



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

ANNUAL REPORT 2016

including the Intellectual Capital Report and the Environmental Statement

SUSTAINABILITY REPORT 2016



2016

Stability and Security.

The OeNB's legal mandate

Federal Act on the Oesterreichische Nationalbank

(1984 Nationalbank Act)

Federal Law Gazette No. 50/1984, as amended by Federal Law Gazette Part I No. 159/2015

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 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 [...].

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 policymaking institution, we seek to provide economic and financial expertise and guide policymakers 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.



The OeNB's bicentennial: presentation of a EUR 1 anniversary stamp and a EUR 2 commemorative coin

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Foreword by the President



In 2016, the OeNB marked its 200th anniversary. It is one of the oldest central banks in the world, founded by Emperor Francis I. as the “privilegirte oesterreichische National-Bank” on June 1, 1816, in order to stabilize the economy and reestablish monetary order after the turbulence of the Napoleonic wars. At that time, the National-Bank was the largest bank by far and the only one organized as a stock corporation in the entire Habsburg empire. In the course of the two centuries since its foundation, the bank underwent several major transformations; it became the Austro-Hungarian Bank following the establishment of the Dual Monarchy of Austria-Hungary, it served as the Vienna Reichsbank Head Office from 1938 to 1945, and finally turned into a lean and efficient Eurosystem central bank, providing a crucial contribution to price stability and financial stability. An anniversary ceremony held in June 2016 marked the important role of the Oesterreichische Nationalbank over the past 200 years.

In 2016, the OeNB continued to face new challenges in fulfilling its core tasks. In light of subdued economic growth and very low inflation rates, the Eurosystem’s monetary policy remained accommodative, continuing with its comprehensive asset purchase programmes. Efficient supervision under the Single Supervisory Mechanism, which brings together the ECB and national supervisory authorities, i.e. in Austria, the FMA and the OeNB, has helped strengthen financial stability in Austria and given fresh impetus for necessary reforms in the domestic banking sector.

Cash continues to be a very popular means of payment in Austria. Early April 2017 will see the introduction of the new EUR 50 banknote, the fourth denomination in the new euro banknote series known as the Europa series with new and improved security features. As regards cashless payments, preparations are under way to implement instant payment solutions, which will move money between accounts with almost

immediate effect. In early February 2017, the OeNB and the Austrian central securities depository, Oesterreichische Kontrollbank, successfully completed the migration of the Austrian market to TARGET2-Securities (T2S). T2S is the Eurosystem’s single platform for securities settlement in central bank money, which contributes to increasing efficiency and security as well as reducing obstacles and fragmentation in securities settlement in Europe. Furthermore, it represents a key building block of capital markets union. The implementation of the OeNB’s revised gold storage policy adopted in 2015 progressed according to plan in the year under review. By the end of 2016, about 30 tons of gold had been brought back to Vienna, and by 2020 at the latest, the gold held in storage in Austria will total around 140 tons.

After the exceptionally good result of 2015, which was attributable to one-off effects, the OeNB posted a solid operating profit of EUR 268 million in 2016 despite a difficult macroeconomic environment and challenging market conditions. The central government’s profit share amounts to EUR 163 million; with corporate income tax amounting to EUR 67 million, the Republic of Austria receives in total EUR 230 million.

I would like to express my gratitude to the members of the Governing Board and the entire OeNB staff for their commitment and excellent work in 2016.

Vienna, March 2017

A handwritten signature in black ink, which appears to read "Raidl". The signature is fluid and cursive, written in a professional style.

Claus J. Raidl, President

Foreword by the Governor

In 2016, the recovery in the euro area continued at a moderate pace. In Austria, annual real GDP growth accelerated at a steady pace to 1.4%, narrowing the differential vis-à-vis the euro area average (1.7%), which has been negative since 2014. HICP inflation in the euro area started to pick up in mid-2016 and stood at around 1% at year-end. Meanwhile, we have seen monthly inflation rates that were notably higher. This report is based on the data available at the cutoff date, i.e. the figures provided in the Eurosystem staff macroeconomic projections of December. The most recent developments will be part of the monetary policy discussions in 2017.

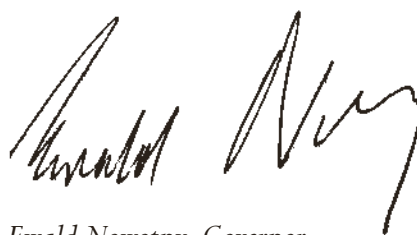
In view of the macroeconomic situation, the Governing Council of the ECB took further steps of monetary easing in the course of 2016, cutting key interest rates again, expanding the Eurosystem's asset purchase programmes both in terms of size and duration, and launching a new series of targeted longer-term refinancing operations, in which banks took up large quantities of funds. These monetary stimuli had been absolutely necessary for the economy to get back on a sustainable growth path. Good financing conditions are an incentive for households and businesses to consume and invest more; therefore, they are a precondition for economic recovery and for inflation to return toward its target level. The Austrian economy also benefited from the accommodative monetary stance, with the growth differential vis-à-vis the euro area narrowing.

On June 23, 2016, a majority of U.K. citizens voted in a referendum in favor of their country leaving the EU. Since then, there has been uncertainty regarding the timing, the modalities and the implications of "Brexit" as well as the future relationship between the EU and the United Kingdom.

Against this background, the efforts to advance Economic and Monetary Union (EMU) have become even more important. The EU and the Eurosystem have critically contributed to cushioning the dramatic economic effects of the financial and economic crisis on the European economy. Furthermore, the EU has implemented a number of reforms since the onset of the crisis, including the establishment of the Single Supervisory Mechanism (SSM), the system of banking supervision for the euro area. By providing in-depth analyses, the OeNB contributes not only to highlighting the economic advantages Austria has gained through European integration but also to identifying areas in which there is need for further reform. Implementing major European projects, such as reinforcing and expanding the investment plan for Europe, requires a common approach based on solidarity among the EU Member States; this will be key to successfully tackling future economic challenges. Leaving aside all the measures whose full effects will be felt only over the next few years, we must never forget that the EU is above all a peace project worth working on for the good of our own future.

I would like to thank the President and the Vice President, the Governing Board and all OeNB staff members for their good work and dedication in 2016.

Vienna, March 2017



Ewald Nowotny, Governor



Ownership structure and decision-making bodies

The OeNB's owners

The OeNB is a stock corporation. 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 of the 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. Further provisions pertaining to the General Council are set out in Articles 20 through 30 of the Nationalbank Act.

Personnel changes of the General Council (between January 1, 2016, and March 7, 2017)

Alfred Lejsek, Federal Ministry of Finance, was reappointed Deputy State Commissioner, with effect from April 1, 2016.

The General Council of the OeNB comprised the following members on March 7, 2017:



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



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)*
Term of office:
March 1, 2013, to
February 28, 2018



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



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

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*



**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

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 on the Functioning of the European Union (TFEU), the Statute of the ESCB and of the ECB and by federal legislation.

On March 7, 2017, 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. The Governor and his deputy are not bound, in performing

these functions, either by the decisions of the OeNB's Governing Board or by 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 of the Nationalbank Act. See www.oenb.at for additional information about the Governing Board of the OeNB.



The OeNB's bicentennial: press conference of the ECB Governing Council at the Vienna Hofburg

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

Roland Pipelka, Head

Financial Stability and Macropprudential 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 March 1, 2017

The year 2016 at a glance

Further monetary easing in the euro area

Given high global economic uncertainty and persistently low inflation rates, the ECB launched a new series of monetary easing measures in the course of 2016, cutting policy rates further, expanding its asset purchase programmes both in terms of size and duration and launching a new series of targeted longer-term refinancing operations, in which banks took up large quantities of funds. The transmission of these monetary stimuli to businesses and households has been effective: the economy is recovering, lending is increasing, and inflation has been approaching its target level. The Austrian economy also benefited from the further monetary easing, with the growth differential vis-à-vis the euro area narrowing. Inflation in Austria remained higher than in the euro area as a whole during 2016, the difference between the two rates became smaller, however. Employment increased, but given the rise in labor supply, this has so far not led to declining unemployment.

Effective supervision strengthens financial stability

For Austria's banks, 2016 was yet another year marked by subdued economic growth, low

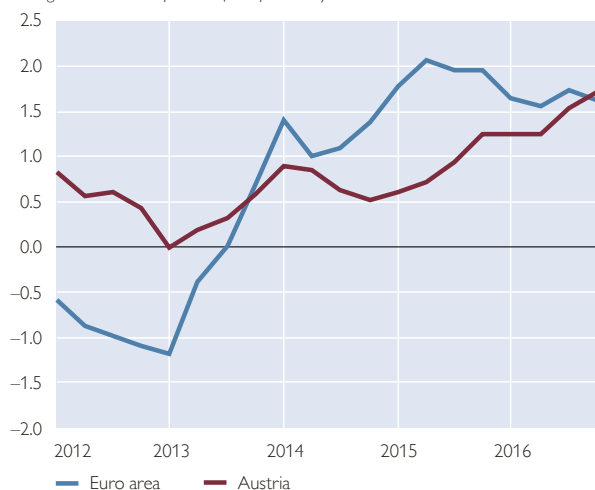
interest rates and political uncertainty in Central, Eastern and Southeastern Europe (CESEE). In this difficult environment, they continued making necessary structural adjustments and reorganized their CESEE business. These measures had a positive effect on banks' risk profiles and on how markets assess their situation. In connection with real estate financing, the OeNB's analyses carried out under its macroprudential mandate do not indicate any systemic risks at the current time. That said, the OeNB does see a need for preventive action to be taken by establishing statutory macroprudential tools for real estate financing and for sustainable lending standards to be enforced.

Under the Single Supervisory Mechanism (SSM), the OeNB continued to fulfill its regular tasks in the Supervisory Review and Evaluation Process (SREP) and, additionally, conducted ad hoc analyses of banks' business models, credit risks – with a special focus on nonperforming loans – and risk management. Moreover, the OeNB is closely involved in the operational oversight of close to 500 small Austrian banks, which belong to the institutions classified as “less significant” under the SSM and continue to be supervised by the national competent authorities. On-site inspections focused on assessments of credit risk and overall risk management.

Chart 1

Real GDP

Change on the same quarter of the previous year in %

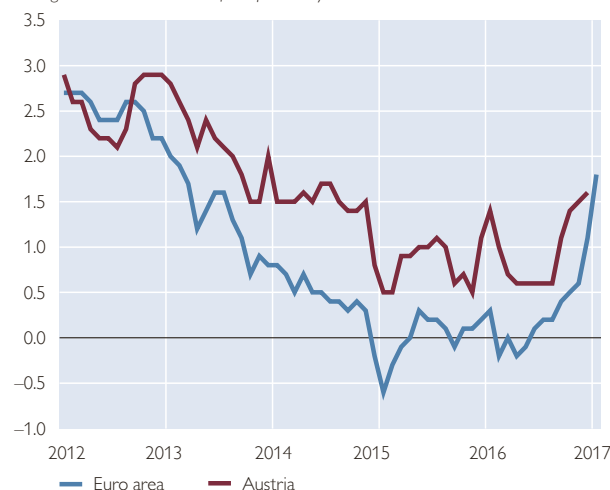


Source: Eurostat, WIFO.

Chart 2

HICP inflation

Change on the same month of the previous year in %



Source: Eurostat.

Gold storage policy and optimization of internal processes

The OeNB is a modern central bank committed not only to fulfilling its main objectives – maintaining price stability, financial stability and the smooth functioning of cash and cashless payments – but also to promoting efficiency in internal processes. Pursuing modern human resources strategies is key to achieving these goals, next to actively communicating with the public and striving for sustainability. The OeNB continued to implement its new gold storage policy in 2016, transferring another 15 tons of gold from London to Vienna. At year-end, a total of 78.8 tons of gold (28% of the OeNB’s gold reserves) were stored in Vienna.

OeNB posts operating profit of EUR 268 million

The OeNB’s 2016 operating profit before writedowns and transfers is EUR 529 million, thus amounting to less than half the figure posted in 2015, which included high income from equity shares and participating interests. Following the allocation of EUR 150 million to risk provisions and writedowns on financial assets and partici-

pating interests totaling EUR 111 million, the operating profit for 2016 comes to EUR 268 million. Of this amount, the central government receives its 90% statutory share of profit of EUR 163 million (pursuant to the Federal Act on the Oesterreichische Nationalbank), and the corporate income tax amounts to EUR 67 million. The profit for the year 2016 comes to EUR 18 million. The OeNB’s net currency position increased by EUR 5.7 billion to EUR 20 billion, reflecting unrealized valuation gains on gold in the amount of EUR 1.1 billion, which did not enter the profit and loss account. Gold and gold receivables accounted for EUR 9.9 billion of the net currency position.

OeNB marked 200th anniversary

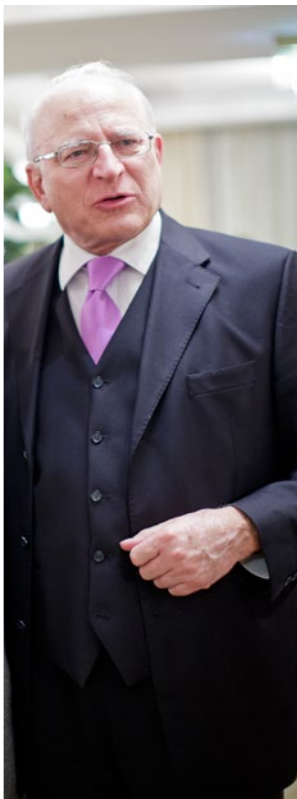
2016 also saw the 200th anniversary of the OeNB’s foundation, which was marked by a number of special events, historical publications and exhibitions. In this vein, the following section revisits the OeNB’s history by looking at the changes in annual reporting over time, and the chapter dividers in this year’s Annual Report feature photos of the bicentennial celebrations.

Table 1

Selected OeNB performance indicators

	2015	2016
	<i>EUR million (as at December 31)</i>	
Net currency position	14,324	20,005
Banknotes in circulation	27,795	28,893
Total assets	106,987	122,556
Operating profit before writedowns and transfers	1,171	529
Writedowns on financial assets and positions, transfers to/from risk provisions	-419	-261
Operating profit	753	268
Corporate income tax	188	67
Central government's share of profit	508	163
Profit for the year	56	18
	<i>absolute or in %</i>	
Full-time equivalent staff resources	1,085.9	1,091.8
Share of university graduates in total staff (%)	59	62
Share of women in total staff (%)	39	40
Share of women in management positions (%)	28	28
Queries to OeNB hotlines	17,376	14,518
Cash training course participants (including Euro Shop Tour)	15,322	8,279
Electricity consumption (MWh per person)	6.44	6.03

Source: OeNB.



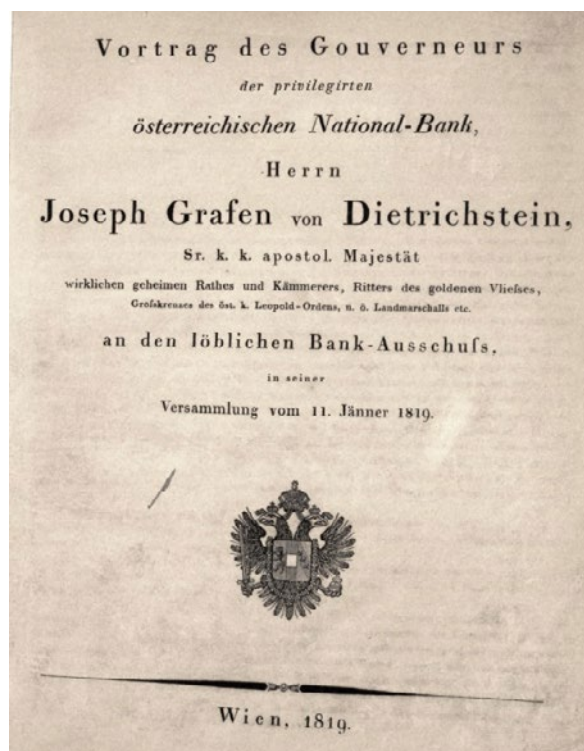
The OeNB's bicentennial: presentation of two anniversary books at the OeNB

Telling the OeNB's 200-year story: 179 annual reports

2016 was a milestone birthday year for the OeNB: on June 1, 1816, Emperor Francis I had signed the two decrees that established the Oesterreichische Nationalbank. At the time, Austria's monetary system was in dire straits. Its currency, the florin, had collapsed after more than twenty years of warfare financed by the printing press. The number-one task of the newly founded bank would be to withdraw paper money turned worthless from circulation and to replace it with new banknotes that were convertible into silver. As a confidence-building measure, the institution was set up as a private stock corporation, independent from the state and accountable to its shareholders. Specifically, the bank's charter required the Nationalbank management to report to shareholders in annual meetings – thus essentially laying the foundation for a long series of annual reports.¹

The early decades

“It is my duty and pleasure to provide you with a detailed picture of our significant institution and its efforts to serve the general public. Before doing so, however, dear Sirs!, let me give you a short overview of how our institution has been evolving, and let me fill you in on its inner workings.” This is how Governor Count Joseph Dietrichstein began his speech to the members of the committee representing the bank's shareholders on January 11, 1819.² The format he adopted for the “Governor's Speech” was going to remain unchanged for years to come. Regular topics included the (successful) exchange of inflationary paper money for banknotes, new agreements negotiated with the government as well as discount lending operations and the provision of advances against collateral. As a rule, the Governor's Speech ended with the piece of information that the banks'



shareholders were likely to be most keen to hear – annual net earnings and dividends paid.

While the governor's annual report thus covered some of the bank's major activities and the conditions under which it operated, it lacked a number of features that are an integral part of modern annual reports: an overview of economic developments, a discussion of monetary policymaking and – perhaps the most striking omission – detailed balance sheet data, especially data on banknotes in circulation and silver coin reserves. These omissions reflect the role the bank played at the time: it did not pursue monetary policy in the modern sense and did not consider itself responsible for the state of the economy. Not disclosing any information on banknotes in circulation and silver reserves reflected the philosophy of the absolutist regime,

¹ The first “Governor's Speech” to be printed was dated January 11, 1819, and referred to the period from 1816–1818. Thereafter, reports on the activities and operations of the Nationalbank were published at annual intervals, except for two longer breaks. Publication was suspended when World War I broke out in 1914 and not resumed until 1918; 20 years later, the integration of the Nationalbank into the German Reichsbank in 1938 also put an end to the publication of separate reports. While the OeNB was reestablished in 1945, the requirement to publish annual reports remained suspended for the time being. The first post-World War II annual report was not released until 1956. Thus, the OeNB's annual report for 2016 is the 179th report in the bank's history.

² Women were allowed to hold stocks, but there were no women among the members of the banking committee.

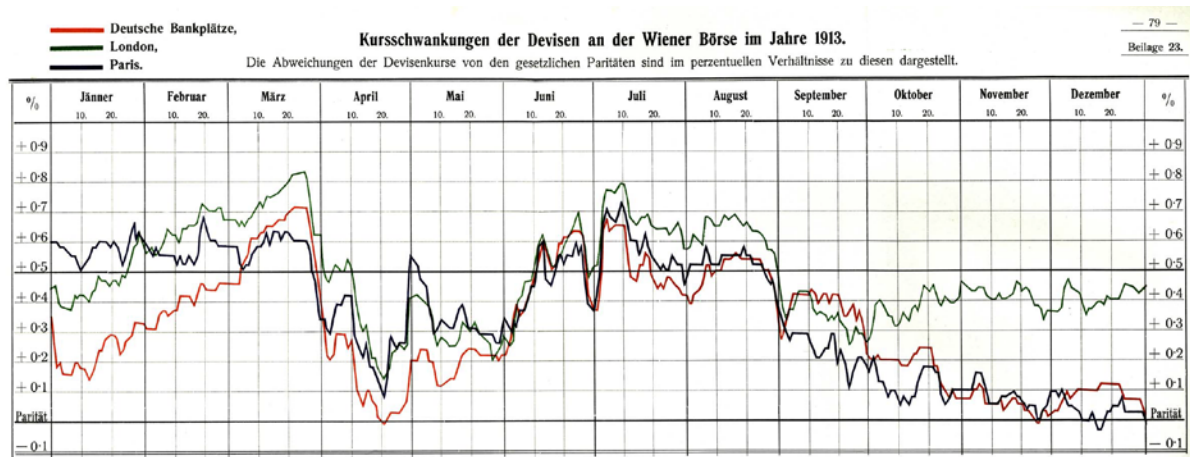
which was not accountable for its actions by law and unwilling to cultivate transparency.

1848 – Revolution in Austria and at the Nationalbank

Things changed with the revolution of 1848, which not only ousted Emperor Ferdinand I and Chancellor Metternich but also sparked a run on the Nationalbank as citizens were anxious to trade in banknotes for silver specie. Yet the bank did not have sufficient reserves and therefore had to discontinue the conversion of banknotes, which resulted in the emergence of a volatile premium on silver coins. Given this turn of events, the bank’s management resorted to a measure that would have long-term relevance: For the very first time, it published the bank’s balance sheet, thus disclosing both the amount of banknotes in circulation and the structure of its counterpart assets. While the revolution was crushed and the subsequent governments under the new emperor, Francis Joseph I, restored censorship, the regular publication of the bank’s balance sheet in the form of monthly (and later weekly) financial statements was retained. Unlike before 1848, the bank was now acting under the watchful eyes of the general public – and drawing some heavy criticism. In the medium term, the revolution of 1848 was an important milestone on the road to broadening the bank’s public accountability, which among other things also led to the publication of ever more comprehensive annual reports.

Central bank of a multinational state and monetary stability restored

The decades following the 1848 revolution were periods of great change. The industrial expansion that had started in the first decades of the 19th century accelerated. Against the backdrop of the growing network of savings banks, the establishment of large joint-stock banks funding railway construction and industrial expansion as well as the emergence of cooperative banks, the Nationalbank evolved from the treasury’s banker to the banker’s bank. It offered a broader range of services and broadened the geographical scope of its services. By 1913, the bank was operating more than 100 branch offices throughout the Austro-Hungarian monarchy. The payment services offered to the bank’s current account holders covered even the remotest parts of the empire, thus allowing customers to settle payments across vast distances. In its annual reports, the bank proudly presented statistical data about the services it rendered to the economy. As a new feature, the bank’s management also provided a – short – analysis of economic framework conditions, thus explicitly linking its monetary policy to the macroeconomic context. Active weekly communication of the bank’s actions gained in relevance as calls for shared decision-making and improved access to the bank’s credit facilities became more urgent in Hungary and other regions of the monarchy. More than a decade after the centralized empire had been turned into a dual monarchy under the terms of the 1867 Compromise between Austria and Hungary,



the Oesterreichische Nationalbank was re-established as the Austro-Hungarian Bank in 1878. Henceforth, both Austrian and Hungarian nationals made up the bank's management.

Following the abandonment of silver convertibility in 1848 for Austrian banknotes, the exchange rate of the Austrian florin had been fluctuating against stable foreign currencies. It took a couple of decades and a new currency – the gold-backed crown – for the Austro-Hungarian Bank to restore monetary stability. Agreement on introducing the new currency was reached in 1892. Thereafter, circumspect monetary policies were effective in securing stable exchange rates until 1914. In 1910, the Austro-Hungarian Bank explicitly adopted a foreign exchange target and thus for the first time an objective with macroeconomic underpinnings. Statistical data that went beyond the bank's operations proper had first been published in the annual report in 1901. Now the bank started to regularly publish charts with exchange rate developments, so as to make known that it was in compliance with its exchange rate target.

