writedowns on				
securities	-12.877	-59.824	-46.947	-78.5
foreign currencies	-174.213	-0.198	+174.015	n.a.
participating interests	–	-50.888	-50.888	-100.0
Total	-187.090	-110.910	+76.180	+68.7

Table 34

	2017	2016	Change	
	EUR million	EUR million	EUR million	%
Dividends				
BIS	3.151	2.320	+0.831	+35.8
Münze Österreich AG	76.287	109.357	-33.070	-30.2
Profit distributions by				
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.	0.136	0.100	+0.036	+35.9
Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS)	–	0.300	-0.300	-100.0
Interim ECB profit distribution	27.546	26.947	+0.599	+2.2
Distribution of ECB profit for the previous year	6.327	7.520	-1.193	-15.9
Total	113.447	146.544	-33.097	-22.6

Table 35

	2017	2016
	EUR million	EUR million
Monetary income	94.740	197.526
Deductible items (in particular interest on the liability base) ¹	131.864	61.534
Monetary income to be pooled (net)	226.604	259.060
Redistribution of monetary income	300.887	276.312
Monetary income reallocation for the reporting year	+74.283	+17.252
Net loss resulting from the revision of monetary income of the previous years	-0.084	-0.010
Establishment of a provision against losses in monetary policy operations	-1.921	–
Total	+72.278	+17.242

¹ Due to negative interest rates, the OeNB recorded net income in both 2016 and 2017.

The Governing Council of the ECB decided to transfer EUR 988 million of the ECB's profit for the year 2017 as an interim profit distribution to the NCBs at end-January 2018; the OeNB's share amounted to EUR 27.546 million.

5 Net result of pooling of monetary income

Table 35 shows the OeNB's *net result of pooling of monetary income* in the Eurosystem.

This profit and loss account item comprises the OeNB's net result from the reallocation of monetary income within the Eurosystem. This item also contains the OeNB's share in the provision against losses in monetary policy operations, which was established in relation to a security held by an NCB of the Eurosystem in its CSPP portfolio (see liability item 13 *Provisions*). The ECB calculates monetary income annually in accordance with Article 32 of the Statute of the ESCB and of the ECB.

The amount of the OeNB's monetary income is determined by measuring the annual income that it derives from the earmarkable assets held against its liability base. The liability base consists of banknotes in circulation, liabilities to euro area credit institutions related to monetary policy operations denominated in euro and net intra-Eurosystem liabilities resulting from TARGET2 transactions. Any interest paid on these liabilities is deducted from the monetary income to be pooled.

The earmarkable assets consist of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro, securities held for monetary policy purposes, net intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB and net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem as well as accrued interest recorded at quarter-end on

monetary policy assets the maturity of which is one year or longer. Moreover, a limited amount of the OeNB's gold holdings in proportion to its capital key share is included (gold is considered to generate no income).

Securities acquired by the OeNB under the CBPP1 and the CBPP2 and government/agency bonds acquired under the PSPP generate income at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations. Where the value of the OeNB's earmarkable assets exceeds, or falls short of, the value of its liability base, the difference is offset by applying to the value of the difference the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key.²¹ The pooling and reallocation of monetary income leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and in the liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the OeNB (EUR 226.604 million) and the income reallocated to the OeNB (EUR 300.887 million) results from the calculation of monetary income.

6 Other income

Other income comprises e.g. rental income and income from transactions with OeNB subsidiaries or the ECB amounting to EUR 13.820 million. The FMA's reimbursements to the OeNB for the direct costs resulting from banking supervision and the costs related to bank recovery and resolution amount to the statutory maximum of EUR 8 million and EUR 1.7

million, respectively. Furthermore, this item includes income from the reversal of the provision for the lawsuit related to the retention of regular and special pension contributions pursuant to Article 81 Second Stability Act 2012 in the amount of EUR 9.7 million (see also liability item 13 *Provisions*).

7 Staff costs

Staff costs comprise the cost of current employees. These costs are reduced by recoveries of salaries.

Salaries increased by EUR 0.051 million net to EUR 121.241 million against the previous year (2016: EUR 121.190 million). The OeNB's outlays were reduced by recoveries of salaries totaling EUR 5.791 million (2016: EUR 5.755 million) for staff members on secondment to affiliates and other institutions.

The four members of the OeNB's Governing Board received emoluments totaling EUR 1.148 million in 2017 (2016: EUR 1.139 million; table 36).

Table 36

	Emoluments EUR million
Governor Ewald Nowotny	0.3065
Vice Governor Andreas Ittner	0.2888
Executive Director Kurt Pribil	0.2762
Executive Director Peter Mooslechner	0.2762

The remuneration of Governing Board members is regulated by the Federal Constitutional Act on the Limitation of Remunerations for Public Officials; it stipulates, inter alia, that the emoluments of the central bank governor must not exceed those of the Austrian Federal Chancellor. The emoluments of the other members of the Governing Board, in turn, must not exceed the emoluments of the Governor of the OeNB. In line with the provisions of the Federal Constitutional Act on the Limitation of Remunerations for Public Officials, the

²¹ Under Article 33.2 of the Statute of the ESCB and of the ECB, income will not be reallocated if the pooled amount is fully or partially retained by the ECB to cover an annual loss incurred by the ECB.

emoluments for the members of the OeNB's Governing Board were increased by 0.8% per annum from January 1, 2017. Anniversary bonuses, remuneration in kind (tax value of the private use of company cars, subsidies to insurance) and other benefits totaled EUR 0.047 million in 2017 (2016: EUR 0.106 million). The emoluments of the OeNB's President and Vice President amounted to EUR 0.122 million in 2017 (2016: EUR 0.121 million). The members of the General Council receive an attendance fee of EUR 250 for donation to charity for every day they participate in a meeting of the General Council or one of its subcommittees. Travel expenses associated with the exercise of General Council members' functions are appropriately reimbursed.