First half of 20th century marked by heavy turmoil

Apart from enormous humanitarian losses, World War I cost a tremendous amount of money, much of which was provided by the printing press. When the war broke out the rules that had ensured the stability of the crown were suspended. For the first time since 1848 the central bank stopped publishing weekly financial statements, and annual reports, for that matter. Banknotes in circulation increased sharply during the war, which in turn sparked heavy inflation. When World War I ended in 1918, the Austro-Hungarian monarchy collapsed, leading to the disintegration of the common currency area within its borders. However, the new Austrian republic was also in need of central bank support in financing its high budget deficits. Hyperinflation set in and continued unabated until an adjustment program under the auspices of the International League of Nations effectively con-

tained inflation in 1922. Following its reestablishment, the Oesterreichische Nationalbank took on the mandate of maintaining a stable currency, as a result of which the Austrian schilling was launched in 1925.

In those difficult years, the annual "Reports of the General Council" reflect a marked shift in the OeNB's role compared with the role it had played up to World War I, given that it had taken on a much broader responsibility for the economy under the international adjustment program. In those years, the reports started with an overview of economic developments abroad, international trade and international monetary cooperation. With regard to domestic developments, the report focused on the health of public households, cross-border trade, tourism and cross-border liabilities and – in this context – on the OeNB's foreign currency reserves. Other topics included price developments, unemployment, industrial and agricultural output, activities in money and foreign exchange markets and last but not least developments in the Austrian banking industry. The annual overview was based on regular economic monitoring exercises, which also led to the launch of a monthly review, published under the title "Governing Board Report." The annual report was gradually starting to look more like today's report.

Meanwhile, the OeNB and Austria were in for yet another difficult period. The return to the gold standard in 1923 did not bring about the desired economic stability, inter alia because the Great Depression spread to Europe from the United States, hitting Austria as well in the early 1930s. While unemployment swelled, the decision to stick to the gold standard reduced the scope for economic policy action. Austria's number-one bank, Creditanstalt, was forced to disclose major losses in 1931. The ensuing currency crisis crushed the Austrian schilling and cost the OeNB the bigger part of its official reserve assets. In 1938 Nazi Germany occupied Austria. One of the first measures taken by the new authorities was to integrate the OeNB into the Reichsbank, and to replace the schilling with the reichsmark.

Economic miracle and hard currency policy

The OeNB was reestablished immediately following the liberation of Austria in April 1945 in order to rebuild the Austrian monetary system. Unlike after 1918, the excess liquidity that had flooded the economy during the war was effectively absorbed by two currency reforms, thus averting looming hyperinflation. While formally independent, the OeNB became an integral part of the reconstruction initiative, ensured stable macroeconomic conditions in cooperation with the social partners and the Austrian finance ministry, steered credit lending and played an active role in disbursing the Marshall Plan funds in Austria. Initially, the OeNB acted on the basis of a transitional legal framework, until its mandate was reinforced with the 1955 Nationalbank Act. The publication of annual reports was resumed in 1956, after a long break since 1938. In line with the OeNB's new role, the discussion of economic developments in Austria became a prominent feature of the annual report, whereas balance sheet analysis and reports on the bank's operations, which used to be a key element, became less relevant.

In the second half of the 1960s, the prevailing international monetary system of Bretton Woods, which had been a pillar of stability in the postwar years, started to crumble. Following the devaluation of the gold exchange rate of the U.S. dollar, Austria, too, was up against the question of how to design its future exchange rate policy. In the pursuit of monetary stability, Austria ultimately adopted a "hard currency" policy. With a view to importing the lower level of inflation maintained in Germany, the schilling was pegged to the Deutsche mark. In the years to come, this currency peg required all economic stakeholders to make every effort to ensure that domestic exporters would remain competitive in foreign markets. Further milestones included the fall of the Iron Curtain in 1989, as a result of which Austria no longer found itself on the periphery of the Western world, and Austria's accession to the European Union in 1995.

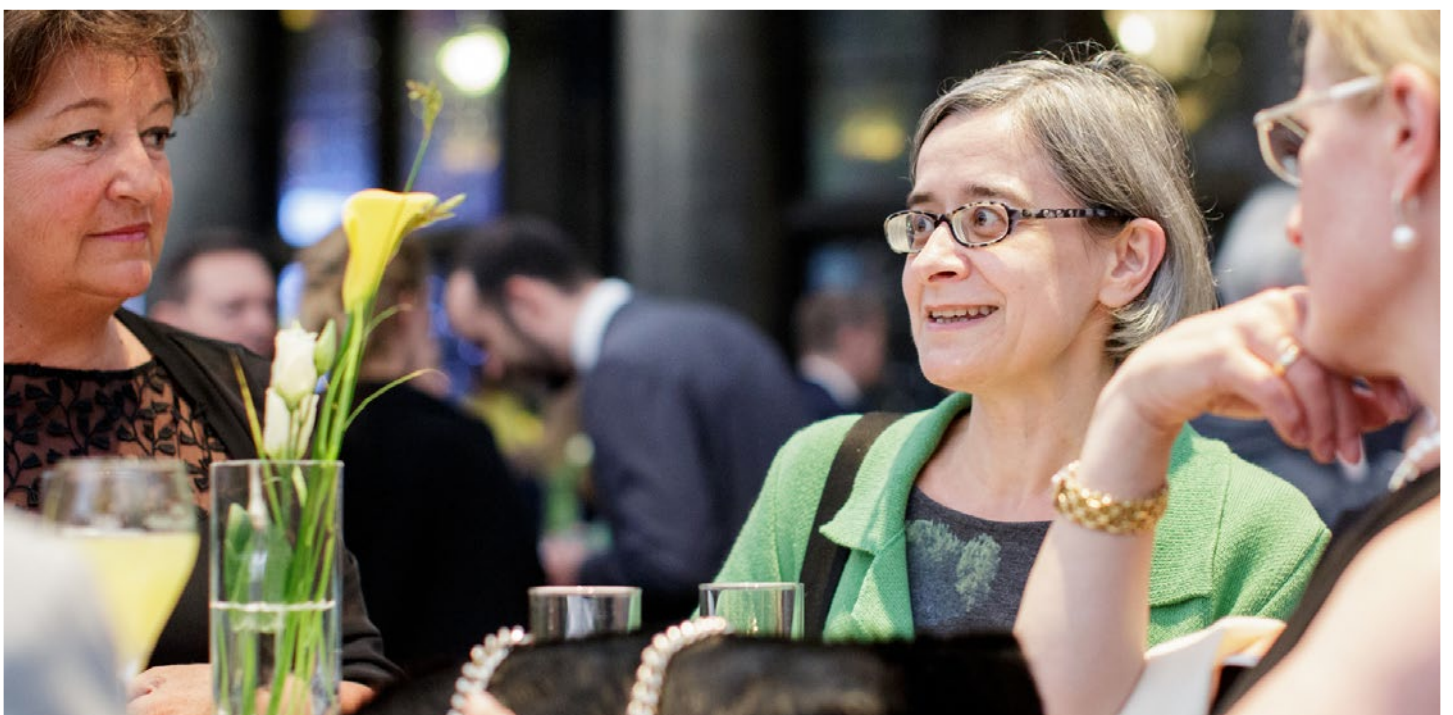
OeNB membership in the European System of Central Banks (ESCB)

Following years of hard currency policy, Austria was well poised for euro area membership when the euro was launched in 1999. Monetary policymaking with the goal of maintaining price stability is now a joint undertaking at the European level. But as a national central bank, the OeNB remains responsible for a broad range of tasks at the national level, including the operational implementation of monetary policy, cash supply, payment services, monitoring economic developments in Austria, banking supervision, and communicating the common monetary policy to the Austrian public.

Even as an integral part of the ESCB and the Eurosystem, the OeNB continues to publish annual reports, like all other euro area central banks and the ECB. Its annual reports cover, in particular, the central banking tasks that have remained a national responsibility even following the adoption of a single European currency. The OeNB's annual reports thus serve as a central source of information on its activities and on European developments of relevance for Austria. Corporate reporting as such has also been developed further. The annual financial statements, a classical section of the annual report, are now supplemented with chapters on what the OeNB does to achieve sustainability, manage knowledge, provide funding support for scientific research and the arts – and be a modern employer.

Unlike 200 years ago, the annual report is now one among several instruments and channels that the OeNB uses to inform the public about its wide range of tasks and about developments in individual business areas. What has remained unchanged, though, is the fundamental goal of using the annual report to document OeNB policymaking and to safeguard confidence in the stability of the currency.

The OeNB safeguards price stability
and financial stability



The OeNB's bicentennial: anniversary ceremony with the ECB Governing Council

Another year of very low policy rates in the euro area

Global economic growth lower than in previous years

In 2016, nine years after the outbreak of the great financial and economic crisis, world GDP grew by slightly more than 3%, but at the same time was constrained by some weaknesses: Investment growth in the United States was weaker than expected, reflecting the strong U.S. dollar and the low price of oil, which had a negative impact on oil extraction investment. Given the low level of oil prices, oil-exporting countries moreover suffered gradually worsening terms of trade. Navigating its transition to a market economy, China has been witnessing substantially lower GDP growth rates since 2010. Finally, the majority vote in favor of the United Kingdom leaving the EU added to political uncertainty and triggered a temporary decline of confidence indicators. In view of those developments, global economic growth was weaker in 2016 than in any other year since 2012. In other words, the recovery from the great financial and economic crisis was subdued in 2016. Together with the low oil prices, the moderate recovery kept inflation rates at about 1% and hence below target rates across advanced economies.

Eurosystem preserves high degree of monetary policy accommodation

2016 opened amid heightened uncertainty about the growth outlook for emerging economies, above all China, and concomitant bouts of turbulence in international financial and commodity markets. This environment affected the growth and inflation outlook for industrial economies, including the euro area.

The Governing Council of the ECB responded to the heightened risks of failing to achieve its price stability objective by adopting

three sets of measures in March 2016: First, the Governing Council lowered its policy rates.¹ At the same time, it reaffirmed that policy rates would remain at current or lower levels for an extended period of time. By not only lowering the current policy rates but also steering expectations in its forward guidance about the future path of interest rates, the Eurosystem put direct pressure on longer-term rates, thus influencing a broader spectrum of maturities.

Second, the Governing Council of the ECB increased the monthly purchases under its expanded asset purchase programme (APP) from EUR 60 billion to EUR 80 billion, starting in April 2016. APP purchases are primarily focused on euro area government bonds but also include bonds issued by agencies – such as securities issued by the agency that operates the rail infrastructure of Austria’s Federal Railways (ÖBB Infra) and the agency that operates Austria’s highways (ASFINAG) – and supranational organizations, marketable debt instruments issued by regional and local authorities as well as covered bonds and asset-backed securities. In addition to some technical adjustments made to ensure the continued smooth implementation of APP operations following the increase of the monthly purchases, the APP was expanded to include a fourth subprogram, namely the corporate sector purchase programme (CSPP). Under the CSPP, the Eurosystem started purchasing investment-grade euro-denominated bonds (i.e. bonds with a minimum rating of BBB– or an equivalent rating) issued by nonbank corporations resident in the euro area.

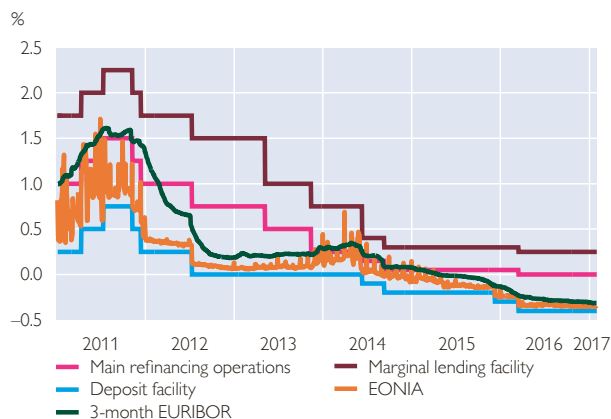
Forward guidance

Forward guidance refers to clear messages from a country’s central bank to the public about its intended monetary policy. Such messages are aimed at reducing uncertainty about the future path of interest rates, financial asset prices, inflation rates and economic developments in general. The Eurosystem started to use forward guidance in 2013.

¹ The rate for main refinancing operations was cut by 5 basis points to 0.0%, the rate for the marginal lending facility was lowered by 5 basis points to 0.25%, the rate for the deposit facility was reduced by 10 basis points to –0.4%.

Chart 3

ECB and money market interest rates



Source: Thomson Reuters.

Third, in addition to lowering policy rates and expanding purchases under the APP, the Eurosystem provided further monetary policy accommodation by launching a new series of four targeted longer-term refinancing operations (TLTRO-II) with a maturity of four years each.

Expanded asset purchase programme (APP)

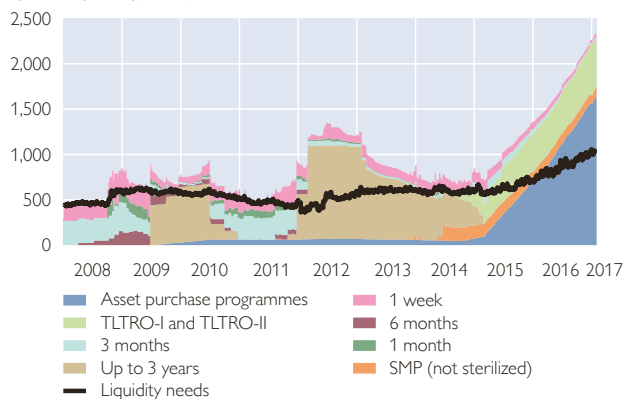
Under the expanded asset purchase programme, the Eurosystem buys four types of securities based on the four underlying programs: covered bonds (CBPP3), asset-backed securities (ABSPP), public sector securities (PSPP) as well as bonds issued by nonfinancial corporations (CSPP).

TLTRO-II operations enable counterparties to borrow central bank funds of up to 30% of their eligible net lending at a preferential rate. At the start of the operations, the TLTRO-II rate was 0% (i.e. the prevailing rate on main refinancing operations). Banks whose net lending between January 2016 and January 2018 exceeds the predefined benchmark will be eligible for a lower rate. This rate may be as low as -0.4% (i.e. the rate on the deposit facility). Like all other tender operations, these operations are being carried out with full allotment, i.e. banks' demand for central bank liquidity is met in full, provided they comply with the prerequisites and stand ready to submit adequate collateral. The targeted longer-term refinancing operations reinforce the Eurosystem's accommodative monetary policy stance and strengthen the transmis-

Chart 4

Liquidity provision in the euro area

By maturity and type of operation, EUR billion



Source: ECB, authors' calculations.

Note: SMP = Securities Markets Programme, TLTRO = targeted longer-term refinancing operation.

sion of monetary policy by further incentivising bank lending to the real economy.

Demand for TLTRO-II funding was high during the first three operations. Banks not only rolled over the bulk of TLTRO-I funding taken out earlier but increased their take-up by more than EUR 100 billion, bringing the total take-up of long-term Eurosystem funding under both programs (TLTRO-I and TLTRO-II) to EUR 545 billion at end-2016.

Between the launch of APP operations in March 2015 and the end of December 2016, the Eurosystem bought securities worth about EUR 1,500 billion, thus creating central bank liquidity by the same amount.² As a result, the amount of excess liquidity increased to beyond EUR 1,200 billion until the end of 2016. Excess liquidity refers to funds held by counterparties on central bank accounts in excess of reserve requirements or following recourse to the deposit facility. Banks took out additional funds under TLTRO-II despite holding excess liquidity, for which they are required to pay 0.4% interest.

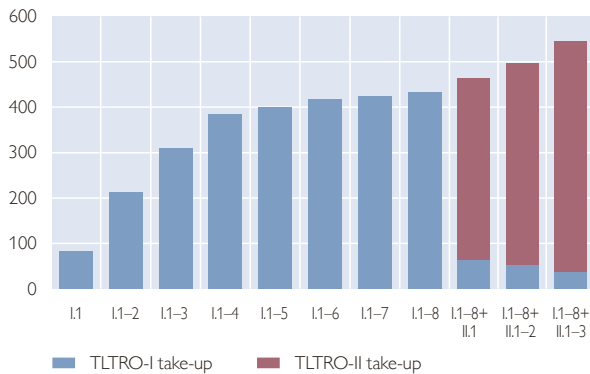
The large take-up of TLTRO-II funds can be explained by a number of factors: For one thing, the euro area money market continues to

² The broad-based asset purchase programme (APP) started in March 2015, but the Eurosystem had bought securities even before that date under smaller purchase programmes (for instance covered bonds under the three successive programs, CBPP1–3).

Chart 5

TLTRO take-up

EUR billion, cumulated



Source: ECB.

be fragmented along national lines, i.e. the refinancing options and costs of banks differ across regions. While efforts to reduce this fragmentation have been rather successful since the height of the financial and sovereign debt crisis and while central bank liquidity has been circulating more smoothly recently, access to the money market continues to be more difficult for some banks than for others. Hence, the

TLTRO-II option is particularly important for some banks, allowing them to also benefit from the Eurosystem's favorable refinancing conditions. In this way, the accommodative monetary policy of the Eurosystem can pass through to all regions of the monetary union. In addition, the high take-up of TLTRO-II funds reflects the fact that central bank liquidity has become a comparatively attractive form of investment for commercial banks, considering in particular the regulatory framework conditions. And finally, while central bank balances currently carry a negative interest rate of -0.4% , alternative assets, such as short-term government bonds issued by core euro area countries such as Germany or Austria, carry similar yields.

Targeted longer-term refinancing operations II (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 scheduled for implementation 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 a participating bank issues, the cheaper borrowing becomes; the cheapest rate is -0.4% at present.

Box 1

Monetary policy effects in the euro area and in Austria

The range of monetary policy measures adopted by the Eurosystem, including policy rate cuts, the expansion of tender operations and securities purchase programmes, are aimed at improving financing conditions for households and businesses, with a view to fostering economic activity and ensuring that the price stability objective will be met. The interest rate on main refinancing operations was cut to 0.0% in March 2016 (see chart 3). However, given the current level of excess liquidity, the relevant policy rate for money markets is now the deposit facility rate rather than the main refinancing rate as in the pre-crisis period. Mirroring the cut in the deposit facility rate, to -0.4% , the euro overnight index average (EONIA) therefore hovered around -0.35% from March 2016 onward. And since the EONIA rate usually dictates the movement of all other interest rates in the money market, the latter also dropped as a result.

While money market rates responded to monetary policy action without delay, longer-term interest rates were influenced by other factors as well: In the first half of 2016 government bond yields continued their downward trend, which was strengthened by the asset purchase programme (APP). The temporary safe haven effect triggered by the Brexit vote reinforced the downward movement further in late June and early July 2016, in particular for the yields of core euro area countries, which dropped to historical lows. German ten-year government bond yields were in negative territory throughout the summer, dropping to a low of -0.2% . Austrian ten-year government bond yields remained marginally positive (see chart 6); at the same time, yields of Austrian bonds with shorter maturities, such as bonds maturing in March 2026, also dropped below 0% .

Businesses, especially nonfinancial businesses, also benefited from the monetary policy measures. Between March – when the corporate securities purchase programme (CSPP) was announced – and September 2016 the yields of bonds issued by nonfinancial corporations resident in the euro area sank by about 60 basis points. The average yield of all rating categories (from AAA to BBB) dipped as low as 0.4% . Thus, financial market funding was available for businesses at historically low rates.

At the same time, refinancing costs were at historical lows in this period for banks as well. This is true for both direct funding through the Eurosystem, as well as for funds raised in the money market as well as through the issuance of bank bonds. The main beneficiaries of this situation were borrowers. Bank lending rates for nonfinancial corporations and households in the euro area declined visibly until the fall of 2016, dropping to levels of below 2% for the first time ever since the corresponding time series have been compiled.¹

In Austria, too, bank customers were able to borrow at historically low rates: In December 2016, the average interest rate on new residential loans stood at 1.9%. This compares with an average lending rate for nonfinancial corporations of between 1.6% and 1.85% (depending on lending volumes).

As the economic outlook improved in the fall, real interest rates increased slightly. At the same time, inflation expectations increased as well, reflecting the rise in oil prices. These developments brought on a rise in the level of nominal long-term interest rates, which was reinforced by the continued interest rate reversal in the United States.² The rise in the level of nominal long-term rates became evident in the fourth quarter of 2016 above all in the movement of government bond yields (see chart 6).

The favorable financing conditions as well as the easing of borrowing conditions and increased demand for bank loans caused lending volumes to rise in the euro area. Following a gradual year-on-year decline in the volume of outstanding loans in banks' balance sheets from 2012 until early 2015, growth rates have been positive and increasing continually since then. Based on euro area averages, annual loan growth rates stood at 2.7% for household loans for residential purposes and at 1.9% for corporate loans by the end of 2016.

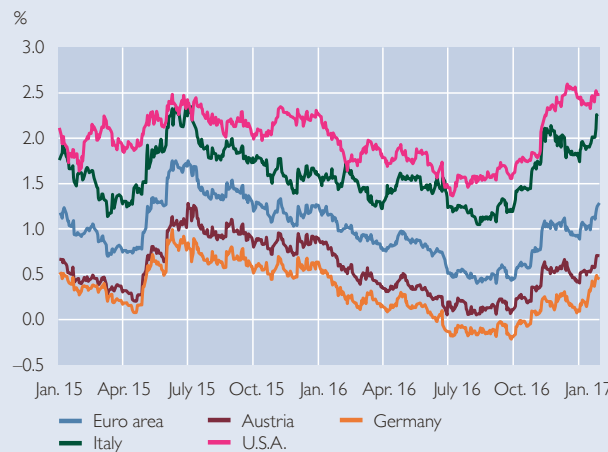
In Austria, the volume of bank lending to businesses remained broadly unchanged in 2016. While the annual growth rate has remained positive since the crisis years 2009–2010, it stopped accelerating as of late, stagnating at a rate of about 1½%. By the end of 2016, the Austrian growth rate was below the euro area growth rate for the first time since the crisis. The exception were housing loans, which closed the year with a growth rate of close to 6%, thus growing markedly more strongly than housing loans across the euro area.

¹ These time series are composite time series reflecting the weighted average of all statistically available interest rates on loans to nonfinancial corporations and loans to households for residential purposes.

² In December 2016, the Federal Open Market Committee of the U.S. Federal Reserve System decided to raise the target range for the federal funds rate by another 25 basis points, to a range of 0.5% to 0.75%.

Chart 6

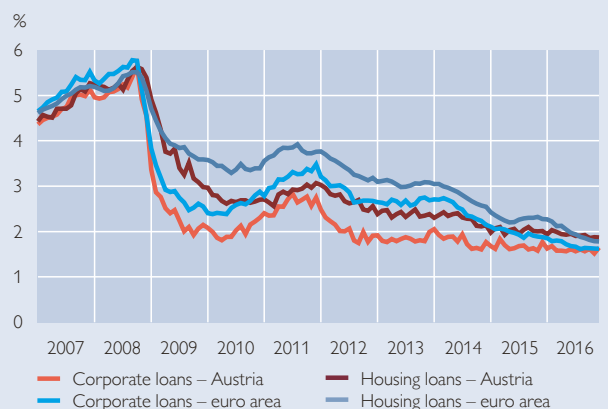
Yields of selected ten-year government bonds in the euro area and the U.S.A.



Source: Thomson Reuters.

Chart 7

Interest rates on new (and renegotiated) loans



Source: OeNB, ECB.

In the wake of all monetary policy operations implemented in 2016, the Eurosystem balance sheet grew by almost EUR 900 billion (i.e. by about one-third). The OeNB contrib-

uted some EUR 15 billion to the growth of the balance sheet, the key driver being APP operations. By the end of 2016, the OeNB had spent EUR 37.1 billion on “securities for monetary

policy purposes” while assets related to monetary policy operations (main refinancing operations and longer-term refinancing operations) accounted for EUR 11.3 billion in the OeNB’s books.

Inflation still falls short of the price stability objective

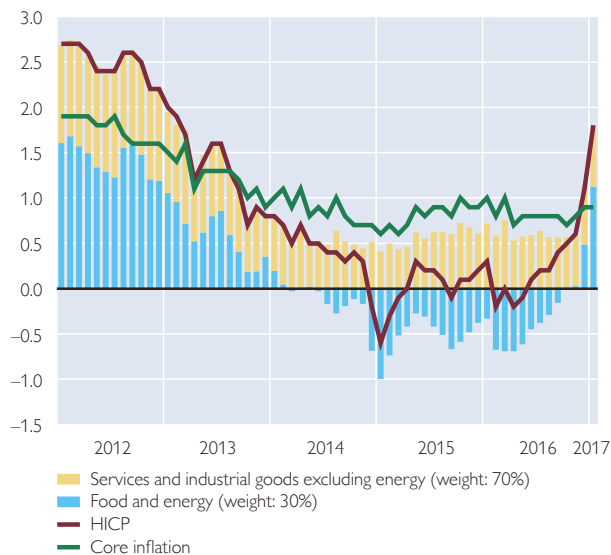
In 2016, the substantial degree of monetary stimulus provided by the Eurosystem was passed through effectively to the financial markets and onward to bank borrowing conditions, thus significantly supporting the real economy in the euro area. Toward the end of the year economic sentiment improved in the advanced economies, very much in anticipation of a switch to expansionary fiscal policies in the United States following the presidential elections of November 2016. In the euro area the growth rate of real GDP increased to 0.4% in the fourth quarter against the previous quarter, with confidence measures improving across sectors and countries. The Eurosystem staff projections of December 2016 expected real GDP growth in the euro area to total 1.7% in 2016 and 2017, and to reach 1.6% in 2018 and 2019. This would imply economic growth in excess of estimated potential output growth throughout the horizon of the projections, as a result of which the negative output gap should narrow over time.

HICP inflation rates continued to remain significantly below the medium-term price stability target of below, but close to 2% during 2016. In the period from 2014 to 2016, headline inflation was dampened considerably by previous declines in oil prices. By mid-2016, the dampening impact of these factors was starting to wane, driving up headline inflation and bringing it back to a level of around 1% by the end of the year. The Eurosystem staff projections of December expected the reversal in oil prices to continue and, hence, the annual growth rate of inflation to increase from an annual average of 0.2% in 2016 to 1.3% in 2017 and onward to 1.5% in 2018 and 1.7% in 2019. While market-based indicators of inflation

Chart 8

HICP inflation and contributions by subcomponents in the euro area

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



Source: Eurostat.

expectations moved beyond 1.5% toward the end of the year, given the increase in oil prices, they still remained misaligned with the definition of price stability.

Consequently, the Governing Council of the ECB considered the adjustment in the path of HICP inflation to a level of below, but close to 2% as not sufficiently sustained and, in its meeting of December 8, 2016, endorsed an expansion of the asset purchase programme beyond March 2017: The total purchase volume was increased by EUR 540 billion, which means that purchases will continue at a monthly pace of EUR 60 billion from April 2017 until the end of December 2017 – or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation objective.

Following a significant rise in the prices of energy and food, the rate of HICP inflation jumped to 1.8% in January 2017. The core inflation rate, i.e. HICP inflation excluding energy and food, remained at 0.9% and thus at a moderate level.

Six FAQs on the period of low interest rates

Why are current interest rates so low?

The sustained downward trend in nominal long-term interest rates across advanced economies, which started more than three decades ago, can be attributed to a range of causes. On the one hand, central banks have been very effective in significantly reducing the inflation expectations underlying long-term interest rates as well as inflation risk premiums. On the other hand, real interest rates – i.e. nominal interest rates as adjusted for inflation – have contracted because investment falls short of savings on a global scale.

Chart 9

Apart from these long-term and structural factors, cyclical factors, such as the global financial and economic crisis, have been playing a key role as well. Responding to two recessions (in 2009 and in 2012–2013) the Eurosystem gradually lowered the rate on main refinancing operations to a historical low of 0%, with a view to creating incentives for people to spend more and for businesses to invest more, subject to the overarching objective of boosting economic growth and reverting to an inflation rate of below, but close to 2% in the medium term.

Have interest rates been that low before?

The current rate of nominal interest rates is the lowest level on record for advanced economies. Apart from demand, the level of interest rates is one of the key drivers underlying economic decisions, such as the readiness of companies to invest. However, it is not only nominal interest rates that count; real interest rates matter as well: In periods of high inflation, such as in the 1970s, the level of real interest rates used to be much lower than today.

With inflation rates reaching up to 10% at the time, domestic real interest rates on demand deposits dropped to as low as –6% in the 1970s. By comparison, real interest rates on demand deposits hovered between –0.5% and –1% in 2016 (see chart 9).

Who benefits from low interest rates? Who suffers from low interest rates?

Low real interest rates have a negative impact for all savers, because they imply lower interest income on bank deposits (such as savings accounts).

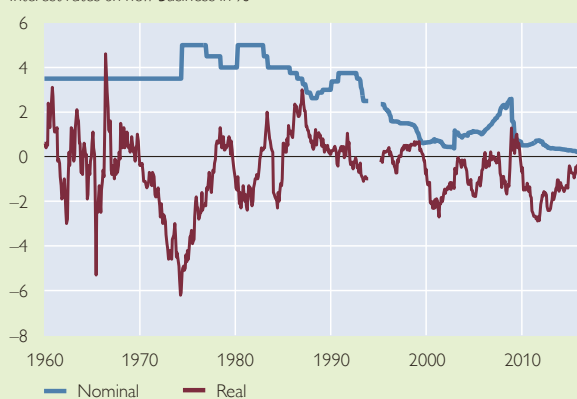
At the same time, low interest rates have a positive impact for those who borrow – above all companies, but also households with housing loans, etc. – because low interest rates diminish the interest burden. This makes debt service easier and moreover supports debt reduction. Furthermore, a low level of interest rates leads to valuation gains in many areas (e.g. for real estate property or existing higher-yield bonds), which have a positive impact on the wealth of economic agents in those areas.

Public households have also benefited from the low level of interest rates. Preliminary estimates find the Austrian government to have saved about EUR 3½ billion in interest rate payments since 2012 – i.e. since interest rates hit the zero lower bound and later dipped into negative territory.¹ In the absence of these low interest rates, public households would have had to spend less or raise taxes to fund the extra spending.

¹ These estimates compare the yield curve expected in the spring of 2012 with the interest rates that materialized in the end to derive the reduction in interest expense from 2012 to 2016.

Interest rates on overnight savings deposits (before withholding tax on investment income)

Interest rates on new business in %



Source: OeNB, Statistics Austria.

Note: Up to December 1993: basic savings rate ("Eckzinssatz") on savings deposits; from April 1995: interest rate on overnight savings deposits; from January 2003: interest rate on overnight savings deposits in euro. No data are available for the period January 1994 to March 1995. Real: deflated by the current consumer price index (CPI66).

What is the economic benefit of low interest rates?

The great financial and economic crisis of 2008–2009 shaved more than 5% off real GDP in the euro area and ultimately led to a sharp rise in unemployment. Monetary policy action to cut interest rates – using both standard and nonstandard instruments – was an economic policy necessity with a view to bringing the economy back on a growth path. This is subject to the caveat that it takes adequate financial and structural policy measures for monetary policy to develop its full potential.

The significant interest rate signal (in combination with a broad-based asset purchase programmes) was meant to indicate the commitment of monetary policymakers to achieve their price stability objective. On this road, it is possible to create confidence and exert a stabilizing impact on inflation expectations, which helps achieve the price stability objective. Above all, these measures have been effective in fending off deflation risk.

The crisis has made clear that high debt levels weaken the resilience of an economy in the event of turbulence. For borrowers, the current low level of interest rates has the added benefit of easing debt servicing costs, thereby facilitating deleveraging.

What are the underlying risks of a protracted period of low interest rates?

As outlined, the prevailing level of very low interest rates is without historical precedence. Given its mandate to contribute to the maintenance of macroeconomic stability, the OeNB attaches great importance to carefully monitoring and communicating the corresponding effects and risks.

Low interest rates might encourage households and companies alike to incur high investment risks in the search for yield. Possible scenarios include the investment in very long-term and illiquid assets like real estate, leading to price bubbles in these segments. Moreover, protracted periods of low interest rates may create incentives for borrowing that may become unsustainable once interest rates do rise. Such behavior creates risks to financial stability.

In the longer term, the low interest rate level also creates a challenge for banks and insurance companies. When banks are unable to reduce their funding costs (such as deposit rates) below a given level, they may face the conundrum of not being able to cut their interest rate expenditure as fast as they see their income from lending dropping – causing their interest rate margins to shrink. In the Austrian banking sector, dwindling interest rate margins have been affecting above all small and regionally active banks as evidenced by Kerbl and Sigmund (2016).²

In the short run, low interest rates tend to improve the debt servicing capacity of borrowers (with regard to variable rate loans in particular), thus having a positive impact on the credit quality of lenders. At the same time, we observe an increase in bond yields (of existing higher-yielding bonds), which leads to valuation gains. Thus, the negative impact of a low interest rate environment on financial institutions becomes apparent only gradually, as higher-yielding assets mature. This is why it is important for the affected institutions to address this situation at an early stage. The OeNB has analyzed the risks associated with the low interest rate environment on an ongoing basis and monitors conspicuous banks; if necessary, the OeNB also prepares supervisory measures.

How have Austrian households reacted to interest rate conditions?

The interest rate level is only one of several factors influencing the saving behavior of Austrian households, as evidenced by the results of a survey discussed in Beer et al. (2016).³ Hence the low interest rate level did not trigger any major changes in the saving behavior until the spring of 2015, when the survey was conducted. Changes in the saving behavior that were observed were often driven by other reasons, such as changes in the level or household income or household buying plans. While showing some portfolio rebalancing toward real assets, the survey did not produce any evidence of a shift toward increased risk-taking among Austrian households.

² Kerbl, S. and M. Sigmund. 2016. *From low to negative rates: an asymmetric dilemma*. In: OeNB. *Financial Stability Report 32*. 120–135.

³ Beer, C., E. Gnan and D. Ritzberger-Grünwald. 2016. *Saving, portfolio and loan decisions of households when interest rates are very low – survey evidence for Austrian households*. In: OeNB. *Monetary Policy & the Economy Q1/16*. 14–32.



The OeNB's bicentennial: presentation of two anniversary books at the OeNB

Domestic economy reverted to growth path in 2016

Moderate economic upturn driven by one-off effects

While in the euro area as a whole real GDP growth did not return to its pre-crisis level until 2015, Austria's real GDP growth already surpassed its pre-crisis level in 2011, having turned positive again in 2010. In the period from 2012 to 2015, however, domestic GDP growth remained below 1%, thus falling short of long-term averages. While continuing to recover gradually, domestic output growth has thus been lagging behind euro area growth since 2014. In 2016, Austria's GDP growth reached 1.4%, thus reconverging toward the euro area average on the back of several one-off factors.

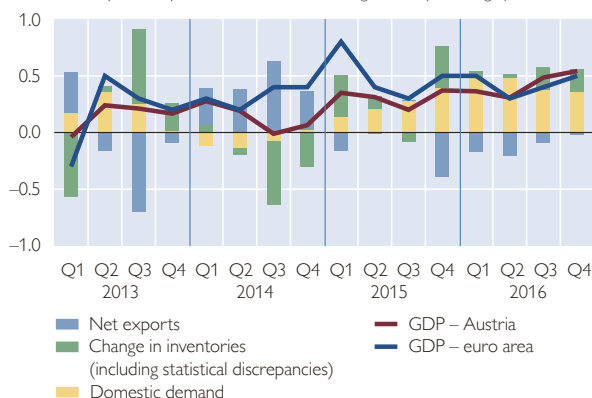
The recovery in 2016 was supported by an increase in domestic demand that was fueled by both private consumption and business investment. While the real disposable income of households had dropped slightly in the period from 2012 to 2015, thus causing consumption expenditure to stagnate or even contract slightly, it grew by a marked 3% in 2016. Apart from persistently low inflation, this increase primarily reflected income gains from the income tax reform that took effect in January 2016. Furthermore, public spending on asylum seekers and recognized refugees as well as employment growth caused household income to rise in the aggregate. These developments drove up households' real consumption demand compared with previous years. Some of the rise in real household income also fed through to an increase in the saving ratio.

In addition to private consumption, business investment was instrumental in accelerating economic growth, having risen by 2.9% in 2016, compared with 0.6% in 2015. Investment growth was essentially driven by investment in machinery and (transport) equipment, which contributed 2.1 percentage points to overall investment growth. The increase in investment reflects the favorable financing conditions

GDP growth and contributions of demand components in Austria

Chart 10

Growth on the previous quarter in %, contributions to growth in percentage points



Source: OeNB, WIFO.

Note: Trend-cycle data.

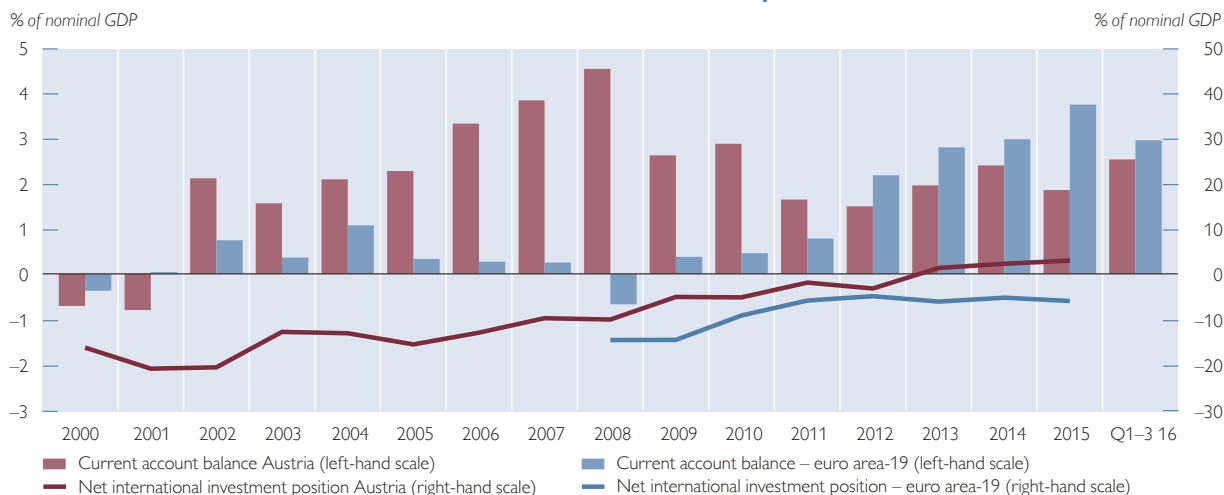
created by monetary accommodation, and the strong availability of internal sources of funding as well as the need for replacement investment. However, the equipment investment cycle tends to be short and is likely to bottom out in 2017.

Unlike domestic demand, net exports dampened growth in 2016. Real export growth dropped from 3.6% in 2015 to 2.2% in 2016, reflecting weak internal euro area demand as well as contracting goods exports to the United States, Russia and Turkey on the one hand and a rise in import growth from 3.0% to 3.7% amid accelerated domestic demand, on the other.

According to preliminary data, Austria reported a current account surplus of EUR 6.5 billion for the period from January to September 2016 (+17% year on year), which corresponds to 2.5% of GDP. The surplus was generated mainly by the tourism industry, where revenues exceeded expenses by EUR 7.2 billion, and is also attributable to lower primary and secondary income¹ deficits. Net exports of goods and business services fell short of the comparable figures for 2015. Cross-border capital transactions were characterized by a

¹ Formerly called balance on income and transfer payments.

Current account balances and net international investment position in Austria and the euro area

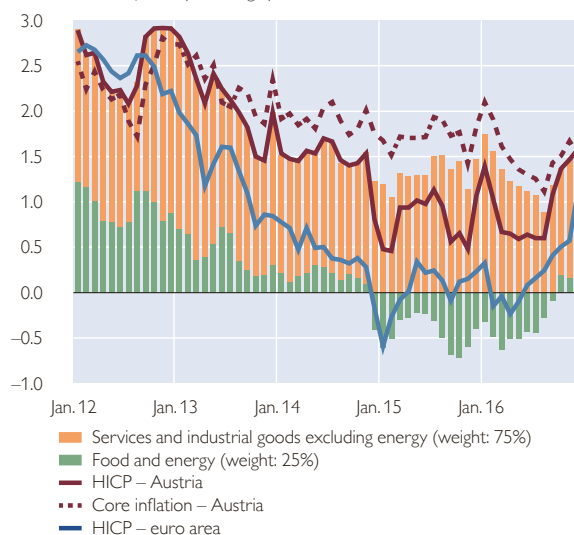


sizeable decline in the first three quarters of 2016 in terms of assets and liabilities. In sum, capital exports surpassed capital imports by EUR 9.2 billion in the first three quarters, as the unwinding of external liabilities exceeded the decrease in external assets. The largest gross flows relate to transactions by international groups, repayments of Austrian bank and sovereign bonds as well as ongoing securities purchases by the OeNB.

The improved economic conditions also fed through to the labor market in 2016. Though the period from 2012 to 2015 had been characterized by parallel increases in (headcount) employment and unemployment, the sharp increase in employment had been driven by a rise in part-time contracts. Although headcount had increased as a consequence, the number of hours worked had actually declined in recent years. On average, hours worked contracted by 0.3% in the period from 2012 to 2015. In 2016, (headcount) employment growth accelerated to 1.3% amid the economic recovery. This increase went hand in hand with the creation of new full-time jobs and a rise in the number of hours worked as well. However, the unemployment rate went up further, too, to 6.0% (from 5.7% in 2015), driven by the strong increase in labor supply (1.7%) in view of enhanced participation rates and the inflow of labor.

HICP inflation and contributions by subcomponents in Austria

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



HICP inflation remained below 1% in 2016

The inflation rate as measured by the HICP dropped from 1.4% to 0.7% in the first three months of 2016 and then remained at a rate of 0.6%, before surging beyond 1½% at the end of the year following a marked increase in September. Essentially, these developments reflected changes in the prices of energy and

Current developments in the Austrian real estate market

Developments in the real estate sector¹ are of high relevance for an economy and its financial market. On the one hand, real estate property is a major wealth component for households. Price trends in real estate markets influence households' consumption and investment decisions via wealth effects. On the other hand, real estate is often used as collateral for loans. Thus, changes in real estate prices affect households' debt and their ability to repay loans and, as a result, also have an impact on financial stability – maintaining which is among the core tasks of the OeNB.

Chart 13

Residential property prices

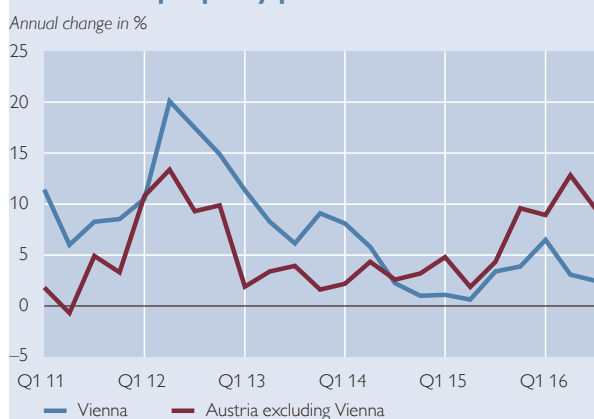
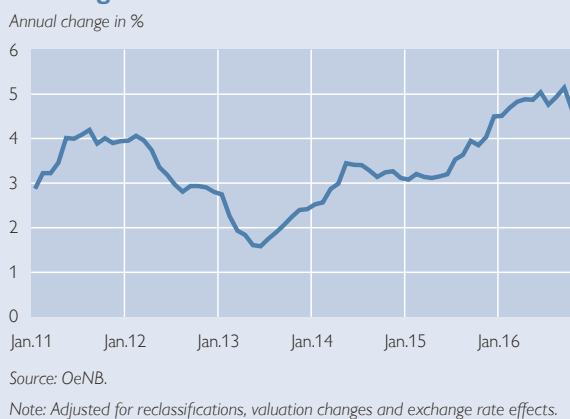


Chart 14

Housing loans to households



The growth of residential property prices in Austria accelerated notably in the first half of 2016. As the year progressed, growth in prices decelerated both in Vienna in the rest of Austria. According to the OeNB's fundamentals indicator for residential property prices, housing prices were on the rise in the first three quarters of 2016 but the increases remained broadly justified by fundamentals. In contrast, Vienna had witnessed comparatively strong deviations of residential property prices from the price levels suggested by the underlying fundamentals in the period from 2010 to 2013. These deviations leveled off from early 2014.

The growth of housing loans, which had accelerated in the second half of 2015, stabilized in early 2016 and remained at elevated levels before dropping slightly, to 4.5%, in late 2016. The share of foreign currency loans in outstanding housing loans continued to decline in 2016, but has remained high (December 2015: 20.5%; November 2016: 18.2%). Likewise, the very high share by international standards of variable rate loans in new lending has contracted visibly more recently (from 89% in December 2014 to 64% in November 2016).

Home ownership rates are low in Austria (56%) compared with the euro area (66%) according to Eurostat data. At the same time, they deviate strongly across regions (Vienna: 18%). As evidenced by data from the Eurosystem Household Finance and Consumption Survey (HFCS) – which the OeNB uses to assess financial stability risks that may arise from developments in real estate prices and housing loan growth – some three-quarters of households have seen annual property price rises of up to 5% since having acquired their homes. The latest price increases were observed in the more expensive market segments, above all with regard to properties that do not serve as their owners' main residence. Moreover, the HFCS data show that higher-income households are also more heavily indebted (Fessler et al., 2016²) whereas close to two-thirds of Austrian households (65.6%) do not have any debt. Mortgages have been taken out only by a small share of Austrian households (16.7%, compared with 23.3% of euro area households), with the median of outstanding mortgages also being lower in Austria than in the euro area (some EUR 60,400 compared with about EUR 77,600).³ The risk-bearing capacity of Austrian households, i.e. their ability to absorb the costs of materializing risks on their own, is generally high. Hence the risk to financial stability may be considered to be low (Albacete et al., 2016⁴).

¹ The OeNB shares its research findings in this area on its website.

² Fessler, P., P. Lindner and M. Schürz. 2016. Eurosystem Household Finance and Consumption Survey 2014 – first results for Austria (second wave). In: Monetary Policy & the Economy Q2/16. 34–95.

³ ECB. 2016. The Eurosystem Household Finance and Consumption Survey – results from the second wave. ECB Statistics Paper 18 (December).

⁴ Albacete, N., P. Fessler and P. Lindner. 2016. The distribution of residential property price changes across homeowners and its implications for financial stability in Austria. In: Financial Stability Report 31. 62–81.

industrial goods excluding energy, but services prices also played a role. While the inflation rate for energy continues to be negative, the negative rate is now much smaller than in recent months. Annual HICP inflation for 2016 totaled 0.9%, almost unchanged from 2015 (0.8%). This means that Austria continues to report an inflation differential to the euro area of some $\frac{3}{4}$ percentage points. Core inflation (HICP excluding energy and unprocessed food) dropped from 2.1% in January to 1.1% in August, before rising to 1.7% in November (December: 1.5%). This decline and the following increase in the inflation rate is associated with the fluctuations of prices for industrial goods excluding energy as well as processed foods (including tobacco), which bottomed out in the summer and have been visibly on the rise since then.