Table 37 shows staff in full-time equivalents (FTEs).

Expenses for severance payments and contributions to severance funds came to EUR 4.684 million (2016: EUR 14.848 million) and EUR 0.809 million (2016: EUR 0.749 million), respectively. The decrease in expenses for severance payments is attributable to one-off effects in 2016, which had resulted in an increase of this item. 2016 saw the recognition of previous service credit in line with a ruling of the European Court of Justice and changes in the accumulation method in line with an opinion by AFRAC. The underlying parameters (discount rate and assumed increase) and the change in staff resources against 2016 likewise caused expenses for severance payments to decline.

Expenses for severance payments for management officials (Governing Board members) totaled EUR 0.0463 million in 2017 (2016: EUR 0.1672 million).

Expenses for compulsory social security contributions as well as compulsory contributions and charges related to wages and salaries totaled EUR 21.980 million in 2017 (2016: EUR 21.711 million). Of this amount, EUR 13.556 million (2016: EUR 12.794 million) were social security contributions, EUR 4.724 million (2016: EUR 5.199 million) were contributions to the Family Burden Equalization Fund, and EUR 3.514 million (2016: EUR 3.480 million) were municipal tax payments.

8 Expenses for retirement

This item includes pension plan contributions made in 2017 to the externally managed pension fund and respective reserves set aside, amounting to EUR 15.412 million (2016: EUR 25.580 million). The decrease totaling EUR 9.092 million resulted chiefly from the requirement to increase the provision in 2016 due to the recognition of previous service credit in line with a ruling of the European Court of Justice and changes in the accumulation method in line with an opinion by AFRAC. Pension payments in 2017 totaled EUR 124.879 million (2016: EUR 123.727 million), of which EUR 31.790 million (2016: EUR 7.240 million) were covered by investment income on the pension reserve. All pension payments relate to the OeNB's retirement plan based on

Table 37

	Reporting date December 31 ¹			Annual average ¹		
	2017	2016	Change	2017	2016	Change
FTEs staff resources ²	1,100.0	1,091.8	+8.2	1,099.6	1,094.0	+5.6
Total	1,227.5	1,227.5	–	1,237.2	1,237.6	–0.4

¹ Figures include part-time employees on a pro rata basis.

² Excluding employees on secondment or leave (such as maternity and parental leave).

internally funded pensions for employees recruited up to April 30, 1998. The cost of remunerating retired board members or their dependents amounted to EUR 3.849 million (2016: EUR 4.167 million).

9 Administrative expenses

Administrative expenses include, inter alia, rent, operating expenses, maintenance and repair costs of EUR 36.659 million (2016: EUR 37.714 million) as well as banknote processing expenses of EUR 10.637 million (2016: EUR 11.019 million). The headline figure also includes expenses that the OeNB charges entirely to subsidiaries or the ECB (in particular rent, operating costs and security-related service costs) in the amount of EUR 4.682 million (2016: EUR 4.543 million). Administrative expenses for auditing the OeNB's financial statements came to EUR 0.119 million (2016: EUR 0.116 million), those for other certification services of the OeNB's external auditor to EUR 0.055 million (2016: EUR 0.036 million).

Pursuant to Article 238 paragraph 1 item 14 Commercial Code, material obligations arising from the use of tangible fixed assets not disclosed in the balance sheet must be recorded

separately. These obligations amount to EUR 11.569 million in the subsequent financial year (2016: EUR 6.867 million). In the subsequent five financial years, these obligations total EUR 54.545 million (2016: EUR 34.078 million).

11 Banknote production services

These expenses result from the purchase of euro banknotes from the OeBS.

13 Corporate income tax

Pursuant to Article 72 paragraph 1 Nationalbank Act, the operating profit of the financial statements drawn up pursuant to Article 67 Nationalbank Act and in accordance with Article 69 paragraph 1 Nationalbank Act constitutes the OeNB's taxable income within the meaning of Article 22 paragraph 1 of the Corporate Income Tax Act 1988.

14 Transfer to the pension reserve and central government's share of profit

The *transfer to the pension reserve* and the *central government's share of profit* are shown in table 38.

Table 38

	2017	2016	Change	
	EUR million	EUR million	EUR million	%
Transfer to the pension reserve under Article 69 paragraph 2 Nationalbank Act	21.477	20.084	+1.392	+6.9
Central government's share of profit of 90% under Article 69 paragraph 3 Nationalbank Act	173.962	162.683	+11.279	+6.9
of which:				
annual redemption under Article 21 paragraph 2 Coinage Act	5.814	5.814	–	–
transfer to the National Foundation under Article 4 paragraph 5 no. 3 National Foundation Act	59.534	–	+59.534	x
transfer to the central government	108.614	156.869	–48.255	–30.8
Total	195.439	182.768	+12.672	+6.9

Table 39

	EUR
Payout of the maximum dividend (10%) on the OeNB's capital stock of EUR 12 million under Article 69 Nationalbank Act	1,200,000.00
Allocation of funds to the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching for promotion by the OeNB	10,000,000.00
Transfers to the profit-smoothing reserve	8,129,158.29
Profit for the year 2017	19,329,158.29

Profit for the year and proposed profit appropriation

With the statutory allocations having been made in line with Article 69 paragraphs 2 and 3 Nationalbank Act (item 14 *Transfer to the pension reserve and central government's share of profit*), the balance sheet and the profit and loss account show a profit for the year 2017 of EUR 19,329,158.29.