General government budget deficit temporarily on the rise in 2016

2016 saw a marked deterioration in the general government fiscal balance, reflecting above all the tax reform, which significantly reduced the tax burden on wages for households. As a result, general government revenues dropped by some 1% of GDP. Based on its fiscal outlook of December 2016 the OeNB expects the general government fiscal balance to improve again over the forecast horizon, among other things in view of the favorable cyclical conditions. Contributing factors include the decline in debt servicing costs as well as the stabilization of public expenditure for asylum seekers and recognized refugees. The December 2016 Eurosystem staff macroeconomic projections for the euro area imply a decline in the deficit ratio that is expected to continue on account of the underlying cyclical conditions and lower debt servicing costs.

The significant drop in Austria's general government debt ratio from 2016 onward essentially reflects bank restructuring measures. While these measures initially drove up the debt ratio until 2015, the winding down of bad bank assets and debt deleveraging measures are now helping to bring down the general govern-

ment debt ratio again. The general government debt ratio of the euro area, while going down since 2015, remains higher than the domestic debt ratio.

According to the OeNB's December 2016 outlook, Austria's structural budget balance is well above the target ratio of -0.45% of GDP. However, Austria has invoked exceptional provisions according to which public expenditure to combat terrorism and support asylum seekers as well as recognized refugees is given special consideration. In view of those special provisions the European Commission considers Austria to be in compliance with the preventive arm of the Stability and Growth Pact.

Domestic economy boosted by strong growth in CESEE

Growing at an average rate of 3.2%, the economies of the Central, Eastern and Southeastern European (CESEE) EU Member States advanced at a slower rate than in 2015 but still markedly outperformed the euro area by about 1.5 percentage points. This growth differential has supported a further convergence of income levels and at the same time benefited countries with strong economic ties with the CESEE area – such as Austria.

Improved labor market conditions as a driver of growth

Growth was driven above all by marked increases in private consumption, reflecting rising real incomes and visibly improved labor market conditions. Average unemployment in the CESEE area measured 6.0% in December 2016, thus dropping to the lowest level in years. In fact, several countries now have no slack left in the labor market. The Czech Republic for instance reported an unemployment rate of 3.5% in December 2016, thus outperforming all other EU countries. At the same time, employment was on the rise in most countries of the area (visibly, in some), and economic sentiment improved markedly.

Were it not for weaker business investment, the pace of economic growth might have been

even higher. Business investment suffered from the fact that the last of the EU funds mobilized under the multiannual financial framework 2007–2013 were paid out in 2015. The loss of momentum was felt most strongly in the field of construction investment. Construction sector output dropped by about 10% on average in the CESEE area in the reporting period.

Industrial output growth, while being subject to heightened volatility, was visibly positive on an annual average, adding to healthy export growth. On balance, however, the external sector contributed very little to overall growth, as imports expanded vigorously on the back of strong domestic demand.

Deflationary pressures vanished in the second half of 2016

Deflationary tensions emerged in CESEE countries much like in the euro area. Toward the middle of the year, inflation rates were driven far into negative territory by declining energy prices as well as, in some countries, fiscal reforms affecting major tax rates. Following increasing inflationary momentum, inflation rates turned positive again toward the end of the year. Still, the central banks in the area retained their accommodative monetary policies for the time being. Especially during the first half the year several central banks lowered their policy rates further to historically low levels. In some countries, the degree of monetary policy accommodation was reinforced with nonstandard measures (such as exchange rate targeting, as done by the Czech central bank).

In 2016, economic conditions improved not only in the CESEE EU countries, but also in Russia and in Ukraine. While the Ukrainian economy stabilized following a severe recession, Russia continued to see moderate economic contraction. Stabilizing exchange rates and declining inflation created a window for monetary policy easing, which was used for policy rate cuts. In Turkey, in contrast, economic growth was on the decline against the backdrop of rising political risks. The Turkish lira depreciated sharply against the euro and the U.S. dollar. Given its large external imbal-

ances, Turkey also saw its sovereign debt ratings downgraded by a number of rating agencies.

International Monetary Fund prepares for new challenges

IMF participating countries make their decisions by constituency voting. Austria is a member of the Central and Eastern European (CEE) constituency, and one of the IMF's alternate executive directors is Austrian. The CEE constituency has been under Czech leadership since November 2016.

In its operations, the IMF uses Special Drawing Rights (SDRs), with the synthetic exchange rate of SDRs being based on a benchmark currency basket. On October 1, 2016, the Chinese renminbi was added to the currency basket. For the next five years, the SDR currency basket will thus consist of the U.S. dollar, the euro, the Japanese yen, the pound sterling and the Chinese renminbi. This brings the SDR interest rate, i.e. the rate at which the IMF pays interest, from previously 0.05% to 0.16% at the reporting date.

The IMF is funded by its member nations. Their quotas are revised from time to time to reflect changing global economic realities. The 14th quota review took effect on January 26, 2016, providing for a rise in the quotas of the 189 member nations from SDR 385.5 billion to SDR 477 billion (about EUR 597 billion). In this context, Austria's quota increased from SDR 2.11 billion (about EUR 2.7 billion) to

Chart 15

Real economic growth in CESEE



Source: Eurostat, European Commission autumn 2016 forecast.

some SDR 3.93 billion (EUR 5.0 billion). The 15th quota review is already underway and scheduled to be completed by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019.

Moreover, the IMF concluded a new series of bilateral borrowing agreements to be able to retain its lending capacity. To maintain access to bilateral borrowing, the IMF proposed a new framework, which is broadly in line with the Austrian position. Under the initial borrowing agreement between Austria and the IMF, signed in 2012, Austria had committed a total of EUR 6.13 billion. This agreement, which has not been activated so far, expires on September 22, 2017. The initial agreement was already extended twice, which is why a further extension is not possible. The OeNB has since made a commitment to the IMF to continue to provide bilateral resources, on demand, up to the previous ceiling. In addition to quota subscriptions and bilateral borrowing agreements, multilateral arrangements – called “New Arrangements to Borrow” (NAB) – are the IMF’s third primary source financing, accounting for about 17.6% of its resources. At the reporting date, Austria had contributed some SDR 1.8 billion (about EUR 2.3 billion), which corresponds to about 1% of all NAB resources. Unlike the money committed under the bilateral agreements, the NAB resources have actually been drawn. On November 7, 2016, the IMF Executive Board endorsed the renewal of the NAB framework for the next five years, to be effective from November 17, 2017; Austria’s share will remain unchanged.

The regular review of national economic policies by the IMF (“Article IV consultations”) for Austria was conducted in Vienna from December 2 to 13, 2016. In this context, IMF staff met up with public officials and institutional as well as private sector representatives. The 2016 review focused on measures to raise the potential for growth, ensure sustained fiscal policies and maintain financial stability (see also the section entitled “External assess-

ments of the Austrian banking sector are looking up”). The OeNB has traditionally had the coordinating role during those reviews.

Developing Economic and Monetary Union further

On June 23, 2016, a majority of U.K. citizens voted in favor of the United Kingdom leaving the European Union, or “Brexit.” The actual timing, the modalities and the impact of Brexit are still under discussion, implying uncertainty about the future relationship between the United Kingdom and the EU.

These events have increased the relevance of efforts to develop Economic and Monetary Union (EMU) further with a view to unlocking growth in the EU. The European Commission is currently in the process of developing implementation proposals for the so-called Five Presidents’ Report “Completing Europe’s Economic and Monetary Union,” which was published in 2015. As one of the elements of this roadmap, the envisaged capital markets union is meant to broaden the sources of corporate financing. In this context, the OeNB organized a number of debates focusing on the impact (benefits and risks) of more diversified funding options on corporate financing in Austria.² In November 2016, an international forum, hosted by the OeNB, provided a platform to discuss scientific blueprints for completing Economic and Monetary Union. Further events on this topic were organized by the OeNB’s Brussels Representative Office.

Finally, the European Fund for Strategic Investment (EFSI) is an initiative aimed at stimulating corporate investment in Europe. Following a positive assessment one year after the launch of EFSI, a commitment has been made to extend the horizon and the funding of this initiative. Moreover, an EFSI counterpart is to be established to support sustainable investment in Africa and EU neighboring countries to the south and east of the EU, with a view to creating disincentives for brain drain.

² See among others *Elsinger, H., R. Köck, M. Kropp and W. Waschiczek. 2016. Corporate financing in Austria in the run-up to capital markets union. In: Financial Stability Report 31. 96–119.*

Broad diversification of assets in times of political uncertainty and mixed monetary policy trends

Financial markets influenced by monetary policy action and political events

At the beginning of 2016 trading in financial markets was overshadowed by concerns about the Chinese economy. Given rising outflows of foreign capital and the unexpected devaluation of the Chinese renminbi (RMB), international stock markets responded with strong price setbacks. The German stock index DAX made the weakest start into a year in more than 25 years, and the Shanghai composite index, which is China's number-one stock index, plummeted by about 25% in January.

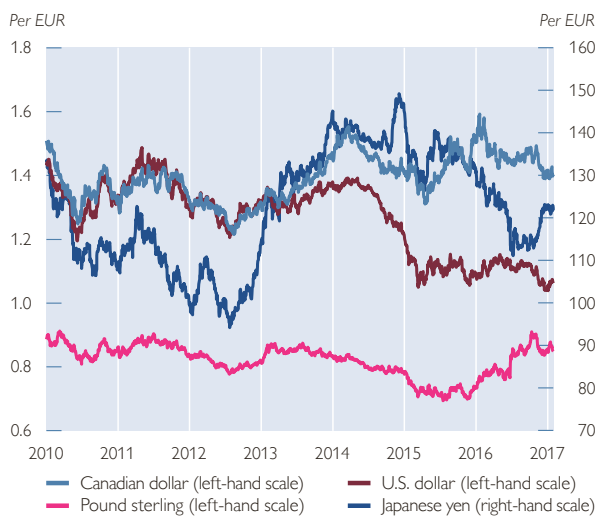
The downtrend in oil prices which has been observed since 2014 continued in early 2016, with prices being dragged down by concerns about the Chinese economy as well the partial lifting of sanctions against Iran. In January 2016, the price for a barrel of Brent crude oil dipped below USD 28, the lowest level recorded since 2003. During the year, however, the downtrend reversed, with prices eventually rising by about 100%.

Market interventions made by the Chinese central bank were effective in calming global stock markets by mid-February. As a result stock prices rebounded sharply, except for a brief period following the Brexit vote in the U.K.'s EU referendum on June 23. While stock markets recovered from the Brexit shock within a few days, the yields of safe-haven (ten-year) German and U.S. sovereign bonds hit unprecedented lows of -0.205% and 1.318%, respectively. Gold assets initially benefited from the uncertainties prevailing in the first half of 2016, with prices climbing by close to 30% until early July, but they lost much of the first-half gains over the remainder of the year.

In early November, the results of the U.S. presidential elections took the markets by surprise, without, however, bringing on the anticipated financial market tensions. Market reaction was more pronounced with regard to the announcement of growth stimulus measures, which benefited U.S. stock prices and the U.S. dollar. Both Standard & Poor's 500 index as well as the Dow Jones index reached all-time highs.

Chart 16

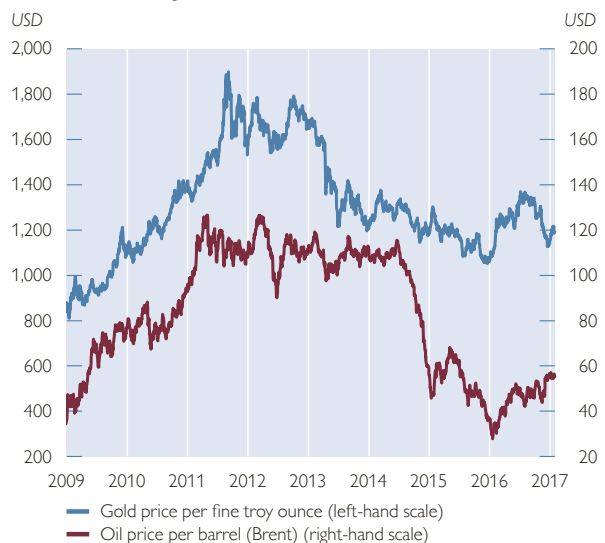
Exchange rates of major currencies against the euro



Source: Thomson Reuters.

Chart 17

Gold and oil prices



Source: Thomson Reuters.

The period of ECB-Fed policy divergence that started in 2015 continued in 2016, which was expected to bolster the U.S. dollar. However, the dollar did not really rally until after the U.S. presidential elections, when it climbed to a rate of below 1.04 USD/EUR, i.e. to levels not seen since January 2003. The impact of the diverging monetary policy paths pursued by the ECB and the U.S. Fed was more palpable in the interest rate differential between sovereign bonds. During 2016, the spread between ten-year U.S. Treasuries and German sovereign bonds widened by 0.6 percentage points.

Foreign currency markets driven by commodity prices

Gaining 6.4% each against the euro in 2016, the Canadian dollar (CAD) and the Japanese yen (JPY) were the best performing currencies in 2016,

ANFA (Agreement on Net Financial Assets)

This agreement between the national central banks (NCBs) of the euro area and the ECB sets rules and limits for holdings of financial assets which are related to national tasks of the NCBs.

followed by the Norwegian crown (NOK), which booked a 5.9% increase. While the gains of the CAD and the NOK reflected rising oil prices, the JPY ben-

efited from its safe haven status. The biggest loser was the pound sterling (GBP), which strongly depreciated after the Brexit vote, losing 13.6% against the euro in the course of the year. In contrast, emerging market currencies stabilized

against the euro in 2016, after having been under strong depreciation pressures in recent years in light of plunging commodity prices and cooling world trade. As a result, the MSCI emerging markets currency index gained some 3.5% against its underlying currency, the U.S. dollar.

OeNB reserve management characterized by broad diversification

In its 2016 investment policy, the OeNB reacted to the volatility in financial markets by undertaking risk-mitigating hedging activities and by broadly diversifying its assets. Given the weakness of the euro and the low interest rate environment in the euro area, above all the balanced mix of currencies was instrumental in stabilizing 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. Within the framework of the Eurosystem and in close cooperation with the ECB and the other Eurosystem central banks, the OeNB continues to meet banks' demand for liquidity, thus supporting the economy. The OeNB's net financial assets as defined by ANFA (Agreement on Net Financial Assets) came to EUR 9.4 billion on December 31, 2016.

The role of gold in central banking

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, repeatedly proved their ability to build confidence in difficult times.

Austria's gold reserves, which are held by the OeNB, amount to 280 tons in the form of some 22,400 gold bars. The OeNB is the sole owner of these gold assets, which – together with the gold held by all other euro area central banks – form part of the Eurosystem's reserve assets which help stabilize the euro. In terms of the Eurosystem's overall gold reserves, the OeNB's current gold holdings – which have remained unchanged since 2007 – 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.

According to the IMF, global public sector gold holdings amount to around 33,000 tons, with the United States owning the largest official gold reserves (about 8,133 tons), followed by Germany (about 3,378 tons) and Italy (about 2,452 tons). The gold reserves held by the Eurosystem as a whole amounted to about 10,786 tons at the reporting date. Apart from maintaining physical gold holdings, central banks also carry out gold leasing transactions depending on the market situation. In a gold leasing transaction, gold is invested against the receipt of interest at maturity. Given current market conditions, the OeNB does not, at the present time, engage in gold leasing transactions.

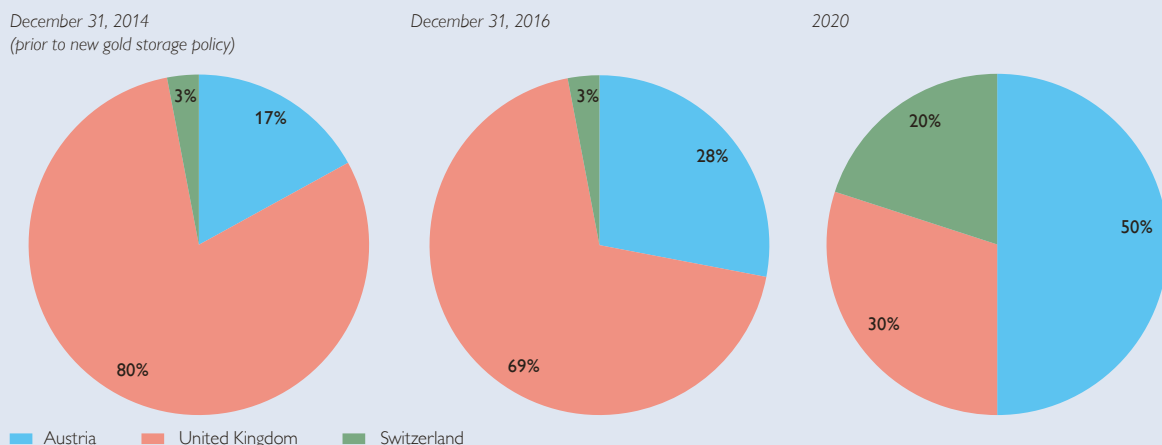
London and Zurich remain the most important trading centers for physical gold, whereas gold futures and derivatives are primarily traded in New York. Gold prices are typically quoted in U.S. dollars per troy ounce (= 31.103 g).

The OeNB's gold storage policy

Following a review of its gold storage policy in 2015, the OeNB is going to hold half of its gold reserves in Austria by 2020. With a view to meeting this goal, the OeNB has so far repatriated 30 tons for storage in its own vaults. Once the repatriation has been completed, 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 gold markets of London and Zurich should the need arise.

Chart 18

The OeNB's gold holdings by storage or delivery location



Source: OeNB.

Note: Differences are due to rounding.

DIE WÄHRUNGSHÜTERIN

200 JAHRE OESTERREICHISCHE NATIONALBANK

Als „Bank der Banken“ spielt die Oesterreichische Nationalbank seit 200 Jahren eine zentrale Rolle bei der Aufrechterhaltung des Geldverkehrs. Hervorgegangen aus den Wirren der Napoleonischen Kriege und vor dem Hintergrund einer damit verbundenen massiven Geldentwertung, wurden Stabilität und Sicherheit zu zwei Leitwerten, denen sich die Nationalbank seit ihrer Gründung verbunden fühlt. Die „privilegierte oesterreichische National-Bank“ wurde am 1. Juni 1816 durch zwei kaiserliche Patente als Privatanstalt (Aktiengesellschaft) gegründet und war das erste Unternehmen, dessen Aktien an den Börsen von Wien und Frankfurt gehandelt wurden. Ausgehend vom Banknotenprivileg bis hin zur Bankenaufsicht wendete sich das Aufgabenspektrum immer wieder und wurde laufend den Erfordernissen der Zeit angepasst. Heute leistet die OeNB im Europäischen System der Zentralbanken (ESZB) einen wichtigen Beitrag zur europäischen Geldpolitik.



The OeNB's bicentennial: "Guardian of the currency" – special exhibition at the Money Museum

Effective supervision strengthens financial stability

Austrian banks face up to the challenging economic environment

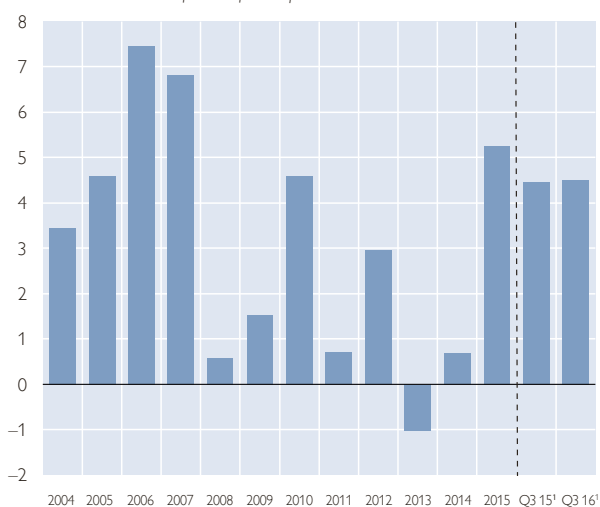
Necessary adjustment process gains momentum

In 2016, Austria's banking sector continued to be faced with weak economic growth, ongoing low interest rates and interest margins as well as political uncertainty in some CESEE countries. In this difficult environment, Austrian banks progressed with the necessary structural adjustment process to increase efficiency and hence to step up profitability in the longer term. In the first three quarters of 2016, the sector's aggregate profit augmented by EUR 0.1 billion to EUR 4.5 billion year on year, albeit mainly because of lower loan loss provisions. Interest and commission income decreased in 2016 year on year, whereas operating expenses went up. The Austrian banking sector saw further structural reforms in 2016: restructuring at UniCredit Bank Austria AG, the merger of Raiffeisen Zentralbank Österreich AG (RZB) and Raiffeisen Bank International AG (RBI), which was to be concluded by the end of the

Chart 19

Profitability of the Austrian banking system

Consolidated net result after tax for the period in EUR billion



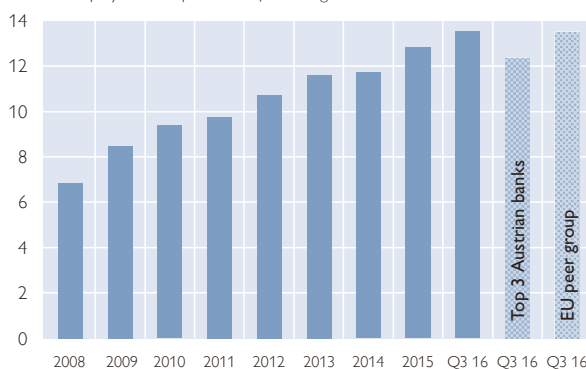
Source: OeNB.

¹ Q3 data are not comparable with end-of-year data.

Chart 20

Capitalization of the Austrian banking system

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



Source: OeNB, S&P Global Market Intelligence.

first quarter of 2017, and further consolidation among Volksbank credit cooperatives.

Ensuring cost efficiency, setting risk-based lending rates and maintaining profitability are not only in the interest of banks and their shareholders, but also key to covering any credit defaults, supporting the buildup of internal capital and enabling banks to tap international capital markets. Banks' higher risk-bearing capacity hence helps keep lending sustainable also in difficult economic times.

Interest rate margin

A bank pays interest on deposits (interest expense) and receives interest payments on loans (interest income). The difference between interest income and interest expense is called net interest income. The interest rate margin, which results from the relation between net interest income to interest-bearing assets (e.g. loans), is a key indicator of a bank's profitability. It serves to cover a bank's operating expenses and credit risk costs (for loans in default).

Austrian banks improved their capitalization further in 2016, also in relation to their European peers, thereby markedly strengthening their risk-bearing capacity since the onset of the financial crisis in 2008. Investors and rating agencies had been calling for improved capitalization, and national supervisory measures supported the process (see also the section "OeNB steps up macroprudential supervision in Austria").

Furthermore, Austrian banks' credit quality continued to improve in the first three quarters

Five FAQs on nonperforming loans (NPLs) and related supervisory initiatives

What are nonperforming loans?

Bank loans are considered nonperforming when more than 90 days have passed without the borrower paying the agreed installments or the borrower is assessed as unlikely to pay their credit obligations. Such loans therefore require loan loss provisions. The ratio of loans of nonperforming loans to a bank's overall loan portfolio is called NPL ratio and is an indicator of a bank's financial health. A rising NPL ratio reflects a deterioration in the quality of a bank's assets.

How high are banks' NPL ratios in Europe and in Austria?

In the EU-28, loans worth some EUR 1,000 billion are currently deemed to be nonperforming, which translates into an NPL ratio of 5.4%. The NPL ratio is particularly high in Greece (47.1%), Cyprus (46.7%), Portugal (19.8%), Italy (16.4%), Slovenia (16.3%) and Ireland (14.4%). Austria's NPL ratio currently stands at 5.8%, which is, to a large part, attributable to nonperforming exposures in CESEE.¹

What happens if banks do not reduce their NPLs fast enough?

To cover NPLs, banks need to set aside capital for loan loss provisions, which may limit their capacity to extend new loans and, as a result, makes it more difficult to provide financing to the real economy. Moreover, NPLs require active credit (risk) management, which tends to be costly. Combined with lower interest income and higher refinancing costs, these circumstances eventually dampen banks' profitability.

How are NPLs treated in banking supervision?

The Single Supervisory Mechanism (SSM) puts significant efforts into tackling NPLs in the European banking system. As a case in point, monitoring banks' overall NPL stock is part of the annual supervisory review and evaluation process (SREP). Furthermore, supervisors assess whether banks manage and monitor their credit risk accordingly (e.g. by means of loan loss provisioning and collateral management). The results of the comprehensive assessment that had been conducted in 2014 before the SSM became fully operational already showed that some European banks had very high NPL levels.

What supervisory measures has the SSM taken to reduce NPLs?

It is one of the objectives of European banking supervision to contribute to the adequate valuation and accelerated reduction of NPLs in banks' balance sheets. The SSM has increased the pressure on significant institutions in the euro area to reduce the volume of NPLs. To this end, the SSM developed a guideline which clarifies the supervisory expectations in qualitative terms and calls on banks to define and implement appropriate measures and quantitative targets when addressing NPLs.

¹ Source: EBA risk dashboard as at September 30, 2016. As these figures refer to a smaller bank sample, they marginally deviate from the consolidated NPL ratio for the banking system as a whole.

of 2016, which was mostly due to UniCredit S.p.A, the Italian parent of UniCredit

Coverage ratio

This ratio puts loan loss provisions in relation to the stock of nonperforming loans.

Bank Austria AG, taking over the latter's CESEE operations and banks selling loan portfolios.

As a result, Austrian banks' consolidated NPL ratio has already fallen by 4.1 percentage points since its record high of 2012, and stood at 5.3% in September 2016. The high loan loss provi-

sions made in the past, which weighed on banks' profits, are reflected in Austrian banks' coverage ratio, which at 54% is noticeably higher than the euro area average of all banks subject to the SSM (44%).

Banks refocus their CESEE business

The slight improvement in economic conditions in CESEE¹ had a positive impact on Aus-

¹ In this section, a broader definition of Central, Eastern and Southeastern Europe (CESEE) is used that also includes, for instance, Russia, Ukraine and Belarus.

trian banks' subsidiaries; in the first three quarters of 2016, their aggregate end-of-period profit increased by EUR 1.3 billion year on year to EUR 3.0 billion. This substantial rise was mainly the result of a further decline in loan loss provisions. High profit contributions came from subsidiaries in the Czech Republic, Russia and Slovakia. The CESEE business helps Austrian banks compensate for the direct effects of the low interest rate environment in the euro area and low profitability in the home market.

The transfer of UniCredit Bank Austria AG's CESEE segment to its Italian parent UniCredit S.p.A. in October 2016 led to a shift in Austrian banks' exposure to CESEE, with the aggregate total assets of Austrian CESEE subsidiaries decreasing by almost 40% to slightly more than EUR 180 billion. Also, the geographical risk profile changed markedly, as in particular the exposure to Turkey, the Czech Republic, Russia and Croatia declined.

Macroprudential guidance for large internationally active Austrian banks adopted by the Austrian authorities in 2012 ("sustainability package") has contributed to strengthening the

refinancing structure of Austrian banks' subsidiaries in CESEE. Their loan-to-deposit ratio decreased from 117% in 2008 to 81% in September 2016, reflecting above all an increase in local savings deposits.

Foreign currency loans in Austria and CESEE continue to contract

As evidenced by the rapidly declining outstanding volume of foreign currency loans to domestic nonbanks, the measures the Austrian supervisory authorities had taken to curb foreign currency lending continue to have a positive impact. In October 2008, the Austrian Financial Market Authority (FMA) published a recommendation² to Austrian banks to stop issuing foreign currency loans to households that do not have income in the loan currency. Since then, the amount of outstanding foreign currency loans has decreased by 60% (exchange rate adjusted), standing at EUR 27 billion in September 2016.

Yet, the risks arising from foreign currency loans and repayment vehicle loans remain high despite this downtrend. Around three-quarters

Box 6

The profitability of Austrian banks' subsidiaries in CESEE from a longer-term perspective¹

Austrian banks' CESEE business has traditionally made an important contribution to their profitability. From 2003 to 2015, Austrian banking subsidiaries in CESEE generated slightly more than EUR 25 billion in profits after tax. At the same time, consolidated writedowns of their book values at the parent bank level came to EUR 8 billion. Profitability developments were uneven across countries, with subsidiaries in Hungary, Ukraine and Slovenia recording overall losses, while those in the other CESEE countries posted profits. The Czech and Russian subsidiaries accounted for more than half (56%) of overall profits. The return on average assets of all Austrian subsidiaries in CESEE ran to 0.9% between 2003 and 2015.

Rapid credit growth in the pre-crisis period frequently resulted in a deterioration of credit quality and reduced lending of individual subsidiaries once the financial crisis unfolded in 2008. Although credit risk in some CESEE countries continues to be elevated, nonperforming loans (NPLs) have been reduced over the past few years. Moreover, the coverage of NPLs by loan loss provisions (coverage ratio) has improved noticeably.

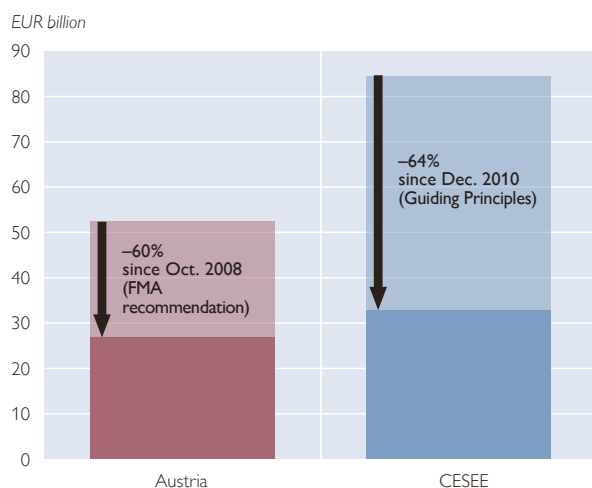
The profitability outlook for Austrian banking subsidiaries in CESEE remains under pressure from falling net interest margins. In addition, legislative measures related to foreign currency loans might pose a challenge to banks. To keep their profitability on a sustainable footing, Austrian banks' subsidiaries should, among other things, diversify their income base, maintain their operating cost discipline, ensure risk-adequate pricing and focus on reducing NPLs further.

¹ Kavan, S. et al. 2016. *The Profitability of Austrian Banking Subsidiaries in CESEE: Driving Forces, Current Challenges and Opportunities*. In: *Financial Stability Report* 32. 64–79.

² *FMA Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles*.

Chart 21

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 September 2016 and in CESEE between December 2010 (publication of the Guiding Principles) and June 2016.

of foreign currency loans to households are linked to repayment vehicles. A survey on foreign currency loans and loans with repayment vehicles that the OeNB conducted in mid-2016 in cooperation with the FMA showed that, at end-2015, the shortfall³ in cover had equaled around 29% of the outstanding volume of repayment vehicle loans (around EUR 6.2 billion). In light of the risks that still exist, the OeNB recommends that banks assess, together with borrowers, the latter's risk-bearing capacity and, if necessary, take measures to reduce these risks.

The volume of foreign currency loans issued by Austrian banking subsidiaries in CESEE also continues to decline. Between end-2010 and mid-2016, the volume of outstanding foreign currency loans contracted by 64% (exchange rate adjusted) to EUR 33 billion. The transfer of UniCredit Bank Austria AG's CESEE segment to its Italian parent as well as

legislative and supervisory measures (Guiding Principles) brought down foreign currency loans by 55% (exchange rate adjusted) between mid-2015 and mid-2016.

External assessments of the Austrian banking sector improved

Banks' efforts to adapt their business models and strengthen their risk-bearing capacity as well as supervisory measures taken in Austria have had a positive impact on external assessments of the Austrian banking sector. In early 2016, Austria was for the first time subject to an in-depth review by the European Commission under the macroeconomic imbalance procedure (MIP). The review focused on the high risk positions of the Austrian financial sector and on their potential impact on the supply of credit. The European Commission concluded that Austria was experiencing no macroeconomic imbalance. Nevertheless, the European Commission found in particular the below-average capitalization, low profitability and diminished credit quality of Austrian banking subsidiaries abroad to be challenges. In its Alert Mechanism Report 2017 published in fall 2016, the European Commission confirmed that, in light of economic and banking sector developments in Austria, it would at that stage not carry out further in-depth analysis in the context of the MIP.

In its 2016 Article IV consultation with Austria, the IMF concluded in December 2016 that the Austrian financial system was stable, while stressing that the capital buffers of large Austrian banks were still low relative to EU peers and that raising capital levels further should be a priority. The IMF regards the phased introduction of the systemic risk buffer as an appropriate measure to further strengthen banks' capitalization.

In August 2016, the rating agency Moody's for the first time since 2009 changed the outlook for the Austrian banking system to stable.

³ The shortfall is the difference between the outstanding loan amount in euro and the expected value of the repayment vehicle upon maturity.

This change was above all due to Austrian banks' declining exposure in some higher-risk CESEE countries. Furthermore, Moody's noted that Austrian banks had improved their capitalization and posted higher price-to-book value ratios than euro area peers.

OeNB steps up macroprudential supervision in Austria

In-depth analysis shows no systemic risks in real estate financing

Given that large portions of banks' balance sheets are linked to real estate, which usually serves as collateral, 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.

Residential property prices have increased markedly in Austria in the past few years after having remained broadly stable for a long time, a development that had been in contrast to that seen in a number of other EU countries.

In an in-depth analysis of real estate financing in Austria, the OeNB currently found no evidence of systemic risks, as there are no clear signs of excessive lending driving residential property prices or of a marked easing of lending standards, which would lead to systemic risks. The IMF, too, considers real estate-linked risks to the financial sector to be limited. Yet, in its Article IV consultation with Austria, the IMF pointed out that legislation on new real estate-specific macroprudential tools should be passed as soon as possible to allow the supervisory authorities to stay ahead of the curve.

ESRB issues warning on medium-term residential real estate vulnerabilities

Having assessed vulnerabilities related to residential real estate in all EU Member States, the European Systemic Risk Board (ESRB) concluded in November 2016 that vulnerabilities prevail in eight countries, including Austria. As a consequence, it issued a legally nonbinding risk warning. With regard to Austria, the ESRB

flagged the following medium-term risks: (1) rapid rise in residential real estate prices, (2) robust mortgage credit growth and (3) a risk of a further weakening of lending standards. The ESRB concluded that the preventive measures that have been taken by the Austrian authorities may not be sufficient to fully address future adverse developments.

The OeNB does not fully share the ESRB's view and considers recent measures to be adequate in light of the current house price and credit cycles. The ESRB has given little consideration to relevant factors, such as Austrian households' relatively low mortgage debt level, the importance of subsidized housing and the rental market (especially in Vienna), and the fact that residential price increases started from a comparatively low level and lending standards are conservative in an international comparison.

Austria stands ready to address potential risks arising from residential real estate financing

The OeNB has been conducting analytical work on residential real estate financing in Austria for years. Together with the FMA, the OeNB developed minimum standards for granting and managing foreign currency loans and loans with repayment vehicles (which above all served to finance residential property) as early as in 2003. Following a recommendation to banks issued by the FMA in 2008 to no longer extend (new) foreign currency loans to households that have no income in the loan currency, residential real estate financing became more conservative. In 2016, the OeNB again conducted a survey on mortgage lending among selected banks. According to the outcome, the lending standards are still sustainable.

Based on OeNB analyses, the Financial Market Stability Board (FMSB) recommended in June 2016 that the necessary legal basis for

European Systemic Risk Board (ESRB)

The ESRB is responsible for the macroprudential oversight of the EU financial system and hence monitors and assesses systemic risks. In case it identifies material risks to the financial system, it may issue legally nonbinding warnings as well as recommend specific measures, where appropriate.

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. In September 2016, the FMSB moreover called on banks to comply with sustainable lending standards in real estate financing, to apply, in particular, 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.

Current tools available to macroprudential supervisors primarily relate to banks and to their capitalization. However, in order to enable supervisors to effectively address systemic risks in the residential property market, it is necessary to expand the macroprudential toolbox to include borrower-based instruments that set minimum requirements for lending standards (e.g. loan-to-value ratios, debt service-to-income ratios, debt ratios).

In addition, the OeNB has explored many avenues to improve data availability and intensify its interaction with market participants. The OeNB also carries out analyses drawing on household microdata and produces region-specific residential property price indexes. It will continue to closely monitor developments on the residential property market and, where appropriate, identify the need for action (see box 3).

Introduction and regular evaluation of macroprudential capital buffers

Since January 1, 2016, the systemic risk buffer, which aims at reducing and preventing long-term, noncyclical systemic risks, has been in effect; its activation had been proposed by the OeNB and recommended by the FMSB. The identified banks must gradually increase this buffer to up to 2% of risk-weighted assets by 2019.⁴

Based on regular OeNB analyses, the FMSB recommended that the FMA set the counter-

cyclical capital buffer rate at 0% of risk-weighted assets as there were no signs of excessive credit growth.

OeNB contributes to the European Commission's consultation on the review of the EU macroprudential policy framework

In close coordination with the FMA and the Austrian Ministry of Finance, the OeNB responded to the European Commission's consultation on the review of the EU macroprudential policy framework. The Austrian response pointed out deficits in the framework, questioned the efficiency and administration of macroprudential supervisory processes and contained proposals on how to exploit synergies. Moreover, suggestions were made for expanding the macroprudential toolbox.

The Austrian authorities consider the following four issues to be key: first, reduce the complexity of macroprudential regulation. Second, it is imperative to make macroprudential supervision more efficient and effective. Third, the ESRB's role as the central coordination and information hub for macroprudential supervision in the EU should be strengthened. Fourth, the macroprudential policy framework is to be expanded beyond banking. Furthermore, the Austrian authorities called for establishing the legal basis at the EU level for macroprudential instruments that address real estate financing (e.g. loan-to-value ratios and debt ratios).

Integrated approach to banking supervision within the SSM has proved a success

OeNB contributes substantially to supervision

The Single Supervisory Mechanism (SSM) was established to safeguard the security and reliability of the European banking system and contribute to the stability of the EU financial system. European banks' risk-bearing capacity

⁴ Press releases of the Financial Market Stability Board dated June 1 and September 7, 2015.

has improved over the past years also on account of stricter regulatory provisions. As a case in point, the common equity tier 1 (CET1) ratio of banks within the scope of the SSM rose from 9% in mid-2008 to 12.9% in mid-2016.⁵

When the SSM became fully operational on November 4, 2014, the ECB took over the responsibility of supervising banks in the euro area. It directly supervises the 126 most important banking groups (also referred to as significant institutions – SIs), which account for almost 85% of the aggregate total assets of euro area banks.⁶ The eight Austrian banks⁷ in this group account for almost 50% of consolidated domestic bank assets.⁸ The national supervisory authorities (also referred to as the national competent authorities – NCAs) share the day-to-day tasks in supervisory practice, with the ECB. The NCAs continue to be in charge of a large portion of supervisory tasks, not least given that in-country supervisors have the local know-how. For Austria this means that the FMA and the OeNB carefully monitor banks' economic performance, conduct annual capital and liquidity adequacy assessments, analyze recovery plans, carry out on-site inspections, supervise and validate models on an ongoing basis, review requests submitted by banks and contribute to supervisory decision making.

With only a few exceptions,⁹ less significant institutions (LSIs) continue to be directly supervised by the NCAs. The intensity of supervision of the about 3,100 LSIs within the SSM depends on a bank's systemic importance

and risk profile (principle of proportionality). With some 500 LSIs,¹⁰ Austria takes second place after Germany, with Italy coming in third. Together with the FMA, the OeNB is closely involved in the operational oversight of the Austrian LSIs, carrying out all off-site analyses of individual banks and all on-site inspections. In 2016, on-site inspections focused on assessments of credit risk and overall risk management. In addition, Austrian deposit guarantee schemes were for the first time subject to inspections.

Turning to payment systems oversight, activities in 2016 concentrated on reviewing the most important Austrian financial market infrastructures used to process interbank payments and to settle securities transactions. Supervisors are faced with ever new challenges arising from technological innovations and new financial service providers. The Payment Services Directive 2 will provide a supervisory basis that takes into account these developments, thereby enhancing the security of payment services.

“Beyond banking”

In macroprudential supervision, “beyond banking” means broadening the scope of analyses and instruments beyond the banking sector to also include nonbank financial sectors, e.g. insurance companies as well as pension and investment funds, not least because nonbank market agents play an ever greater role for financial stability.

High-priority LSIs

Under the SSM, LSIs are classified according to their size, structure, risk situation and type and complexity of their business models (high, medium, low priority). The national competent authorities tailor the intensity of supervision and the scope of their reporting to the ECB to this classification. In Austria, eight banks have been classified as high-priority LSIs.

⁵ Source: SSM as at September 30, 2016. For more information on the Austrian banking sector, see the section “Austrian banks face up to the challenging economic environment.”

⁶ As at November 15, 2016. See the ECB's website for an up-to-date list of supervised entities.

⁷ Erste Group Bank AG, Raiffeisen-Landesbanken-Holding GmbH, Raiffeisenbankengruppe OÖVerbund eGen, Raiffeisen-Holding Niederösterreich-Wien reg.Gen.m.b.H., Promontoria Sacher Holding N.V. (“BAWAG P.S.K.”), Volksbank Wien AG, Sberbank Europe AG, VTB Bank (Austria) AG.

⁸ Including UniCredit Bank Austria AG, which is covered by the SSM through its Italian parent, almost 60% of Austrian banks' assets are under direct supervision by the ECB.

⁹ Authorizations to take up the business of a credit institution and withdrawals of such authorizations; the assessment of acquisitions and disposals of qualified holdings.

¹⁰ The high number is due to the Raiffeisen sector, which consists of many small local banks.

Harmonization of supervisory practices and processes well under way

A number of measures aimed at further harmonizing supervisory processes and promoting a joint supervisory culture under the SSM were implemented in 2016.

Supervisory review and evaluation process (SREP)

The annual conduct of the supervisory review and evaluation process (SREP) and the ensuing definition of bank-specific capital ratios rank among the most important supervisory activities of the SSM. The SREP capital ratios are meant to ensure that the supervised institutions hold the minimum capital required to adequately cover their total risk given the type, scope and complexity of their activities. Should SREP decisions for significant institutions imply requirements that exceed the mandatory Pillar 1 minimum capital requirements, then a capital add-on (Pillar 2) has to be prescribed, which is broken down into a Pillar 2 requirement and a Pillar 2 guidance. Compared with 2015, the SREP methodology for setting Pillar 2 capital was refined in the reporting year and will continue to be developed further in the coming years. The SREP capital ratios applicable to the eight Austrian SIs in 2017 remain largely unchanged from the previous SREP.

By implementing the EBA's SREP guidelines in early 2016, the FMA and the OeNB have committed themselves to applying the SREP methodology also when reviewing and evaluating Austrian LSIs. Against this backdrop, a harmonized SREP methodology for LSIs was developed to ensure uniform supervisory processes and a level playing field. The OeNB and the FMA have already completed SREP analyses of 18 banks, with the FMA having started to issue decisions in January 2017.

Harmonized approach to exercising options and national discretions available in Union law

The project on harmonizing the exercise of options and national discretions (ONDs) afforded the national supervisory authorities by Union law in interpreting specific supervisory provisions drew to a close in summer 2016.¹¹ Furthermore, the harmonization of supervisory requirements was extended to cover LSIs; this undertaking is due to be completed in the first quarter of 2017.

EBA stress test confirmed results expected for the two participating Austrian banks

The European Banking Authority (EBA) published the results of its EU-wide stress test exercise on July 29, 2016. In the 2016 exercise, the most significant banks of the European Economic Area operating internationally were subjected to severe shock simulations. The tested sample comprised 51 banks, including Erste Group Bank AG and Raiffeisen Zentralbank Österreich AG (RZB).¹² Unlike previous stress tests, the most recent one did not include an official threshold for passing. The EBA's stress test results fed into the SREP analyses conducted by the OeNB and the FMA.

Streamlining decision-making processes

Given the high number of supervisory decisions to be made in the SSM, as of spring 2017 the Supervisory Board of the SSM may delegate to ECB management decision-making powers regarding the fit and proper assessment of members of the management body as well as changes in the size of credit institutions.

Regulatory response to the financial crisis about to be completed

In late November 2016, the European Commission presented a comprehensive package of

¹¹ A total of 130 pertinent ONDs were identified; their application by the ECB is set out in a regulation and a guideline.

¹² In the meantime, RZB has merged with its listed CESEE subsidiary Raiffeisen Bank International AG (RBI).

reforms to complete the regulatory agenda in response to the financial crisis.¹³ The far-reaching proposals target, for instance, the elimination of weaknesses and the introduction of additional provisions in legal acts related to own funds¹⁴ and resolution.¹⁵ All these efforts will be complemented by measures that have yet to be fully implemented. Such measures include the leverage ratio (LR) and net stable funding ratio (NSFR) requirements defined by the Basel Committee on Banking Supervision. Finally, bail-in tools are to be implemented to ensure the orderly resolution of failing banks (see box 7). These tools are based on recommendations of the Financial Stability Board and the

corresponding resolution framework of the EU. In 2017, the OeNB will be closely involved in, and contribute to, this legislative process.

SSM supervisory priorities

European banking supervision currently focuses on the following topics: (1) business models and profitability drivers, (2) credit risk with a focus on nonperforming loans (NPLs) and concentration risks and (3) risk management. With a view to strengthening the credibility of banks' internal models, such models are subjected to a targeted review of internal models (TRIM).

Box 7

Tools to raise banks' loss absorption and recapitalization capacity (TLAC and MREL) and bail-in tools in bank resolution

The financial crisis has shown that financial stability would have been jeopardized if distressed banks – in particular systemically important and globally active ones – had been allowed to go bankrupt. Given the lack of a consistent set of rules and instruments enabling an orderly market exit (i.e. resolution), governments had to step in and bail out such banks, using public funds. European regulators responded to this by establishing a Single Resolution Mechanism (SRM)¹, which became operational on January 1, 2016. The SRM, which complements the SSM, provides for a centralized European decision-making and financing mechanism for the resolution of banks.

In addition, the new resolution regime is meant to ensure that the costs of resolving a systemically important bank are primarily borne by banks' shareholders and creditors (bail-in). In case bail-in measures fail to fully cover the costs of resolution, funds available from the Single Resolution Fund (SRF) may be tapped under certain conditions. The SRF, which is currently being built up, is to reach a target level of an estimated EUR 55 billion by end-2023.²

At the international level, the Financial Stability Board (FSB) issued the total loss-absorbing capacity (TLAC) standard for global systemically important banks (G-SIBs). This standard is designed to ensure that G-SIBs have sufficient loss-absorbing and recapitalization capacity to allow an orderly resolution and to maintain the continuity of critical functions as well as, where appropriate, to ensure the continuity of viable segments after resolution. At the European level, a similar concept was developed, which resulted in the introduction of a minimum requirement for own funds and eligible liabilities (MREL) as part of the EU resolution framework (BRRD/SRM). All banks in the EU are required to comply with the MREL requirement, whereas the TLAC standard is nonbinding in nature. Both approaches aim at ensuring that banks are adequately capitalized should the need for resolution arise. In order to avoid using taxpayers' funds to cover the costs of resolution, banks must hold a sufficient amount of high-quality bail-inable debt.