In its meeting of February 6, 2018, the Governing Board decided to submit the profit

appropriation proposal shown in table 39 to the General Council.

The appropriation of profit is made according to the General Meeting's decision.

Post-balance sheet events

No material events occurred after the balance sheet date.

GOVERNING BOARD (DIREKTORIUM)

Governor Ewald Nowotny
 Vice Governor Andreas Ittner
 Executive Director Kurt Pribil
 Executive Director Peter Mooslechner

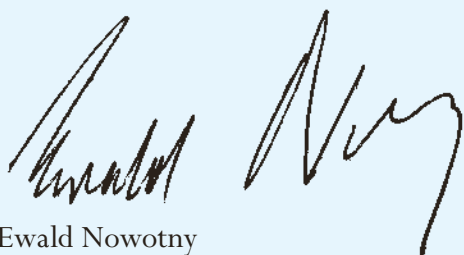
GENERAL COUNCIL (GENERALRAT)

President Claus J. Raidl
 Vice President Max Kothbauer
 August Astl
 Bettina Glatz-Kremsner (from March 1, 2018)
 Gottfried Haber
 Erich Hampel
 Anna Maria Hochhauser (until February 28, 2018)
 Werner Muhm (until February 28, 2018)
 Gabriele Payr
 Walter Rothensteiner
 Peter Sidlo (from March 1, 2018)
 Dwora Stein
 State Commissioner Harald Waiglein
 Deputy State Commissioner Alfred Lejsek

In accordance with Article 22 paragraph 5 Nationalbank Act, the following representatives of the Central Staff Council participated in discussions on personnel, social and welfare matters:

Robert Kocmich
 Birgit Sauerzopf

Vienna, March 6, 2018



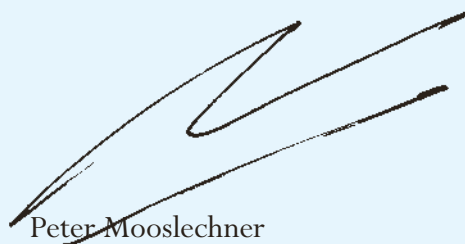
Ewald Nowotny



Andreas Ittner



Kurt Pribil



Peter Mooslechner

Auditor's opinion



Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2017
6. März 2018

Bestätigungsvermerk

Bericht zum Jahresabschluss

Prüfungsurteil

Wir haben den Jahresabschluss der

Oesterreichische Nationalbank,
Wien,

bestehend aus der Bilanz zum 31. Dezember 2017, der Gewinn-und-Verlust-Rechnung für das an diesem Stichtag endende Geschäftsjahr und dem Anhang, geprüft.

Nach unserer Beurteilung entspricht der Jahresabschluss den gesetzlichen Vorschriften und vermittelt ein möglichst getreues Bild der Vermögens- und Finanzlage zum 31. Dezember 2017 sowie der Ertragslage der Gesellschaft für das an diesem Stichtag endende Geschäftsjahr in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften und den sondergesetzlichen Bestimmungen des Nationalbankgesetzes 1984 in der geltenden Fassung sowie den Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs 4 des "Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der "Leitlinie der Europäischen Zentralbank vom 3. November 2016 über die Rechnungslegungsgrundsätze und das Berichtswesen im Europäischen System der Zentralbanken (EZB/2016/34)" erlassenen Vorschriften.

Grundlage für das Prüfungsurteil

Wir haben unsere Abschlussprüfung in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung durchgeführt. Diese Grundsätze erfordern die Anwendung der International Standards on Auditing (ISA). Unsere Verantwortlichkeiten nach diesen Vorschriften und Standards sind im Abschnitt "Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses" unseres Bestätigungsvermerks weitergehend beschrieben. Wir sind von der Gesellschaft unabhängig in Übereinstimmung mit den österreichischen unternehmensrechtlichen und berufsrechtlichen Vorschriften und wir haben unsere sonstigen beruflichen Pflichten in Übereinstimmung mit diesen Anforderungen erfüllt. Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen.

Verantwortlichkeiten der gesetzlichen Vertreter und des Unterausschusses des Generalrates für Rechnungslegung und interne Kontrollsysteme für den Jahresabschluss

Die gesetzlichen Vertreter sind verantwortlich für die Aufstellung des Jahresabschlusses und dafür, dass dieser in Übereinstimmung mit den österreichischen unternehmensrechtlichen Vorschriften und den sondergesetzlichen Bestimmungen des Nationalbankgesetzes 1984 in der geltenden Fassung sowie den Bestimmungen der vom Rat der Europäischen Zentralbank gemäß Artikel 26 Abs 4 des "Protokolls über die Satzung des Europäischen Systems der Zentralbanken und der Europäischen Zentralbank" mittels der "Leitlinie der Europäischen Zentralbank vom 3. November 2016 über die Rechnungslegungsgrundsätze und das Berichtswesen im Europäischen System der Zentralbanken (EZB/2016/34)" erlassenen Vorschriften.



Oesterreichische Nationalbank, Wien
 Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2017
 6. März 2018

wesen im Europäischen System der Zentralbanken (EZB/2016/34)* erlassenen Vorschriften ein möglichst getreues Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft vermittelt. Ferner sind die gesetzlichen Vertreter verantwortlich für die internen Kontrollen, die sie als notwendig erachten, um die Aufstellung eines Jahresabschlusses zu ermöglichen, der frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist.

Bei der Aufstellung des Jahresabschlusses sind die gesetzlichen Vertreter dafür verantwortlich, die Fähigkeit der Gesellschaft zur Fortführung der Unternehmenstätigkeit zu beurteilen, Sachverhalte im Zusammenhang mit der Fortführung der Unternehmenstätigkeit – sofern einschlägig – anzugeben sowie dafür, den Rechnungslegungsgrundsatz der Fortführung der Unternehmenstätigkeit anzuwenden, es sei denn, die gesetzlichen Vertreter beabsichtigen, entweder die Gesellschaft zu liquidieren oder die Unternehmenstätigkeit einzustellen oder haben keine realistische Alternative dazu.

Der Unterausschuss des Generalrates für Rechnungslegung und interne Kontrollsysteme ist verantwortlich für die Überwachung des Rechnungslegungsprozesses der Gesellschaft.

Verantwortlichkeiten des Abschlussprüfers für die Prüfung des Jahresabschlusses

Unsere Ziele sind hinreichende Sicherheit darüber zu erlangen, ob der Jahresabschluss als Ganzes frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist und einen Bestätigungsvermerk zu erteilen, der unser Prüfungsurteil beinhaltet. Hinreichende Sicherheit ist ein hohes Maß an Sicherheit, aber keine Garantie dafür, dass eine in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, durchgeführte Abschlussprüfung eine wesentliche falsche Darstellung, falls eine solche vorliegt, stets aufdeckt. Falsche Darstellungen können aus dolosen Handlungen oder Irrtümern resultieren und werden als wesentlich angesehen, wenn von ihnen einzeln oder insgesamt vernünftigerweise erwartet werden könnte, dass sie die auf der Grundlage dieses Jahresabschlusses getroffenen wirtschaftlichen Entscheidungen von Nutzern beeinflussen.

Als Teil einer Abschlussprüfung in Übereinstimmung mit den österreichischen Grundsätzen ordnungsgemäßer Abschlussprüfung, die die Anwendung der ISA erfordern, üben wir während der gesamten Abschlussprüfung pflichtgemäßes Ermessen aus und bewahren eine kritische Grundhaltung.

Darüber hinaus gilt:

- Wir identifizieren und beurteilen die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen im Abschluss, planen Prüfungshandlungen als Reaktion auf diese Risiken, führen sie durch und erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Außerkraftsetzen interner Kontrollen beinhalten können.
- Wir gewinnen ein Verständnis von dem für die Abschlussprüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems der Gesellschaft abzugeben.



- Wir beurteilen die Angemessenheit der von den gesetzlichen Vertretern angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der von den gesetzlichen Vertretern dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängende Angaben.
- Wir ziehen Schlussfolgerungen über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Unternehmenstätigkeit durch die gesetzlichen Vertreter sowie, auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die erhebliche Zweifel an der Fähigkeit der Gesellschaft zur Fortführung der Unternehmenstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung ziehen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bestätigungsvermerk auf die dazugehörigen Angaben im Jahresabschluss aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Bestätigungsvermerks erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr der Gesellschaft von der Fortführung der Unternehmenstätigkeit zur Folge haben.
- Wir beurteilen die Gesamtdarstellung, den Aufbau und den Inhalt des Jahresabschlusses einschließlich der Angaben sowie ob der Jahresabschluss die zugrunde liegenden Geschäftsvorfälle und Ereignisse in einer Weise wiedergibt, dass ein möglichst getreues Bild erreicht wird.
- Wir tauschen uns mit dem Unterausschuss des Generalrates für Rechnungslegung und interne Kontrollsysteme unter anderem über den geplanten Umfang und die geplante zeitliche Einteilung der Abschlussprüfung sowie über bedeutsame Prüfungsfeststellungen, einschließlich etwaiger bedeutsamer Mängel im internen Kontrollsystem, die wir während unserer Abschlussprüfung erkennen, aus.

Bericht zum Geschäftsbericht gemäß § 68 NBG

Auf den gemäß § 68 Abs 1 NBG zu erstellenden Geschäftsbericht finden die Bestimmungen des § 243 Abs 1 bis 3 UGB (Lagebericht), mit Ausnahme von Abs 2 letzter Satz und Abs 3 Z 1, 2 und 5 UGB, Anwendung.

Die gesetzlichen Vertreter sind verantwortlich für die Aufstellung des Geschäftsberichtes in Übereinstimmung mit den gesetzlichen Vorschriften.

Wir haben unsere Prüfung in Übereinstimmung mit den Berufsgrundsätzen zur Prüfung des Geschäftsberichts durchgeführt.

Die im Geschäftsbericht enthaltenen Jahresabschlussinformationen (Lagebericht) sind auf Grund der österreichischen unternehmensrechtlichen Vorschriften darauf zu prüfen, ob sie mit dem Jahresabschluss in Einklang stehen und ob sie nach den geltenden rechtlichen Anforderungen aufgestellt wurden.