¹ The SRM is based on the Single Resolution Mechanism Regulation and the Banking Recovery and Resolution Directive, which harmonize and streamline resolution and recovery processes.

² On January 1, 2016, banks started contributing to the SRF, with the level of individual contributions depending on a bank's size and risk profile. During its buildup, the SRF will be divided into national compartments, which are to be merged gradually into a single fund by 2024.

¹³ This is without prejudice to the proposals that were drawn up during the recalibration of the Basel III framework and are partly still under discussion: revised standardized approach for credit risk, review of the internal ratings-based (IRB) approach, introduction of a floor ("output floor") to the internal model method, new standardized approach for operational risks.

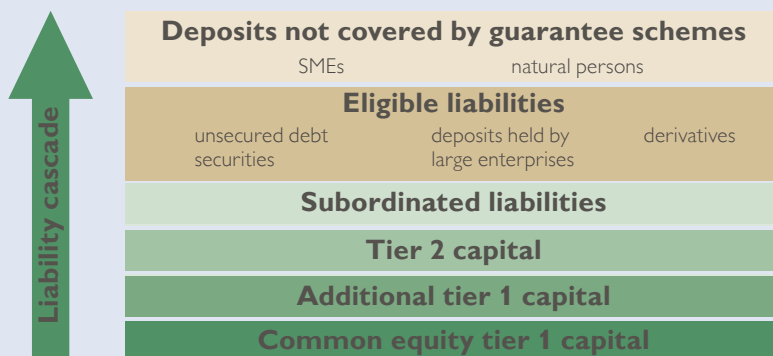
¹⁴ Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR).

¹⁵ Banking Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation.

The level of the MREL requirement is set for each individual bank by the competent resolution authority. The TLAC proposals have yet to be incorporated into European law. The European Commission has already submitted a proposal on merging the TLAC and MREL requirements, which is currently under discussion.

The resolution authorities are equipped with comprehensive powers and may, for instance, demand that liabilities³ be converted into equity or written down by using the bail-in resolution tool. Banks' bail-inable instruments are used this way to absorb losses according to a predefined creditor hierarchy (liability cascade). The hierarchy for the bail-in follows a creditor waterfall: junior liabilities are bailed in first, followed by the next (more senior) tranches upon depletion of each previous layer. In line with the pari passu principle, all creditors within a liability class must be treated on an equal footing. In addition, according to the no-creditor-worse-off principle, no creditor may incur greater losses than would have been incurred under the normal insolvency proceedings. Should this principle be breached, creditors will be compensated with SRF funds for the losses incurred.

Liability cascade according to the Federal Act on the Recovery and Resolution of Banks (BaSAG)



³ The bail-in tool may not be applied, however, to deposits protected under deposit guarantee schemes, collateralized claims and liabilities to employees of the failing bank.

Common European deposit insurance scheme still under discussion

With the Single Supervisory Mechanism and the Single Resolution Mechanism, two of the three pillars of banking union have been fully implemented. A European Commission proposed to establish the third pillar – a European deposit insurance scheme (EDIS) – launched in November 2015 has met with stiff resistance

from some EU Member States. For now, national deposit protection schemes continue to play a central role. In Austria, the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG), implementing the Deposit Guarantee Scheme Directive (DGSD), governs the protection of savings. Deposits of natural persons of up to EUR 100,000 per depositor and bank are fully covered by this scheme.

Providing powerful statistics for the benefit of the Austrian public and the economy

Official economic and financial statistics serve both the general public and economic agents and support political decision-making processes in many areas. Statistics influence investment decisions and stock market prices; they provide the basis for economic policy programs and help people take well-informed saving and capital investment decisions; and they offer guidance in concluding loan agreements or even choosing the adequate type of housing. Reliable economic and financial statistics are therefore indispensable for all sections of society.

The OeNB offers numerous products and services to satisfy this need for statistical data, which has increased even further since the recent economic and financial crisis. More than 300 statistical tables on the OeNB's website provide current and historical data on interest rates and exchange rates, on the financial behavior of households and businesses, on means of payment and international financial flows. Smartphone users may access these services via the OeNB's statistics app.

In addition, the OeNB publishes a series of regular and ad hoc statistical reports and analyses providing specific information on current economic topics and operates a Statistics Hotline for telephone inquiries.

At the same time, the OeNB also provides a wide range of statistics to national and international organizations under various obligatory data delivery programs. Recipients of OeNB statistical data include European institutions such as the ECB and Eurostat, international organizations like the IMF or the BIS, and authorities within the European Single Supervisory Mechanism (SSM).

To meet the need for increasing data volumes and higher data quality, a powerful national statistical framework needs to be in place that integrates smoothly into the euro area statistical framework and relies on modern IT infrastructures and well-trained specialists.

Key innovations in supervisory statistics

In 2016, the OeNB's Statistics Department actively supported all statistical enhancements under the SSM, thus contributing essentially to ensuring the security and reliability of the European banking system and the stability of the EU financial system. Current reporting processes have been harmonized across participating Member States, e.g. by setting standards for the cooperation between national central banks (NCBs) and/or national competent authorities (NCAs) and the ECB in the fields of data validation and data forwarding.

In addition, the OeNB carried out ad hoc surveys outside regular statistical reporting for the ECB, the European Banking Authority (EBA), the Single Resolution Board (SRB) and the Austrian Financial Market Authority (FMA) for various supervisory purposes. These surveys provided material for a pilot project on ad hoc data retrieval by the SSM, the EBA's impact studies on Basel III, inquiries in connection with deposit insurance purposes as well as for the evaluation of the future Single Resolution Fund (SRF) under the SSM.

Moreover, the SSM's new harmonized financial reporting rules were implemented (FINREP). In this context, the various national accounting standards were mapped to a uniform international reporting format.

Moreover, the EBA's and ECB's FINREP reporting requirements have been adjusted to the forthcoming update of the international financial reporting standard (IFRS9), which aims to regulate the recognition and measurement of financial instruments. The OeNB contributed substantially to further developing the common European

Financial reporting (FINREP)

The collection of financial data for FINREP – e.g. data on banks' balance sheets, profitability, loan loss provisions and nonperforming loans (NPLs) – has been standardized and harmonized at the European level. FINREP was originally designed exclusively for reporting consolidated financial statements according to international accounting standards. Under the SSM, however, reporting obligations have been extended to include the reporting of consolidated and unconsolidated financial statements according to national accounting standards.

Reporting Framework (ERF) and assumed management responsibilities in the relevant task force.

With regard to the Common Credit Assessment System (CoCAS), new provisions regarding the identification of, and counting method for, credit defaults in the calibration and validation of rating systems were developed.

Progress in implementing an integrated data model

Under the START II project, the OeNB has launched the redesign of both the Statistics Department's IT systems and the underlying data model for reporting banks. With these measures it will be possible to react in a more flexible and cost-effective way should data requirements increase in the future and to ensure the greatest possible consistency between the various statistical products.

Communicating efficiently with banks while working on the further development of the reporting framework will save time later on as fewer explanations and data reviews will be necessary. With this in mind, the OeNB has been cooperating with Austrian banks since 2014 in the Standing Committee (SCom) to coordinate strategies and exchange expertise. In 2016, the SCom made significant progress in developing the key data model for the common reporting framework. In June, most reporting banks in Austria generated their "FINREP solo" supervisory reports using this data model, and in October, reports based on the new model were first used to generate the monetary statistics reported to the ECB. The ECB uses these statistics primarily to derive information relevant for monetary policy decisions and to perform other analyses. By implementing the integrated data model, the OeNB chose a future-proof solution that is exemplary in the Eurosystem.

Synergies resulting from supervisory data have reduced the reporting burden for reporting agents also with regard to ECB insurance statistics, which were relaunched in 2016; this, in turn, substantially increases the analytical usefulness of these data. The basis for the relaunch of the ECB insurance statistics was the EU's

Solvency II Directive, which thoroughly reformed the EU's legal framework for the supervision of the insurance sector.

Project on electronic nonfinancial data (END)

To assess credit risk, all Austrian banks – including the OeNB – currently record companies' financial statements manually, as these are available almost exclusively as PDF files or on paper. For both business and an economic considerations, this practice needs to be improved. The electronic nonfinancial data (END) project has been designed to analyze ways of optimizing the provision of financial statements.

The OeNB – together with the Austrian Federal Economic Chamber, the Federation of Austrian Industries, Statistics Austria, the Chamber of Professional Accountants and Tax Advisors and the Austrian Federal Ministry of Justice – works toward the objective of ensuring that companies provide complete financial statements (as required by commercial law) for the company register in a standardized electronic format. The project should result in cost savings for companies and administrative bodies.

Austria joins the IMF's SDDS Plus data standard

On January 10, 2017, Austria joined the IMF's Special Data Dissemination Standard (SDDS) Plus and thereby committed to complying with a series of strict requirements for the production, dissemination and documentation of statistical data.

Reliable, timely and internationally comparable statistics constitute an indispensable guide through today's increasingly globalized and complex economic activities. Joining the SDDS Plus attests to the high level of development and transparency of Austria's national statistical system and contributes essentially to ensuring Austria's attractiveness as a business and financial location. Austria is one of only thirteen countries around the globe that meet the SDDS Plus quality standard, currently the most sophisticated data qual-

ity standard worldwide. SDDS Plus was introduced in reaction to the economic and financial crisis that started in 2007 to cover, in particular, countries whose financial markets are important for the global financial system due to their size and/or – like in the case of Austria – their strong international financial linkages.

In addition to the provisions already in place under the SDDS (which Austria joined in 1996), SDDS Plus requires comprehensive data deliveries to the IMF in nine additional categories such as stability indicators for the Austrian financial sector or information on cross-border financial transactions. The new indicators refer both to economic and financial statistics and are relevant for a number of Austrian statistics providers who from now on will be obliged to submit these data to the IMF, with the OeNB in a coordinating role.

The Central Credit Register – a time-tested tool

The Austrian Central Credit Register (CCR, formerly known as Major Loans Register) offers a wide range of services. Whenever claims or

exposure limits vis-à-vis a borrower reach or exceed EUR 350,000 at the end of a given month, an obligation is triggered for the lender to report to the OeNB. As a service for lenders and borrowers, net exposure data are reported back to them. Moreover, the data recorded in the CCR are used for supervisory, statistical, monetary policy, economic, financial stability, risk control and collateral management purposes.

In the future, reporting data will be both expanded and harmonized under the ECB's Analytical Credit Dataset (Ana-Credit) project: As of September 2018, loan-level data for loans exceeding the EUR 25,000 reporting threshold will be collected from euro area credit institutions. Integrated data collection based on the integrated data model is intended to maximize user benefits and minimize redundancies at the national level.

Central Credit Register (CCR)

The CCR records data on the exposures and risks connected to claims of Austrian credit and financial institutions and insurance corporations vis-à-vis domestic and foreign borrowers and on the related credit ratings. Moreover, an original idea dating back to the 1960s was to establish a central information office for banks to obtain information on borrowers' overall debt. In 1979, the Banking Act provided a sound legal basis for establishing a major loans register. In the 1986 amendment to the Banking Act, the responsibility for maintaining the major loans register (now CCR) was assigned to the OeNB.



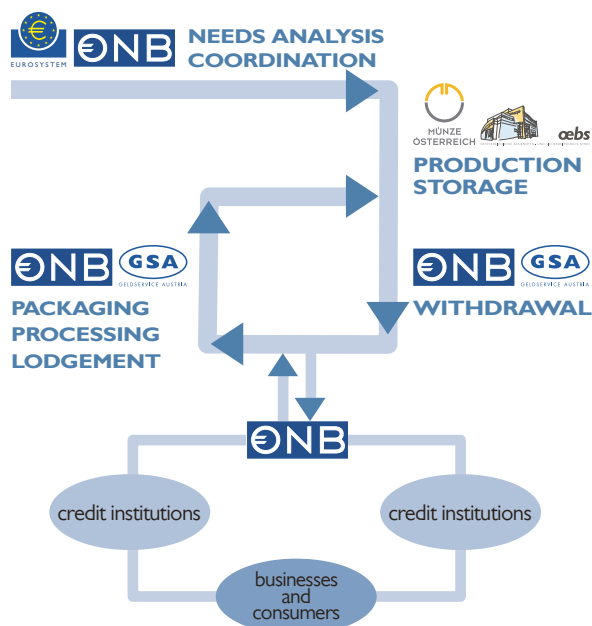
The OeNB's bicentennial: reception at Vienna City Hall

Introduction of the fourth banknote of the Europa series and migration of the Austrian financial market to T2S

The OeNB's role in the cash cycle

In cooperation with its branch offices and subsidiaries – Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS), Münze Österreich Aktiengesellschaft (MÜNZE) and GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination GmbH (GSA) – 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 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.



Introduction of the new EUR 50 banknote

The fourth banknote of the Europa series, the new EUR 50 banknote, was presented on July 5, 2016, to be gradually introduced from April 4, 2017, onward. As with the EUR 5, EUR 10 and EUR 20 banknotes of the Europa series, the new banknote features a revised design; its enhanced security features correspond to those of the new EUR 20 banknote.

During the gradual launch of the second series of euro banknotes, the OeNB pays particular attention to keeping the population informed about innovations in terms of security features and cash security. In this vein, the Euro Bus tour across Austria in the summer of 2016 gave visitors the opportunity to familiarize themselves in advance with the security features of the new EUR 50 banknote.

Another measure comprised providing manufacturers of banknote handling machines and their users (banks, vending machine operators, trade and cash-in-transit companies) with detailed technical information to facilitate the necessary adaptations. In this context, the OeNB has provided samples of the new EUR 50 banknote for testing purposes since July 2016.

Demand for cash continued to rise

At end-2016, the total value of euro cash in circulation (including coins) came to EUR 1,153.1 billion, up 3.9% against the previous year. While cash continues to be an important means of payment in the euro area countries, this continuous rise is also attributable to the euro's growing importance as an international reserve currency. Around one-quarter of euro cash in circulation (in terms of value) is held outside the euro area, predominantly in its neighboring regions.¹

¹ See ECB. 2011. *The international role of the euro – July 2011*.

Continuation of the Europa series

On May 2, 2013, the first banknotes of the new Europa series were issued. Following the successful introduction of the new EUR 5, EUR 10 and EUR 20 banknotes, the new EUR 50 banknote was presented to the public on July 5, 2016, to be launched on April 4, 2017.

The new EUR 50 banknote features the familiar “ages and styles” design, but in a more modern look. It has the same easy-to-check security features as the EUR 20 banknote: the portrait watermark, the emerald number and the see-through portrait window revealing the portrait of Europa, the mythological figure that is the namesake of the new banknote series. With the introduction of the new EUR 50 banknote, the Eurosystem has taken another important step toward making cash more secure. Checking the new EUR 50 banknote for authenticity is easily possible by using the FEEL, LOOK and TILT method and does not require any technical equipment.

The remaining denominations of the Europa series will be introduced over the next few years. Following the Governing Council decision of March 4, 2016, the Europa series will end with the issuance of the EUR 200 banknote. The issuance of the EUR 500 banknote will be discontinued at end-2018; the EUR 500 banknote will remain legal tender, however.



Chart 22 shows the development of euro cash demand broken down by denominations. Of the seven denominations, it is particularly the low and medium denominations, which are usually also the default denominations dis-

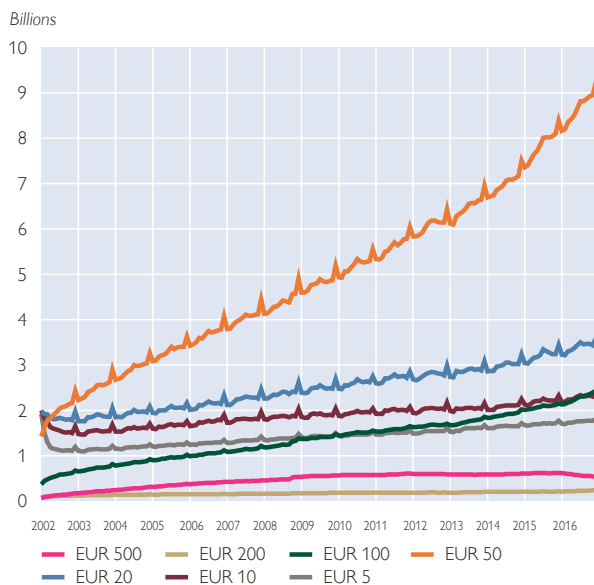
pensed by cash machines, that are used most often in everyday transactions. With 9.2 billion banknotes in circulation, the EUR 50 banknote is the most widely used denomination. It is used both for everyday payments and for hoarding purposes. The EUR 100 banknote has gained importance not least owing to the Governing Council decision of May 4, 2016, to discontinue the production of the EUR 500 banknote and stop issuing it as of end-2018.

The EUR 500 banknote will remain legal tender, however. This means that the EUR 500 banknotes in circulation will remain valid and can be exchanged at the Eurosystem NCBs for an unlimited period of time.

As it is not possible to collect exact data on cash circulation in the individual countries of the single currency area, the OeNB bases its estimations for Austria on data on the amounts initially put into circulation by the OeNB and later lodged with the OeNB or processed by cash handlers other than the OeNB or the GSA as well as data reported by banknote wholesalers. According to current OeNB estimates, the value of euro banknotes in circulation in Austria comes to around EUR 28.6 billion.²

Chart 22

Total euro cash in circulation by denomination



² The estimated value of euro banknotes in circulation is different 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.

In 2016, the OeNB and the GSA delivered a total of 1.48 billion banknotes to banks; 1.6 billion banknotes and 2.2 billion coins were returned from circulation for processing purposes.

Returned banknotes are processed by the OeNB in cooperation with the GSA and are recirculated after having passed authentication and fitness checks. This way, the OeNB ensures the high quality of euro cash in circulation and contributes essentially to cash security in Austria. As a result, counterfeit euro banknotes and coins can be withdrawn from circulation quickly and efficiently.

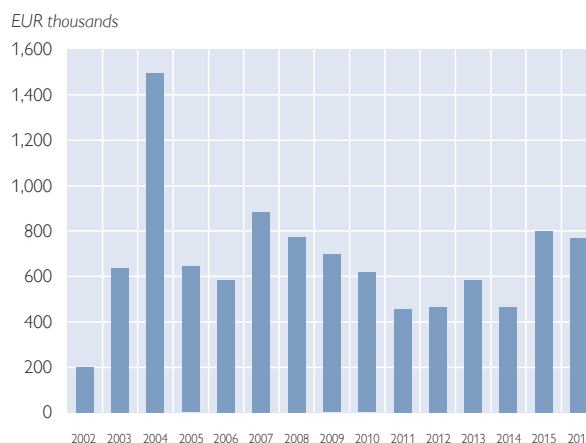
Quantity of counterfeits in Austria remains small

In 2016, a total of 12,234 counterfeit euro banknotes were recovered from circulation in Austria (2015: 14,502 counterfeits). Across Europe, counterfeits of the EUR 50 banknote of the first series top the list of counterfeits recovered from circulation (42.5%); together with counterfeits of the EUR 20 and the EUR 100 banknote, they account for 90% of all counterfeits recovered in 2016. The situation in Austria is very similar, with counterfeits of EUR 50 and EUR 20 banknotes accounting for 74% of all counterfeits recovered.

As in previous years, most incidences of counterfeit banknotes in Austria (around 43%) were recorded in the greater Vienna area. In the reporting year, the overall damage caused by counterfeits in Austria came to EUR 768,515, compared with EUR 798,440 in 2015 (see chart 23). As in previous years, Austria's share in the total volume of counterfeits recovered from circulation in the euro area remained relatively low at 1.79%. 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.

Chart 23

Economic damage caused by euro counterfeits in Austria



Source: OeNB.

Preparation for second series of euro banknotes involves numerous equipment tests

In 2016, the OeNB Test Center continued to perform free tests in line with ECB guidelines of banknote authentication devices and banknote counting and sorting machines as well as of related innovations in banknote authentication sensor technology: In cooperation with 15 international manufacturers, a total of 209 devices were tested and approved, and numerous tests were carried out both for the EUR 20 banknotes and in preparation for the EUR 50 banknotes of the Europa series to ensure the smooth acceptance of the new banknotes across Austria. The test results are published both on the OeNB's and on the ECB's websites.

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

Payment habits in Austria

In late 2015 and early 2016, the OeNB carried out a survey on Austrians' payment behavior. Respondents used a so-called payment diary to record all their payments for three consecutive days (except recurring payments that are generally non settled in cash or payments debited to their current accounts). Respondents recorded the amount paid as well as the type of payment, point of sale and other characteristics.¹

Although around 95% of respondents said that they owned payment cards, the latest survey results confirm that cash clearly continues to dominate payment transactions in Austria, with cash payments accounting for 82% of all transactions and 65% of the total transaction value according to the 2016 survey. Respondents claimed to have used debit cards for 10.9% of transactions (17.3% of the total transaction value), while 2.7% of transactions (6.1% of the total transaction value) involved credit cards. Direct debit and credit transfers accounted for 8.2% of the total value and 1.7% of the total number of transactions. All in all, payment innovations (such as paying by mobile phone or contactless payments) play only a minor role. It is remarkable even by international standards that Austrians use cash not only for low-value payments below EUR 25, but disproportionally often also for transactions involving high amounts: Almost half (47.2%) of all payments exceeding EUR 100 were settled in cash.

The differences in various sociodemographic groups' propensity to pay in cash largely correspond to the results of international studies: Older people use cash more often than younger people do (76% of the transaction value vs. 71%); lower-income groups clearly use cash more often than higher-income groups (83% vs. 59%). In total, however, the share of cash payments is high in all sociodemographic groups observed. When asked about their payment preferences ("How would you like to pay?"), slightly more than half of the respondents (55%) indicated a preference for cash. Another 30% said they preferred card payments and 16% did not indicate any preferences.

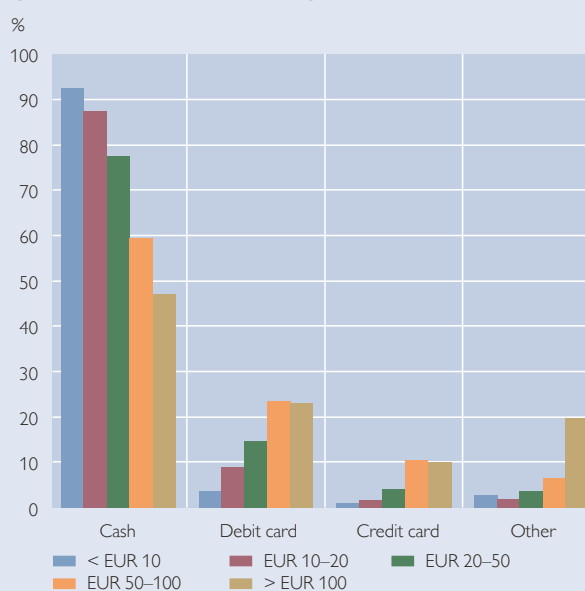
These descriptive results as well as further analyses presented in a study on this topic² suggest that the rapid changes in the market for payment instruments will not significantly erode the dominant position of cash as the most important means of payment in Austria over the next few years.

¹ Compared with previous OeNB payment surveys based on payment diaries, the design of this survey has been changed substantially. The current results are therefore not comparable with previous results.

² Rusu, C. and H. Stix. 2017. Von Bar- und Kartenzahlern – Aktuelle Ergebnisse zur Zahlungsmittelnutzung in Österreich. In: Monetary Policy & the Economy Q1/17. OeNB. English translation forthcoming.

Chart 24

Use of means of payment in Austria (by transaction amounts)



Source: OeNB 2016 survey on the payment habits of Austrian households.