Unser Prüfungsurteil zum Jahresabschluss deckt die im Geschäftsbericht enthaltenen anderen (sonstigen) Informationen, die nicht den Jahresabschluss und die gemäß § 68 NBG geforderte Darstellung der direkten und indirekten Beteiligungen und den Lagebericht betreffen, nicht ab und wir geben keine Art der Zusicherung darauf.



Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2017

In Verbindung mit unserer Prüfung des Jahresabschlusses ist es unsere Verantwortung, diese sonstigen Informationen zu lesen und zu überlegen, ob es wesentliche Unstimmigkeiten zwischen den sonstigen Informationen und dem Jahresabschluss oder mit unserem, während der Prüfung erlangten Wissen gibt oder diese sonstigen Informationen sonst wesentlich falsch dargestellt erscheinen. Falls wir, basierend auf den durchgeführten Arbeiten, zur Schlussfolgerung gelangen, dass die sonstigen Informationen wesentlich falsch dargestellt sind, müssen wir dies berichten.

Urteil

Nach unserer Beurteilung sind die im Geschäftsbericht zu § 243 Abs 1 bis 3 UGB (Lagebericht), mit Ausnahme von Abs 2 letzter Satz und Abs 3 Z 1, 2 und 5 UGB enthaltenen Jahresabschlussinformationen und die Darstellung der direkten und indirekten Beteiligungen nach den geltenden rechtlichen Anforderungen aufgestellt worden und stehen in Einklang mit dem Jahresabschluss.

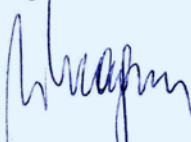
Erklärung

Angesichts der bei der Prüfung des Jahresabschlusses gewonnenen Erkenntnisse und des gewonnenen Verständnisses über die Gesellschaft und ihr Umfeld haben wir keine wesentlichen fehlerhaften Angaben im Geschäftsbericht festgestellt.

Wien, am 6. März 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft




DDr. Martin Wagner
Wirtschaftsprüfer

Die Veröffentlichung oder Weitergabe des Jahresabschlusses mit unserem Bestätigungsvermerk darf nur in der von uns bestätigten Fassung erfolgen. Dieser Bestätigungsvermerk bezieht sich ausschließlich auf den deutschsprachigen und vollständigen Jahresabschluss samt Geschäftsbericht. Für abweichende Fassungen sind die Vorschriften des § 281 Abs 2 UGB zu beachten.

External auditor's opinion – OeNB translation for information purposes

Oesterreichische Nationalbank, Vienna, Austria

Auditor's report on the German version of the financial statements as of December 31, 2017

March 6, 2018

Auditor's opinion

Report on the financial statements

Opinion

We have audited the financial statements of the

**Oesterreichische Nationalbank,
Vienna,**

which comprise the balance sheet as of December 31, 2017, the profit and loss account for the fiscal year ended December 31, 2017, and the notes.

In our opinion, the financial statements comply with the applicable legal requirements and give a true and fair view of the financial position of the company as of December 31, 2017, and of its financial performance in the fiscal year from January 1, 2017, to December 31, 2017, in accordance with the relevant rules under Austrian commercial law and under the special provisions of the 1984 Federal Act on the Oesterreichische Nationalbank (Nationalbank Act), as amended, as well as the rules established by the Governing Council of the ECB under Article 26.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34).

Basis for opinion

We conducted our audit in accordance with the Austrian standards on auditing, which require that the International Standards on Auditing (ISA) be applied. Our responsibilities according to these standards are described in greater detail under the heading "Auditor's responsibilities for the audit of the financial statements" in this auditor's opinion. We are independent of the company in accordance with the relevant rules under Austrian commercial law and professional standards, and we have fulfilled our other professional duties in accordance with these requirements. It is our opinion that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Oesterreichische Nationalbank, Vienna*Auditor's report on the German version of the financial statements as of December 31, 2017**March 6, 2018***Responsibility of the management and of the Subcommittee of the General Council for Accounting and Internal Control Systems for the financial statements**

The management is responsible for the preparation of these financial statements and for ensuring that these financial statements give a true and fair view of the net assets, financial position and performance in accordance with the relevant rules under Austrian commercial law and under the special provisions of the Nationalbank Act, as amended, as well as the rules established by the Governing Council of the ECB under Article 26.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, as set forth in the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2016/34). Furthermore, the management is responsible for such internal control it deems necessary for enabling the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the company's ability to continue as a going concern. Furthermore, the management is responsible for disclosing, as applicable, matters related to going concern and for using the accounting principle of the going-concern basis, unless the management intends to liquidate the company or to cease business operations or has no realistic alternative but to do so.

The Subcommittee of the General Council for Accounting and Internal Control Systems is responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to provide reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an opinion that includes our audit opinion on the financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Austrian standards on auditing, which require the application of the ISAs, will always detect a material misstatement if any such misstatement exists. Misstatements may arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with the Austrian standards on auditing, which require the application of the ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement in 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 material misstatements resulting from fraud is higher than for those resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of the accounting policies applied by the management as well as the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the accounting principle of the going-concern basis and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 opinion 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 auditor's opinion. However, future events or conditions may cause the company 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 achieves a true and fair view.
- Communicate with the Subcommittee of the General Council for Accounting and Internal Control Systems 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.

Statement on the Annual Report pursuant to Article 68 Nationalbank Act

The Annual Report to be prepared pursuant to Article 68 paragraph 1 Nationalbank Act is subject to the provisions of Article 243 paragraphs 1 to 3 of the Commercial Code (management report) with the exception of paragraph 2 last sentence and paragraph 3 nos. 1, 2 and 5 Commercial Code.

The management is responsible for drawing up the Annual Report in accordance with the applicable statutory provisions.

We conducted our audit in accordance with the professional standards for auditing the Annual Report.

According to the relevant rules under Austrian commercial law, financial information contained in the Annual Report (management report) is to be audited as to whether it is consistent with the financial statements and whether it has been drawn up in accordance with the applicable statutory provisions.

Our audit opinion on the financial statements does not cover other information provided in the Annual Report that does not relate to the financial statements and the presentation of information on direct and indirect equity interests and the management report as required by Article 68 Nationalbank Act and therefore does not imply any assurance in this regard.

Oesterreichische Nationalbank, Vienna*Auditor's report on the German version of the financial statements as of December 31, 2017**March 6, 2018*

In auditing the financial statements it is our responsibility to read the other information provided and to consider whether there are material inconsistencies between the other information and the financial statements or our knowledge obtained during the audit or whether the other information seems to have been substantially misstated in any other way. If we conclude, on the basis of the work we conducted, that the other information has been substantially misstated, we are obliged to report these misstatements.

Audit opinion

In our opinion, the financial information contained in the Annual Report in line with Article 243 paragraphs 1 to 3 of the Commercial Code (management report) with the exception of paragraph 2 last sentence and paragraph 3 nos. 1, 2 and 5 Commercial Code, as well as the presentation of information on direct and indirect equity interests are in line with the applicable statutory provisions and are consistent with the financial statements.

Declaration

Taking into account the knowledge obtained in auditing the financial statements and the understanding acquired about the company and its operating environment, we did not identify material misstatements in the Annual Report.

Vienna, March 6, 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Martin Wagner
External auditor

The financial statements including our auditor's opinion may be published or distributed only in the version audited by us. This auditor's opinion applies exclusively to the full German version of the financial statements and the Annual Report of the Oesterreichische Nationalbank. Any other versions are subject to Article 281 paragraph 2 Commercial Code.

Report of the General Council on the Annual Report and the financial statements for 2017

The General Council (Generalrat) fulfilled the duties incumbent on it under the 1984 Nationalbank Act by holding its regular meetings, by convening subcommittees to examine specific issues and by making informed decisions.

The Governing Board (Direktorium) periodically reported to the General Council on the OeNB's operations and results, on the conditions in the money, capital and foreign exchange markets, on important day-to-day management issues, on all developments of significance for an appraisal of monetary and economic developments, on the arrangements made for auditing the OeNB's finances, and on any other significant dispositions and events affecting the OeNB's operations. The financial statements for the year 2017 were given an unqualified auditor's opinion after examination by the auditors elected at the General Meeting of May 28, 2015, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerbe-

ratungsgesellschaft, on the basis of the OeNB's books and records as well as the information and evidence provided by the Governing Board.

In its meeting of March 20, 2018, the General Council approved the Annual Report of the Governing Board and the financial statements for the year 2017. The General Council submits the Annual Report and recommends that the General Meeting approve the financial statements and the Annual Report of the Oesterreichische Nationalbank for the year 2017 and discharge the General Council and the Governing Board of its responsibilities regarding the preceding business year. Moreover, the General Council requests that the General Meeting approve the appropriation of the profit for the year in accordance with the proposal made in the notes on the financial statements for the year 2017.

Notes

Abbreviations

ABS	asset-backed security	FTE	full-time equivalent
ABSPP	asset-backed securities purchase programme	GDP	gross domestic product
AG	Aktiengesellschaft (stock corporation)	GSA	GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.
APP	expanded asset purchase programme	HICP	Harmonised Index of Consumer Prices
ASTI	Austrian Settlement & Transaction Interface	HOAM.AT	Home Accounting Module Austria
BaSAG	Federal Act on the Recovery and Resolution of Banks	IBRD	International Bank for Reconstruction and Development
BIS	Bank for International Settlements	IHS	Institute for Advanced Studies
BRRD	Bank Recovery and Resolution Directive	IMF	International Monetary Fund
CBPP	covered bond purchase programme	JVI	Joint Vienna Institute
CCyB	countercyclical capital buffer	MÜNZE	Münze Österreich Aktiengesellschaft
CEEI	the OeNB's Conference of European Economic Integration	NAB	New Arrangements to Borrow
CESEE	Central, Eastern and Southeastern Europe(an)	NCB	national central bank
CET1	common equity tier 1	OeBS	Oesterreichische Banknoten- und Sicherheitsdruck GmbH
CIS	Commonwealth of Independent States	OECD	Organisation for Economic Co-operation and Development
CRA	compliance risk assessment	OeKB	Oesterreichische Kontrollbank Aktiengesellschaft
CRD	Capital Requirements Directive	OeNB	Oesterreichische Nationalbank
CRR	Capital Requirements Regulation	OPEC	Organization of the Petroleum Exporting Countries
CSD	central securities depository	O-SII	other systemically important institutions
CS.A	Clearing Service Austria	POS	point of sale
CS.I	Clearing Service International	PSD2	Payment Services Directive 2
CSPP	corporate sector purchase programme	PSPP	public sector purchase program
EBA	European Banking Authority	SDR	Special Drawing Right
EBRD	European Bank for Reconstruction and Development	SEPA	Single Euro Payments Area
ECB	European Central Bank	SMP	securities markets programme
ECMS	European Collateral Management System	SRB	Single Resolution Board
EIB	European Investment Bank	SRF	Single Resolution Fund
EMAS	Eco-Management and Audit Scheme	SRM	Single Resolution Mechanism
EONIA	euro overnight index average	SSM	Single Supervisory Mechanism
ERF	European Reporting Framework	SyRB	systemic risk buffer
ERP	European Recovery Program	T2S	TARGET2-Securities
ERPB	European Retail Payments Board	TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system
ES	expected shortfall	TFEU	Treaty on the Functioning of the European Union
ESA 2010	European System of Accounts 2010	TIPS	TARGET instant payment settlement
ESCB	European System of Central Banks	TLTRO	targeted longer-term refinancing operation
ESRB	European Systemic Risk Board	TU Wien	Vienna University of Technology
EU	European Union	VaR	value at risk
EURIBOR	euro interbank offered rate	WIFO	Austrian Institute of Economic Research
FAQ	frequently asked question	wiiw	The Vienna Institute for International Economic Studies
FMA	Austrian Financial Market Authority	WTO	World Trade Organization
Fed	U.S. Federal Reserve System		
FMSB	Financial Market Stability Board		