Note: The indicated shares refer to total transactions per transaction amount, e.g. 92.4% of payments with a transaction value of below EUR 10 are made in cash.

central banks and commercial banks to settle payments in real time. The OeNB's Home Accounting Module Austria (HOAM.AT) enables holders of accounts with the OeNB to manage liquidity transfers, cash payments and standing facilities (deposit and marginal lend-

ing facilities) and to monitor compliance with minimum reserve requirements. For the Austrian financial market, around 3.1 million payment orders totaling around EUR 15,200 billion were settled via TARGET2 and HOAM.AT in 2016.

The Eurosystem's vision for 2020 is to improve and consolidate existing Eurosystem payment infrastructures and explore new projects at the Eurosystem and/or ESCB level. The current focus is on the consolidation of TARGET2 and TARGET2-Securities (T2S), the harmonization and centralization of Eurosystem collateral management, and instant payments.

T2S: successful migration of the Austrian financial market

T2S is a technical platform operated by the Eurosystem. It provides central securities depositories (CSDs) with real-time settlement services for national and cross-border securities transactions in central bank money and according to common rules and transparent and uniform conditions. T2S supports the implementation of the Single Market in securities post-trading by reducing barriers in cross-border securities settlement.

The migration of CSDs to T2S has been scheduled in five waves over the period from June 2015 to October 2017. Since the third migration wave, which took place on September 12, 2016, the OeNB has provided central bank money accounts in T2S (partial migration). With the Austrian CSD, the OeKB CSD GmbH, the entire Austrian financial market migrated to T2S during the fourth migration wave on February 6, 2017. Following the final migration wave in September 2017, a total of 24 European CSDs will be using T2S. In other words, from September 2017 onward, around 75% of the entire volume of European securities trading will be settled via T2S.

Subsidiaries support the OeNB in fulfilling its tasks

The following companies, in which the OeNB holds direct equity interests, support the OeNB in performing its core tasks in cash production, cash provision and cashless payments: Münze Österreich Aktiengesellschaft (MÜNZE), 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. Owing to their high level of customer orientation, they also contribute to strengthening trust in the OeNB itself. A well-planned division of labor between the OeNB and its subsidiaries enables the OeNB to boost the overall economic utility of its products and services. In fulfilling their mandates, the OeNB and its subsidiaries continue to set great store by quality, security and cost effectiveness.

Instant payments

Instant payments are electronic solutions for retail payments that are available at any time all year around and move money between accounts with almost immediate effect.

Within European monetary union, MÜNZE is the official mint of the Republic of Austria. Its exclusive right to mint and issue coins in Austria and to withdraw them from circulation is laid down in the provisions of the Coinage Act, which establish MÜNZE's prerogative. In line with the prevailing legal provisions, MÜNZE meets the domestic demand for legal tender coins. In 2016, MÜNZE supplied the OeNB with a total of 103 million euro coins with a face value of EUR 47.3 million. In terms of technology and products, MÜNZE is an international leader with exclusive know-how in precious metal processing and gold production. Its innovative product development and the continuous enhancement of its range of products help MÜNZE maintain its market position.

Central bank money

Central bank money comprises currency in circulation (banknotes and coins) and central bank deposits held by credit institutions.

Apart from making valuable contributions to R&D in the field of banknote and security printing, the OeBS mainly produces banknotes using state-of-the-art technologies. 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 2016, the OeBS thus produced 176.4 million EUR 100 banknotes.

Individual tasks defined in the Eurosystem's R&D strategy, such as performing test prints with the aim of developing euro banknote

printing further, have been centralized at specific NCBs. Another example that aims to avoid redundancies and unnecessary duplication in banknote production is the centralization of the responsibility for patent monitoring under international private law at one Eurosystem NCB. In recognition of the OeBS's high-level performance, the OeNB and the OeBS have been entrusted with these two tasks.

The GSA, a leading cash logistics company, was established as a public-private partnership. The GSA's majority owner is the OeNB, which holds a 95.34% share, while a number of Austrian commercial banks hold the remaining shares. 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 Vienna, the GSA operates a so-called master center, which processes three million euro banknotes per day. This corresponds to an annual amount of around 700 million banknotes. The banknote processing systems used at the master center in Vienna were up-

dated in 2016 and the degree of automation was increased further.

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 2016, a total of 589 million transactions were settled in CS.A.

On behalf of the OeNB, the GSA is also responsible for the operation of Clearing Service.International (CS.I), which Austrian commercial banks may use to settle cross-border payments within the Single European Payments Area (SEPA). In 2016, a total of 48.1 million 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. In particular, the premises management group BLM Betriebs-Liegenschafts-Management GmbH is in charge 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



The OeNB's bicentennial: anniversary ceremony at Vienna City Hall

The OeNB's intellectual capital

Striving for efficient and economical resource allocation

The OeNB sees itself as a modern central bank that is dedicated not only to pursuing its main objectives – price stability, financial stability and the smooth functioning of cash and cashless payments – but also to promoting efficiency in internal processes. The OeNB's commitment to best practice in business management is also underlined by the determination it has shown in implementing the results of the internal optimization and reorganization project "OPAL," which was completed in 2015. To fully realize the targeted OPAL cost savings plan by 2020, the OeNB has established the necessary business management structures, among them a high-level planning and budget-steering committee. This committee is responsible for the OeNB-wide coordination and preparation of specific budget management decisions within the limitations imposed by the OPAL spending cuts. The success of the new structures in the first full year after their introduction is documented by cost savings that were realized as scheduled in 2016 and by the target-oriented approaches developed to sustainably achieve the OPAL objectives.

Pursuing a modern HR strategy

The OeNB's human resources (HR) management caters to the needs of all business areas within the organization and thus supports all staff members in performing their challenging tasks. By providing suitable HR instruments and fostering a corporate culture that is rooted in openness and mutual respect, the Personnel Division aims to promote a working environment that encourages top performance by OeNB staff.

The OeNB is actively committed to providing equal employment opportunities for everyone. To this end, it has formulated a policy that reflects all core dimensions of corporate diversity and fulfills all pertinent legal requirements. By adopting an action plan for the advancement of women for the period of 2016–2021, the OeNB has formalized its aim of raising the share of female employees (in every business area and in the OeNB as a whole) by one percentage point each year until it reaches 50%. The share of women in overall staff has already been increased to 40%, while the management and expert career track still lag behind.

As the OeNB embraces all aspects of diversity, also those that may be less obvious than

Table 2

Indicators of knowledge-based processes

Indicator	Unit	2013	2014	2015	2016
Process efficiency					
Certified areas	number	8	10	10	9
Entries in the OeNB's terminology database	number	21,260	21,545	21,892	22,289
Degree of automation in the procurement process	%	43	31	45	39
Error-free payment transactions	%	99.97	99.96	99.98	99.97
Staff suggestions for improvements	number	60	26	36	36
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>.

age and gender, the OeNB's equalities officers addressed sexual orientation as a workplace topic in 2016. Having complied with pertinent legal requirements for many years, the OeNB is now determined to carry out additional initiatives in this area. 2016 already saw several related events with OeNB staff as well as external speakers.

Balancing work and family life and meeting the flexibilization demands of the modern working world are other important aspects of HR work at the OeNB. The importance the OeNB attaches to employees' work-life balance is evident in its annual certification under the "work and family" audit program (since 2012) and the broad range of flexible employment models it offers to its staff, such as part-time

and teleworking schemes and sabbaticals – an offer which is regularly revised and updated.

The OeNB also sets great store by the personal and professional development of its employees, not least because their top qualification is a prerequisite for mastering the great and complex challenges central banks face today. The OeNB's ongoing endeavors in this area are also reflected in its indicators on knowledge acquisition: The share of employees that attended at least one training event per year, for instance, increased markedly in 2016, reaching 81.3%. While this rise can be in part explained by the introduction of a new calculation method in 2016 (which also includes half-day training events), it also points to a more extensive use of the OeNB's training offer. At

Table 3

Indicators of investment in knowledge-based capital

Indicator	Unit	2013	2014	2015	2016
Staff structure					
Full-time equivalent staff (year-end) ¹	number	1,089.1	1,084	1,085.9	1,091.8
aged up to 30 years	%	12.8	11.3	10.6	11.5
aged 31 to 40 years	%	24.4	27.6	28.1	28.4
aged 41 or older	%	62.8	61.1	61.3	60.1
Fluctuation rate	%	0.9	1.7	1.9	1.7
Share of university graduates in total staff	%	54.1	56.4	59.3	61.5
Staff-to-manager ratio	number	7.2	6.8	6.8	7.1
Gender management					
Share of women in total staff	%	39.0	39.1	38.5	39.5
Share of women in the specialist career track	%	35.0	37.6	37.0	35.8
Share of women in management positions	%	25.0	25.5	27.5	27.9
Flexible working arrangements					
Part-time employees	%	11.2	11.6	11.6	13.9
Staff in teleworking scheme	%	6.3	7.6	8.9	9
Staff on sabbatical	number	4	6	4	2
Mobility					
Participants in in-house job rotation program	number	39	46	42	46
Working visits to national and international organizations (external job rotation)	number	42	48	45	52
Working visits at the OeNB (incoming) ²	number	5	3	1	3
Interns	number	54	56	55	67
Knowledge acquisition					
Education and training days per employee (annual average)	days	3.8	3.7	4.8	4.5
Education and training participation rate (share of employees that attended at least one training event per year) ³	%	61.6	57.6	61.3	81.3

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 Working Experience and SSM trainee scheme.

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

, the same time, education and training days per employee declined somewhat in 2016 (to an annual average of 4.5 days), reflecting the trend toward shorter training activities.

At 1.7%, the OeNB staff's fluctuation rate remained low and hardly affected headcount. The staff's long-term commitment shows how well invested the OeNB's training measures are.

As work under the Single Supervisory Mechanism (SSM) progressed in 2016, the associated need for closer cross-border cooperation also became a central aspect of the OeNB's HR work.

Moreover, a task force in which the OeNB participated together with representatives of other central banks and supervisory authorities developed several training curricula for different target groups in 2016, building on the existing seminar offer. In addition to two these curricula, supervisors were also offered other tailored training activities to expand their hard skills. Overall, 30 targeted seminars have been made available for supervisory staff. Together with mobility initiatives within the ESCB and SSM, they ensure that supervisors have ample opportunities for networking and exchanging information. The rise in working visits to national and international organizations in 2016 testifies to the success of these measures.

Compliance rules strengthen and protect the OeNB and its staff

Whistleblowing

In line with legal regulations, the OeNB made available an online whistleblowing platform in July 2016 – after having reached an internal agreement with the Staff Council and having obtained approval by the data protection authority. The Internet-based platform is operated by an internationally renowned service provider. It has been set up independently from the OeNB's IT infrastructure, which makes it possible for staff members to anonymously report irregularities or violations of OeNB rules and regulations as the origin of reports submitted via the platform cannot be traced. If

whistleblowers set up electronic mailboxes, it is also possible to address clarifying questions to them without their identities being revealed.

Implementing a harmonized ethics framework across the ESCB

In 2015, the Governing Council of the ECB had adopted two guidelines laying down the principles of an ethics framework for the Eurosystem and for the SSM, which were both implemented in 2016. In some areas, the OeNB already had sufficient rules in place to ensure compliance with these principles (e.g. guidelines on accepting gifts and invitations); in other areas, OeNB rules had to be comprehensively overhauled. The OeNB's guidelines on the prevention and handling of conflicts of interest, for example, had to be thoroughly adjusted. Also, the OeNB's compliance rules on insider trading were strongly revised to more effectively prevent the abuse of insider knowledge in the run-up to ECB Governing Council meetings. Moreover, the trading prohibition for certain securities has been expanded to reflect the fact that, because of the SSM, some OeNB staff members have access to insider information on credit institutions throughout the entire euro area.

The Federal Public Corporate Governance Code

The Federal Public Corporate Governance Code (B-PCGK) was adopted by the Austrian Council of Ministers on December 30, 2012. It lays down the principles of managing and supervising state-owned companies. Its objective is to make the management and supervision of these companies more transparent, by improving the documentation of management decisions among other things. Accordingly, the Code governs shareholders' rights and duties, the interaction between management and supervisory bodies, and the appointment and activities of management executives.

Compliance standards at OeNB subsidiaries

The OeNB imposed its compliance standards on its wholly owned subsidiaries in 2015. Since then, the subsidiaries have been complying with the relevant rules on conflicts of interest and secondary employment. By 2017, guided self-assessments that are currently being carried out will yield an overview of all compliance risks at each subsidiary.



The OeNB's bicentennial: "Central banking in times of change" – joint OeNB-BIS conference

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 loss-absorbing balances on revaluation accounts to the extent that 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 means of the risk measure expected shortfall (ES). VaR and ES calculations are uniformly based on one-year horizons and confidence

intervals of 99%. A three-month risk horizon is calculated in addition to risk bandwidths.

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

In addition, the OeNB makes provision commensurate to its relative capital share in the ECB's paid-up capital for ECB investment risks and for risks arising for the ECB in 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. The VaR and ES calculations of ECB and OeNB risk are consistently 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 defects, inadequate procedures or systems, human error or unforeseen events affecting operations. Management of operational risk at the OeNB is governed by the rules laid down in its Risk and Crisis Management Handbook (ORION). Risk valuation takes into account the impact of various risks on the OeNB's reputation and corporate objectives, the probability of their occurrence, and any financial losses that might occur. Risks are monitored on an ongoing basis and are reported to management at regular intervals.

IT security policy

IT security policy defines guidelines and provisions to guarantee a high level of security for the development, operation and use of IT systems at the OeNB. The following bodies and persons have key responsibilities in the IT security process:

- the IT security board, which provides advice on IT security and coordinates and controls related activities and which puts into force IT security provisions;
- the IT security manager, who is responsible for the technical accuracy of the measures submitted for approval as well as for initiating and implementing IT security processes;
- the IT security experts, who are responsible for drafting and implementing IT security guidelines and IT specifications; and
- the technical experts in charge of the respective products.

Regular tests and reports are part of the framework of the IT security processes.

Keeping the public informed – PR work at the OeNB

OeNB communication concept caters to varied target groups

Stepping up social media activities

The OeNB's media presence in 2016 was largely dominated by its 200-year anniversary events (see box 10). Both in terms of traditional press work and new media campaigns, 2016 was a very busy year for the OeNB's communications team. The number of press releases went up, as did the download figures for the OeNB's journals and other publication outlets, which recorded a steep rise by 46% (to around 43,000) in the wake of the OeNB's new digi-

tal-only publication concept. Around 13,100 users have subscribed to OeNB newsletters and publication alerts. Moreover, in 2016, the OeNB almost doubled the number of short video clips available on its YouTube channel (to 69). These in-house productions mostly focus on current central bank tasks, with the most popular topics in 2016 including gold reserves, monetary policy, price stability and the Euro Info Tour. Following its first tweets in the fall of 2015, the OeNB stepped up the use of its Twitter account in the reporting year to inform the public about press releases, publications and

Box 10

Highlights of the OeNB's 200-year anniversary in 2016

The OeNB marked its bicentennial in 2016 by launching anniversary products and organizing special events to inform the public about the central role the OeNB has played in Austria's monetary system since 1816.

- In January, Münze Österreich AG (the Austrian mint) and Österreichische Post AG (Austrian Post), together with the OeNB's governor, presented a EUR 1 anniversary stamp and a EUR 2 commemorative coin.
- Also, the OeNB published two anniversary books in January: an illustrated volume on the OeNB's history and a book on monetary policy in Austria from 1816 to 2016. The book presentation was attended by an illustrious audience that included former employees and other experts who could speak to the OeNB's eventful history.
- The OeNB's Money Museum's special exhibition "Guardian of the currency. 200 years Oesterreichische Nationalbank" attracted around 9,000 visitors between April and December. The exhibition is open to the public until September 1, 2017.
- In April, the OeNB hosted the annual conference of the European Association for Banking and Financial History, and in May, the 7th Austrian numismatics conference, which examined the stability and instability of monetary systems.
- In a financial literacy initiative launched in cooperation with the radio station Ö3, the OeNB reached out to four million radio listeners with a money quiz, giving them a chance to test how much they know about price stability, financial stability, cash and cashless payments and managing their money.
- On June 1, the Governing Council of the European Central Bank (ECB) held its monetary policy meeting in Vienna. On the following day, the OeNB hosted an anniversary ceremony at Vienna City Hall, where the members of the ECB Governing Council and some 400 guests convened to hear internationally renowned experts speak on "Central bank policies – past challenges and future perspectives."
- As part of its popular documentary series "Universum History," the Austrian Broadcasting Corporation ORF aired its feature-length documentary "Money and Life" on June 3. Some 300,000 people watched this documentary, which explores the OeNB's 200-year history in the broader context of Austria's and Europe's economic and monetary policy.
- In September, a high-level conference organized jointly by the OeNB and the Bank for International Settlements (BIS) rounded off the anniversary activities, giving around 180 guests the opportunity to discuss "Central banking in times of change."
- At www.oenb.at interested readers can find the special issue of the OeNB's quarterly Monetary Policy & the Economy published in September on "Two hundred years of central banking in Austria: selected topics," next to other information on the OeNB's bicentennial. Related videos and interviews are available on the OeNB's YouTube channel.

job vacancies (540 tweets, 680 followers). The teasers posted on the OeNB's Twitter account also increased traffic on its website at www.oenb.at. Regular media tracking and analysis show that the OeNB's media presence clearly reflects its standing as an accepted expert institution whose research results and analyses are positively received. A cyber attack launched against the OeNB and debates that flared up in early 2016 surrounding the rumored possibility of an abolition of cash also generated a lot of media attention. The OeNB's 200-year anniversary activities received particularly positive media coverage.

Expanding the financial literacy product portfolio

Following the launch of its financial literacy platform www.eurologisch.at in 2015, the OeNB further expanded its range of financial literacy products: In 2016, radio listeners were given the chance to test their knowledge about money and finance in a quiz broadcast on ORF radio station Ö3. Similarly, the new online Euro Quiz allows contestants to find out how much they know about price stability, financial market stability, means of payment and managing their money. As a further financial literacy



initiative, the OeNB has published pocket money guidelines (in German) that offer valuable pointers for parents trying to teach their children how to manage first small amounts of money.

Moreover, the OeNB has launched a new workshop format for school groups ("Euro-Aktiv"), which is offered in combination with a tour of the OeNB's Money Museum. These



workshops, which are tailored to the participating children's age, knowledge and interests, provide information on the OeNB's core tasks and about ways to manage one's own money.

Based on a formal agreement, the OeNB also strengthened its long-standing research and teaching partnership with WU (Vienna University of Economics and Business). In May 2016, the two institutions signed a framework agreement with the aim of promoting financial literacy in Austria.

Another new online quiz ("Wissenstest") tests participants' financial literacy based on a set of questions compiled by the Organisation for Economic Co-operation and Development (OECD). At the end of the quiz, participants are shown their own results compared to the average results of other participants in Austria.

In April 2016, the OeNB's Money Museum opened the special exhibition "Guardian of the currency. 200 years Oesterreichische Nationalbank" to mark the OeNB's bicentennial. Then, in May, the OeNB hosted the 7th Austrian numismatics conference in cooperation with the University of Vienna, the Kunsthistorisches Museum and the Austrian Academy of Sciences. With nearly 1,000 visitors, Museum Night again proved a great success for the OeNB.

Again, the OeNB had various opportunities throughout the year to demonstrate its expertise on current economics topics, e.g. at teacher training seminars held in cooperation with Volkswirtschaftliche Gesellschaft Österreich and the annual OeNB workshop at WU.

The OeNB supports knowledge exchange

JVI – a long-standing training institution

Since its foundation in 1992, the Joint Vienna Institute (JVI) has trained 39,332 course participants. The JVI is sponsored by the Austrian Federal Ministry of Finance, the International Monetary Fund (IMF) and the OeNB. During her visit in June 2016, the IMF's Managing Director underlined how impressed she was with the JVI's success story. The JVI's positive image strengthens Vienna's reputation as an ideal location for international organizations and a central information hub for Central, Eastern and Southeastern Europe (CESEE).

In 2016, as many as 111 training weeks were completed at the JVI. The training courses were attended by 2,060 central bank and public sector officials, mostly from countries in CESEE and the Commonwealth of Independent States (CIS). The slight decline in participant numbers against the previous year was caused by the comprehensive overhaul of the IMF curriculum. In addition to on-site training, online learning is becoming more and more important. In 2016, the OeNB designed and offered seven on-site courses at the JVI on the following topics: supervision and financial stability, stress tests, European integration, cash and payment systems, as well as monetary and financial statistics.

New impetus for technical cooperation with the Western Balkans

The cooperation of the European System of Central Banks (ESCB) with EU candidate and potential candidate countries of the Western Balkans was put on a new footing with the establishment of a steering committee chaired by the Deutsche Bundesbank. The committee, on which the OeNB is represented as well, primarily aims to acquire new projects that are financed with centrally administered EU funds and to coordinate these projects across the ESCB.

Table 4

Indicators of knowledge-based output

Indicator	Unit	2013	2014	2015	2016
Cooperation and networks					
National bodies with OeNB representatives	number	83	78	82	86
International and European bodies with OeNB representatives (ESCB, etc.) ¹	number	244	278	287	303
Technical assistance activities with CESEE and CIS central banks	days	569	565	563	410
Course participants at the Joint Vienna Institute (JVI)	number	2,145	2,286	2,197	2,060
OeNB-hosted national and international events	days	255	194	181	163
Lectures delivered by OeNB staff to external audiences	number	771	665	686	760
Communication and information					
Queries to OeNB hotlines	number	27,235	25,212	17,376	14,518
Research cooperation projects with external partners	number	74	56	90	83
Visitors to the Money Museum	number	18,733	16,059	13,732	11,703
Cash training course participants (including Euro Shop Tour) ²	number	17,342	14,192	15,322	8,279
Children and teachers reached through school activities	number	19,179	20,182	18,802	23,546
Contacts during the Euro Info Tour	number	41,956	36,103	35,892	30,143
Press conferences	number	14	14	12	18
Press releases	number	192	187	153	190
Publications					
Articles published by OeNB staff	number	125	117	139	106
of which: refereed papers	number	47	40	39	35
Confidence and image					
Confidence index in the second half of the year	%	57	57	57	61
Image index in the second half of the year (values between 5.5 and 10.0 signal a positive image)	value	6.6	6.8	6.3	6.5

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.

The OeNB embraces social responsibility

In 2015, the OeNB had set up a container village for refugees on the premises of its seminar and sports center to give shelter to up to 70 refugees. In the reporting year, occupancy at the village – called “Anissa” – reached capacity. Thanks to the excellent cooperation with Caritas (Archdiocese of Vienna), the helpful hands of many OeNB volunteers and the eagerness of the resident families and youths to learn, the Anissa project has been a positive experience for everyone. The open house day organized on the occasion of the UNHCR Long Day of Flight gave everybody the opportunity to get acquainted in a friendly atmosphere.

In 2016, OeNB staff members also showed commitment for other refugee projects by

Austrian nonprofit organizations such as Caritas and Arbeiter-Samariter-Bund, collecting donations among their colleagues. Supported by the OeNB’s Governing Board these initiatives were organized by the development aid group within the OeNB, which has been run by dedicated volunteers for 30 years. In line with the UN millennium development goals, the group’s main objectives still 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 2016, the group supported development aid projects in Kenya, Burkina Faso, Zimbabwe, Ghana, Niger, Vietnam and Bangladesh.

The OeNB promotes research, science, art and culture

The OeNB supports basic research

The OeNB has been actively promoting research for 50 years – ever since the General Meeting decided to establish the OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching on April 27, 1966, to mark the OeNB's 150th anniversary. The Anniversary Fund was created to provide a reliable fixture in the research community with lasting benefits for society as a whole.

In 2016, the OeNB provided funding of about EUR 9.34 million in total for 93 Anniversary Fund research projects. At 649, the overall number of funding applications remained high.