Legend

- x = no data can be indicated for technical reasons
- .. = not available
- 0 = the numerical value is zero or smaller than half of the unit indicated

Legend entries in the financial statements:

- = the numerical value is zero
- 0 = the numerical value is smaller than half of the unit indicated
- n.a. = not applicable

Discrepancies may arise from rounding.

Periodical publications

Starting from 2016, the OeNB's periodical publications are available in electronic format only. They can be downloaded at <https://www.oenb.at/en/Publications.html>. If you would like to be notified about new issues by e-mail, please register at <https://www.oenb.at/en/Services/Newsletter.html>.

Geschäftsbericht (Nachhaltigkeitsbericht) Annual Report (Sustainability Report)

German | annually
English | annually

This report informs readers about the Eurosystem's monetary policy and underlying economic conditions as well as about the OeNB's role in maintaining price stability and financial stability. It also provides a brief account of the key activities of the OeNB's core business areas. The OeNB's financial statements are an integral part of the report.

<http://www.oenb.at/en/Publications/Oesterreichische-Nationalbank/Annual-Report.html>

Inflation aktuell

German | quarterly

This publication presents the OeNB's analysis of recent inflation developments in Austria and its inflation outlook for Austria for the current and next year. In addition, it provides in-depth analyses of topical issues.

<http://www.oenb.at/Publikationen/Volkswirtschaft/inflation-aktuell.html>

Konjunktur aktuell

German | seven times a year

This publication provides a concise assessment of current cyclical and financial developments in the global economy, the euro area, Central, Eastern and Southeastern European countries, and in Austria. The quarterly releases (March, June, September and December) also include short analyses of economic and monetary policy issues.

<http://www.oenb.at/Publikationen/Volkswirtschaft/konjunktur-aktuell.html>

Monetary Policy & the Economy

English | quarterly

This publication assesses cyclical developments in Austria and presents the OeNB's regular macroeconomic forecasts for the Austrian economy. It contains economic analyses and studies with a particular relevance for central banking and summarizes findings from macroeconomic workshops and conferences organized by the OeNB.

<http://www.oenb.at/en/Publications/Economics/Monetary-Policy-and-the-Economy.html>

Fakten zu Österreich und seinen Banken Facts on Austria and Its Banks

German | twice a year
English | twice a year

This publication provides a snapshot of the Austrian economy based on a range of structural data and indicators for the real economy and the banking sector. Comparative international measures enable readers to put the information into perspective.

<http://www.oenb.at/en/Publications/Financial-Market/Facts-on-Austria-and-Its-Banks.html>

Financial Stability Report

English | twice a year

The reports section of this publication analyzes and assesses the stability of the Austrian financial system as well as developments that are relevant for financial stability in Austria and at the international level. The special topics section provides analyses and studies on specific financial stability-related issues.

<http://www.oenb.at/en/Publications/Financial-Market/Financial-Stability-Report.html>

Focus on European Economic Integration

English | quarterly

This publication presents economic analyses and outlooks as well as analytical studies on macroeconomic and macro-financial issues with a regional focus on Central, Eastern and Southeastern Europe.

<http://www.oenb.at/en/Publications/Economics/Focus-on-European-Economic-Integration.html>

Statistiken – Daten & Analysen

German | quarterly

This publication contains analyses of the balance sheets of Austrian financial institutions, flow-of-funds statistics as well as external statistics (English summaries are provided). A set of 14 tables (also available on the OeNB's website) provides information about key financial and macroeconomic indicators.

<http://www.oenb.at/Publikationen/Statistik/Statistiken---Daten-und-Analysen.html>

Statistiken – Daten & Analysen: Sonderhefte Statistiken – Daten & Analysen: Special Issues

German | irregularly

English | irregularly

In addition to the regular issues of the quarterly statistical series “Statistiken – Daten & Analysen,” the OeNB publishes a number of special issues on selected statistics topics (e.g. sector accounts, foreign direct investment and trade in services).

<http://www.oenb.at/en/Publications/Statistics/Special-Issues.html>

Research Update

English | quarterly

This newsletter informs international readers about selected research findings and activities of the OeNB’s Economic Analysis and Research Department. It offers information about current publications, research priorities, events, conferences, lectures and workshops. Subscribe to the newsletter at:

<http://www.oenb.at/en/Publications/Economics/research-update.html>

CESEE Research Update

English | quarterly

This online newsletter informs readers about research priorities, publications as well as past and upcoming events with a regional focus on Central, Eastern and Southeastern Europe. Subscribe to the newsletter at:

<http://www.oenb.at/en/Publications/Economics/CESEE-Research-Update.html>

OeNB Workshops Proceedings

German, English | irregularly

This series, launched in 2004, documents contributions to OeNB workshops with Austrian and international experts (policymakers, industry experts, academics and media representatives) on monetary and economic policymaking-related topics.

<http://www.oenb.at/en/Publications/Economics/Workshops.html>

Working Papers

English | irregularly

This series provides a platform for discussing and disseminating economic papers and research findings. All contributions are subject to international peer review.

<http://www.oenb.at/en/Publications/Economics/Working-Papers.html>

Proceedings of the Economics Conference

English | annually

The OeNB’s annual Economics Conference provides an international platform where central bankers, economic policymakers, financial market agents as well as scholars and academics exchange views and information on monetary, economic and financial policy issues. The proceedings serve to document the conference contributions.

<http://www.oenb.at/en/Publications/Economics/Economics-Conference.html>

Proceedings of the Conference on European Economic Integration

English | annually

The OeNB’s annual Conference on European Economic Integration (CEEI) deals with current issues with a particular relevance for central banking in the context of convergence in Central, Eastern and Southeastern Europe as well as the EU enlargement and integration process. For an overview see:

<http://www.oenb.at/en/Publications/Economics/Conference-on-European-Economic-Integration-CEEI.html>

The proceedings have been published with Edward Elgar Publishers, Cheltenham/UK, Northampton/MA, since the CEEI 2001 (www.e-elgar.com).

Publications on banking supervisory issues

German, English | irregularly

<http://www.oenb.at/en/Publications/Financial-Market/Publications-of-Banking-Supervision.html>

Addresses

	Postal address	Telephone/Fax/E-mail
Head office Otto-Wagner-Platz 3 1090 Vienna, Austria Internet: www.oenb.at	PO Box 61 1011 Vienna, Austria	Phone: (+43-1) 404 20-6666 Fax: (+43-1) 404 20-042399 E-mail: oenb.info@oenb.at
Branch offices		
Northern Austria Branch Office Coulinstraße 28 4020 Linz, Austria	PO Box 346 4021 Linz, Austria	Phone: (+43-732) 65 26 11-0 Fax: (+43-732) 65 26 11-046399 E-mail: regionnord@oenb.at
Southern Austria Branch Office Brockmanngasse 84 8010 Graz, Austria	PO Box 8 8018 Graz, Austria	Phone: (+43-316) 81 81 81-0 Fax: (+43-316) 81 81 81-046399 E-mail: regionsued@oenb.at
Western Austria Branch Office Adamgasse 2 6020 Innsbruck, Austria	Adamgasse 2 6020 Innsbruck, Austria	Phone: (+43-512) 908 100-0 Fax: (+43-512) 908 100-046599 E-mail: regionwest@oenb.at
Representative offices		
New York Representative Office Oesterreichische Nationalbank 450 Park Avenue, Suite 1202 10022 New York, U.S.A.		Phone: (+1-212) 888-2334 Fax: (+1-212) 888-2515
Brussels Representative Office Oesterreichische Nationalbank Permanent Representation of Austria to the EU Avenue de Cortenbergh 30 1040 Brussels, Belgium		Phone: (+32-2) 285 48-41, 42, 43 Fax: (+32-2) 285 48-48

The *Annual Report* of the OeNB provides information about the Eurosystem's monetary policy and reviews developments in the economy, in financial markets and payment systems. Furthermore, it details the OeNB's national and international responsibilities as well as the broad range of services the OeNB offers. The OeNB's financial statements and the notes on the financial statements are an integral part of the Annual Report. Since 2006, the OeNB's *Annual Report*, *Intellectual Capital Report* and *Environmental Statement* have been combined to form the OeNB's *Sustainability Report*.

Publisher and editor	Oesterreichische Nationalbank Otto-Wagner-Platz 3, 1090 Vienna, Austria PO Box 61, 1011 Vienna, Austria www.oenb.at oenb.info@oenb.at Phone (+43-1) 40420-6666 Fax (+43-1) 40420-046698
Editors in chief	Markus Arpa, Doris Ritzberger-Grünwald
Coordination	Manfred Fluch, Anita Roitner, Maria Silgoner
Contributions	Gabriella Chefalo, Gernot Ebner, Maximilian Estl, Stefan Gschiegl, Martina Keck, Claudia Klier, Lenka Krsnakova, Claudia Kwapil, Markus Ingo Lach, Birgit Mosburger, Martin Much, Andrea Pözlbauer, Eugen Puschkarski, Fabio Rumler, Josef Schreiner, Tobias Steiner, Alexandra Storch, Gabriele Stöffler, Patrick Thienel, Andrea Untersperger, Klaus Vondra, Beat Weber, Tina Wittenberger
Editing	Dagmar Dichtl, Jennifer Gredler, Ingrid Haussteiner, Barbara Meinx, Ingeborg Schuch, Susanne Steinacher
Translation	Dagmar Dichtl, Jennifer Gredler, Ingrid Haussteiner, Barbara Meinx, Ingeborg Schuch, Susanne Steinacher
Statistical support	Angelika Knollmayer, Beate Resch
Design	Information Management and Services Division
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