Funding was granted for research in the following areas:

- economics (28 projects): EUR 2.96 million
- medical sciences (34 projects): EUR 3.45 million
- social sciences (17 projects): EUR 1.62 million
- humanities (14 projects): EUR 1.31 million

In addition, the OeNB earmarked total funding of EUR 1 million for seven projects in the focus area “Migration, labor market and economic growth.”

To make its offer more attractive and efficient for young researchers, the Anniversary Fund developed new guidelines that have been in force since January 1, 2017. These guidelines were presented to the most important receiving institutions in a series of information events organized in fall 2016.

To promote a broad range of economic research, the OeNB also offers awards and grants to young economists in different fields.

Committed to Austria's cultural heritage

In fall 2016, the OeNB acquired two violins by Giovanni Battista Guadagnini to add to its

collection of valuable old string instruments. With this purchase, the collection has grown to include 40 instruments, all of them crafted by the most renowned violinmakers of the Italian school. The OeNB lends these instruments (among them a violin by Jacobus Stainer of Absam in Tyrol) to Austrian musicians free of charge, thus making a modest contribution to Austria's outstanding international reputation as a musical nation.

In the course of its 200-year anniversary activities, the OeNB commissioned a symphony by eminent contemporary Austrian composer Thomas Larcher, which was performed by the Vienna Philharmonic Orchestra in a world premiere at the Vienna Musikverein.

As an addition to its art collection, the OeNB acquired Franz Zadrazil's triptych “Subway 1-3,” the largest and most important work created by this Austrian artist.

The OeNB loaned 16 paintings to the Albertina for an exhibition on New Objectivity (Neue Sachlichkeit) staged in the context of the museum's focus on international modernism.

Moreover, in 2016, the OeNB decided on a new strategy for developing its art collection based on the following key principles:

- The collection will focus on outstanding works of fine art created in Austria after 1918.
- The OeNB will only add a few, high-value pieces every year.
- A small portion of the annual budget will be dedicated to the purchase of contemporary works by young Austrian artists.
- The OeNB will lend pieces from its collection to renowned museums, institutions and exhibitions for a limited period and free of charge.

Also, a body of independent experts will ensure that the quality of the OeNB's art collection remains high and that the collection is further expanded in line with the described strategy.



The OeNB's bicentennial: concert by the Vienna Philharmonic Orchestra at the Vienna Musikverein

Environmental Statement 2016: 20 years of best practice in environmental management

Updated Environmental Statement in line with EMAS Regulation (EC) No 1221/2009

The OeNB has been certified under environmental protection standards for as long as 20 years. Following a Governing Council decision in 1996, the OeNB had applied for the certification of its Securities Printing Works



under the international environmental standard ISO 14001. Then, in 1999, the OeNB started to apply the environmental management tool EMAS (Eco-Management and Audit Scheme).

EMAS was developed to distinguish and reward companies that have voluntarily committed themselves to continually improving environmental protection within their organization on the basis of strict criteria. As an EMAS certificate holder, the OeNB has documented its effort to improve its environmental performance beyond statutory requirements.

The OeNB's EMAS management representative determines its environmental policy and ensures that the organization complies with the obligations laid down in the EMAS Regulation (e.g. compliance with environmental laws, establishment and pursuit of environmental objectives, continuous improvements). Thanks to energy and waste management specialists, environmental controllers in the various divisions, regular eco audits and monthly meetings of the environmental protection team, the OeNB's environmental management system¹ has achieved important successes in the past two decades in implementing the OeNB's green policy. Heat consumption, for example, has been reduced by some 40%, paper consumption by even roughly 75%.

Despite these successes, the OeNB is resolved to improve its environmental program further, not least in the wake of the Paris Agreement on climate change, which was

adopted in 2015. The countries that have signed the Paris Agreement have committed themselves to reducing their greenhouse gas emissions with the aim of limiting global warming to well below 2 degrees Celsius. This international agreement on climate protection, which complements the Kyoto Protocol of 1997, has already been ratified in the Austrian and the European Parliament. The objectives that have been globally agreed by 195 states now need to be implemented at the local level through varied measures by businesses, public institutions and society in general. The OeNB is determined to do its part.

Green energy management confirmed by ISO certification, district cooling proves successful

In the reporting year, the energy saving benefits expected from the use of district cooling at the OeNB mostly materialized. A complete assessment of energy savings will only be possible once district cooling has been in use for a whole calendar year. Also the consumption of electricity and fresh water was reduced further.

The OeNB continued to exclusively procure electricity from renewable sources certified with the Austrian Ecolabel. Further measures to lower the emission of greenhouse gases included reorganizing the OeNB's energy management, setting up a heat recovery system, integrating a photovoltaic system into the building facade, optimizing vehicle fleet management, improving technical facilities such as pump and sunblind controls, supporting research programs and raising awareness among employees (e.g. encouraging the use of public transport for getting to work and for business travel). The fact that the OeNB has been certified under energy management standard ISO 50001 since 2014 underlines its commitment to energy efficiency.

¹ For more details, see the Environmental Statement accompanying the OeNB's Annual Report 2015.

Table 5

The OeNB's ecological indicators

	Site	2014	2015	2016	Unit	Benchmark ¹		
						+	~	-
Energy								
Electricity consumption per employee ²	Vienna	6.68	6.44	6.03	MWh	< 4.5	6	> 8
Heat consumption	Vienna	55	62	52	kWh per m ²	< 110	130	> 150
District cooling	Vienna	–	35	31	kWh per m ²			
Total energy consumption ³	Vienna	9,428	12,066	9,012	MWh			
of which renewable energy ⁴	Vienna	5,748	6,417	5,523	kWh			
Water								
Water consumption per employee ³	Vienna	88	98	80	liters per day	< 60	100	> 120
Consumption of materials and products								
Total paper consumption per employee ⁵	All sites	78	56	68	kg	< 100	200	> 500
Consumption of printing/photocopying paper per employee	All sites	7,066	4,098	6,037	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	18	15	15	g per m ²	not available		
Total CO ₂ emissions per employee ⁷	All sites	1.46	1.47	1.93	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 since 2014.

³ The expansion of the cooling system from 2014 and technical failures in the district cooling system increased overall energy consumption in late 2015 and early 2016.

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 2016: 970 kg.

⁷ Operation of facilities and business travel; total in 2016: 2,112 tons; the increase in 2016 is due to updated conversion factors according to the Environment Agency Austria (January 2017). 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 bzw. SO₂, NO_x and fine dust.

Environmental controlling at the OeNB creates transparency

In its internal database EcoControl, the OeNB not only captures its consumption of materials but also tracks tasks and responsibilities under environmental law. Task monitoring and internal audits ensure that all legal requirements are complied with and that environmental objectives are realized according to plan.

Table 5 shows that energy and water consumption has been reduced. The fact that total CO₂ emissions have gone up despite the mentioned ecological successes can be explained by an increase in travel by airplane and updated conversion factors.

Thanks to rigorous waste separation and the reuse of wood and metal waste, the OeNB managed to improve its waste balance, significantly bringing down its generation of commercial waste, for instance. At the same time,

there have been increases in other items, e.g. waste paper, because several archives were cleaned out in the course of office relocations.

Environmental performance and program

The environmental measures the OeNB plans for the near future are shown in table 8 ("The OeNB's environmental performance up to 2016 and environmental program for 2017").

Table 6

Transport mileage

	2014	2015	2016
Business travel by airplane, km	2,638,900	2,656,300	2,871,330
Business travel by car, km	520,300	527,800	459,186
Business travel by train, km	168,000	208,200	195,000
Fuels for transport, liters	35,829	36,865	36,940

Source: OeNB.

Table 7

Waste generation by the OeNB, 2014–2016

Waste code number	2014	2015	2016
	kg		
Nonhazardous materials	102,910	84,075	101,420
Commercial waste ¹	91101 83,960	73,640	68,080
Electronic scrap ²	35202 1,694	2,030	3,545
Large electrical appliances	35221 176	105	135
Bulky waste ³	91401 6,420	0	10,624
Treated and untreated wood waste ³	17201, 17202 3,160	1,500	12,036
Sand filter contents	94704 7,500	6,800	7,000
Nonhazardous waste per employee	95	77	93
Hazardous materials	43,319	6,421	10,638
Waste paint and varnish containing solvents	55502, 59405 52	0	0
Cooling apparatuses	35205 90	290	194
Air conditioning devices	35206 0	40	0
Unsorted batteries, lithium-ion batteries	35338 241	210	489
Lead accumulators ⁴	35322 38,264	680	112
Oil separator contents ⁵	54702 3,660	3,700	4,280
Oil-contaminated equipment	54930 0	108	0
Fluorescent tubes, PCB-free capacitors	35210, 35339, 35209 3	491	186
Laboratory waste	59305 52	0	116
Monitors, waste from electrical and electronic equipment	35212, 35201, 35220 914	765	1,231
Cleaning agent and solvent waste ⁶	59405, 55377 0	0	4,000
Gases in pressure containers (fire extinguishers), aerosol cans	59802, 59803 13	107	0
Wastes from pharmaceuticals	53510 30	30	30
Hazardous waste per employee	40	6	10
Recyclables	185,705	111,333	177,460
Colored glass	31469 1,810	2,110	2,720
Clear glass	31468 1,810	2,110	2,720
Metal/cans	35315 2,840	2,840	2,840
Biodegradable waste ⁷	91701 12,890	12,890	12,890
Plastic packaging material ⁸	57118 5,800	5,800	7,560
PET waste	57130 0	1,320	0
Scrap metal ⁹	35103, 35105 63,880	15,880	51,470
Scrap paper ²	18718 86,570	59,230	93,460
Styrofoam	57108 0	90	200
Coated paper and cardboard	18702 10,105	9,063	3,600
Total	331,934	201,829	289,518

Source: OeNB.

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

² Increase due to relocations.

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

⁴ Renewal of uninterruptible power supply system in 2014.

⁵ Oil separators in the parking garage.

⁶ Increase due to tank cleaning.

⁷ Including green waste (garden/park waste).

⁸ New classifications of waste by Vienna's municipal waste management department.

⁹ Metal containers had to be disposed of in 2014 and 2016.

In this context, it is worth mentioning that the OeNB's subsidiary IG Immobilien Gesellschaft m.b.H. (IG) was again awarded certification for ethical conduct by the Austrian Sustainable Building Council (ÖGNI) in 2016. Documenting the high level of transparency and sustain-

ability achieved by IG, the related conformity assessment confirmed the committed measures IG has taken since it initially received certification in 2013. IG thus serves as a best-practice role model in terms of anti-corruption and ethical standards in the real estate sector.

The OeNB's environmental performance up to 2016 and environmental program for 2017

	Responsible	Deadline	Status
Further greening of procurement New guidelines for using laptops and tablet PCs	specialist division	2016	implemented
Responsible resource use, reduction of emissions, further reduction of electricity consumption by 2% Enhancing energy management, evaluating energy saving potential	specialist division	ongoing	at the implementation stage
Assessing combination of basement ventilation systems	specialist division	2017/2018	planned
Controlling room cooling via window sensors (extension)	specialist division	2017	planned
Continued use of certified green electricity	specialist division	2016	implemented
Increasing pump performance to minimize energy consumption	specialist division	2016	implemented
Implementing a demand-dependent lighting concept for work lamps	specialist division	2016	continued
Regulating cleaning agent use by applying dosage systems	specialist division	ongoing	implemented
Electricity saving projects			
LED safety lighting and hallway lighting in the OeNB's main building and northern office building	specialist division	2015/2016	implemented
LED safety lighting and hallway lighting in the OeNB's Money Center	specialist division	2017	planned
Central ventilation unit	specialist division	2016	at the implementation stage
Replacement of boiler in northern office building	specialist division	2016	at the implementation stage
Promoting environmental awareness, training Promoting green mobility (bicycle use, incl. Citybike rental system) "Car-free day" and "day of the sun" information events: encouraging staff to use green alternatives	specialist division	2017	planned
	EPT	2017	planned
Networking and communication Information campaign, including, e.g., lectures, more information on the intranet Cooperation with environmental organizations such as the WWF, the Club of Rome, B.A.U.M Auditing the waste disposal contractor	EPT	2017	planned
	EPT	2017	continued
	waste management officer	2017	planned

Source: OeNB.

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) and validates the relevant information for the Environmental Statement in accordance with Annex IV point B (a) to (h).

Vienna, January 31, 2017

Martin Nohava, Lead Verifier

The next update of the Environmental Statement is due to be published in April 2018.

Direct and indirect equity interests

Table 9

Direct and indirect equity interests of the OeNB as on December 31, 2016

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
30.04	Argor Heraeus SA, Mendrisio (Switzerland)	CHF 6,369,000.00
(30.04)	100 Argor-Heraeus Deutschland GmbH, Pforzheim (Germany)	EUR 25,000.00
(30.04)	100 Argor-Heraeus Italia S.p.A., Cavenago Brianza (Italy)	EUR 520,000.00
(15.02)	50 Argor-Aljba SA., Mendrisio (Switzerland)	CHF 1,300,000.00
(3.00)	10 Argor-Heraeus Latin America SpA, Santiago de Chile (Chile)	USD 500,000.00
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
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	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	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, 2016. 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.



The OeNB's bicentennial: anniversary ceremony at Vienna City Hall

Financial statements
of the Oesterreichische Nationalbank
for the year 2016

Balance sheet as at December 31, 2016

Assets

	December 31, 2016 EUR	December 31, 2015 EUR
1 Gold and gold receivables	9,884,732,593.30	8,761,080,931.00
2 Claims on non-euro area residents denominated in foreign currency	12,209,715,056.93	11,636,788,533.60
2.1 Receivables from the IMF	3,049,210,388.05	2,828,026,715.02
2.2 Balances with banks and security investments, external loans and other external assets	9,160,504,668.88	8,808,761,818.58
3 Claims on euro area residents denominated in foreign currency	1,939,890,544.19	1,220,515,937.97
4 Claims on non-euro area residents denominated in euro	1,245,741,625.67	1,489,326,678.01
4.1 Balances with banks, security investments and loans	1,245,741,625.67	1,489,326,678.01
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	11,346,040,000.00	14,222,680,000.00
5.1 Main refinancing operations	1,510,000,000.00	3,465,000,000.00
5.2 Longer-term refinancing operations	9,836,040,000.00	10,657,680,000.00
5.3 Fine-tuning reverse operations	–	–
5.4 Structural reverse operations	–	–
5.5 Marginal lending facility	–	100,000,000.00
5.6 Credits related to margin calls	–	–
6 Other claims on euro area credit institutions denominated in euro	87,637.80	69,350.30
7 Securities of euro area residents denominated in euro	46,192,165,558.32	29,700,582,449.04
7.1 Securities held for monetary policy purposes	37,087,132,326.18	19,256,340,779.30
7.2 Other securities	9,105,033,232.14	10,444,241,669.74
8 General government debt denominated in euro	401,493,685.48	404,821,759.66
9 Intra-Eurosystem claims	30,317,848,467.51	29,594,344,377.51
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	28,958,598,270.00	28,235,094,180.00
9.5 Other claims within the Eurosystem (net)	–	–
10 Items in course of settlement	–	–
11 Other assets	9,018,108,322.36	9,956,941,576.94
11.1 Coins of euro area	93,357,387.19	122,650,338.21
11.2 Tangible and intangible fixed assets	141,058,691.31	144,577,830.63
11.3 Other financial assets	7,247,992,853.52	7,889,507,099.91
11.4 Off balance sheet instruments' revaluation differences	–	–
11.5 Accruals and prepaid expenses	567,109,902.12	472,620,419.83
11.6 Sundry	968,589,488.22	1,327,585,888.36
	122,555,823,491.56	106,987,151,594.03

¹ Only an ECB balance sheet item.

Liabilities

	December 31, 2016	December 31, 2015
	EUR	EUR
1 Banknotes in circulation	28,893,071,480.00	27,795,370,995.00
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	27,445,812,846.01	21,531,959,034.62
2.1 Current accounts (covering the minimum reserve system)	23,154,812,846.01	20,208,959,034.62
2.2 Deposit facility	4,291,000,000.00	1,323,000,000.00
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	11,500,089,412.20	6,602,240,905.93
5.1 General government	3,370,275,230.40	839,880,105.05
5.2 Other liabilities	8,129,814,181.80	5,762,360,800.88
6 Liabilities to non-euro area residents denominated in euro	998,927,977.92	736,565,464.04
7 Liabilities to euro area residents denominated in foreign currency	74,312.65	164,047.57
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	2,213,105,640.86	2,209,980,275.92
10 Intra-Eurosystem liabilities	31,138,074,757.88	29,146,892,384.38
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)	31,138,074,757.88	29,146,892,384.38
11 Items in course of settlement	–	288.96
12 Other liabilities	439,616,240.52	706,057,217.57
12.1 Off balance sheet instruments' revaluation differences	109,429,508.14	28,971,528.13
12.2 Accruals and income collected in advance	19,643,789.05	13,617,743.74
12.3 Sundry	310,542,943.33	663,467,945.70
13 Provisions	5,952,984,639.92	5,830,859,500.92
14 Revaluation accounts	9,661,973,913.68	8,124,950,685.27
15 Capital and reserves	4,294,016,348.43	4,245,667,590.72
15.1 Capital	12,000,000.00	12,000,000.00
15.2 Reserves	4,282,016,348.43	4,233,667,590.72
16 Profit for the year	18,075,921.49	56,443,203.13
	122,555,823,491.56	106,987,151,594.03

¹ Only an ECB balance sheet item.

Profit and loss account for the year 2016

	Year ending December 31, 2016 EUR	Year ending December 31, 2015 EUR
1.1 Interest income	1,227,636,175.45	939,900,056.78
1.2 Interest expense	-577,336,146.79	-306,354,021.51
1 Net interest income	650,300,028.66	633,546,035.27
2.1 Realized gains/losses arising from financial operations	108,852,078.89	287,835,623.28
2.2 Writedowns on financial assets and positions	-110,910,126.36	-68,916,992.40
2.3 Transfer to/from provisions for foreign exchange, interest rate, credit and gold price risks	-150,000,000.00	-350,000,000.00
2 Net result of financial operations, writedowns and risk provisions	-152,058,047.47	-131,081,369.12
3.1 Fees and commissions income	5,543,197.80	4,583,656.11
3.2 Fees and commissions expense	-4,440,627.29	-4,032,813.35
3 Net income from fees and commissions	1,102,570.51	550,842.76
4 Income from equity shares and participating interests	146,544,486.56	635,361,245.89
5 Net result of pooling of monetary income	17,241,888.10	-14,783,929.91
6 Other income	29,783,629.93	24,293,802.71
Total net income	692,914,556.29	1,147,886,627.60
7 Staff costs	-156,893,523.61	-141,925,769.03
8 Expenses for retirement	-142,066,310.06	-122,034,764.98
9 Administrative expenses	-83,863,170.38	-84,736,068.41
10 Depreciation of tangible and intangible fixed assets	-14,549,936.73	-16,333,841.86
11 Banknote production services	-15,116,586.96	-14,577,242.40
12 Other expenses	-12,633,599.10	-15,702,899.22
Total expenses	-425,123,126.84	-395,310,585.90
Operating profit	267,791,429.45	752,576,041.70
13 Corporate income tax	-66,947,857.36	-188,144,010.43
	200,843,572.09	564,432,031.27
14 Transfer to the pension reserve and central government's share of profit	-182,767,650.60	-507,988,828.14
15 Profit for the year	18,075,921.49	56,443,203.13

Notes on the financial statements 2016

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 (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.

Format of the balance sheet and the profit and loss account

The balance sheet and the profit and loss account, i.e. the financial statements, for 2016 were pre-

pared 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.

The first-time application of the Commercial Code as amended by the Financial Reporting Amendment Act (Rechnungslegungs-Änderungsgesetz 2014, RÄG 2014) is without prejudice to the accounting and valuation methods applied so far. The RÄG 2014 made it necessary to provide additional information in the notes on the financial statements about the proposed profit appropriation and post-balance sheet events.

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 (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

¹ The Nationalbank Act was last amended with effect from December 29, 2015.

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).

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 those classified as held-to-maturity⁴) and similar assets must be valued either at 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 valued separately. For 2016, mid-market prices as on December 30, 2016, were used.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are all valued at amortized 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.

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

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 Marketable securities classified as held-to-maturity are securities with fixed or determinable payments and a fixed maturity that the OeNB intends to hold to maturity.

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.

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

Realized gains and losses and revaluation differences and their treatment in the financial statements of December 31, 2016

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

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

Banknotes in circulation

Euro banknotes are issued by the ECB and the 19 euro area national central banks (NCBs) that together comprise the Eurosystem. The total

value of euro banknotes in circulation is allocated to the Eurosystem central banks on the last working day of each month in accordance with the banknote allocation key.

The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% have been allocated to the NCBs according to their weightings in the capital key of the ECB. The share of banknotes allocated to the OeNB is disclosed 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. These claims or liabilities, which incur interest, are disclosed under the subitems *Intra-Eurosystem claims/intra-Eurosystem liabilities: Net claims/liabilities 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 put in circulation by 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.

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	–	–	–	+1,123.652
Foreign currency				
Holdings for own account	37.228	–9.120	–0.198	+269.811
Securities				
Holdings for own account	91.621	–51.020	–58.139	+165.785
Investment of own funds	59.506	–19.365	–1.685	–15.309
Monetary policy operations	0.003	–	–	–
Participating interests (investment of own funds)	–	–	–50.888	+5.816
Total	188.358	–79.505	–110.910	+1,549.755

The adjustments will be reduced in annual stages until the first day of the sixth year after the cash changeover, when the income on banknotes (seigniorage) will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. In the reporting year, the adjustments resulted from the accession of Lithuania (2015), Latvia (2014) and Estonia (2011) to the euro area. The adjustment periods terminate at the end of 2020, 2019 and 2016, respectively.

The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed in the profit and loss account item 1 *Net interest income*.

Interim ECB profit distribution

According to a decision by the Governing Council of the ECB, the Eurosystem NCBs are entitled to a proportion of the ECB's income in the same financial year it accrues. This applies to the ECB's income related to its 8% share of euro banknotes in circulation (the ECB's seigniorage) as well as to the ECB's income arising from securities purchased 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). 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 will be distributed in full only if the amount is below 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 charge costs incurred by the ECB in connection with the issue and handling of euro banknotes against income earned on euro banknotes in circulation.

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*.

Intra-Eurosystem balances

Intra-Eurosystem balances result primarily from cross-border payments in the EU that are settled in central bank money in euro. They are primarily settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system – 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 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 disclosed 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*.

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

Table 3

	December 31, 2015 EUR million	Increase EUR million	Decrease EUR million	December 31, 2016 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	3,525.000	+150.000	–	3,675.000
	5,498.263	+150.000	–	5,648.263
II. Loss-absorbing capital				
L 15.2 Profit-smoothing reserve	74.980	+39.243	–	114.224
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)	31.500	+6.000	–	37.500
	1,606.480	+45.243	–	1,651.724
Total	7,104.743	+195.243	–	7,299.986

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

financial provisions. Taking into account the applicable prohibition of netting, balances on revaluation accounts are recognized as risk-mitigating factors in calculating risk exposure. On December 31, 2016, provisions for financial risks were high enough to offset the OeNB's exposure.

Table 3 shows the changes in provisions for financial risks and loss-absorbing capital from December 31, 2015, to December 31, 2016.

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 2016 was at market conditions.

In the financial year 2016, the OeNB provided funding to economic research institutions (Austrian Institute of Economic Research (WIFO), Institute for Advanced Studies (IHS), 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 6.751 million (2015: EUR 6.457 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 changes in the OeNB's net currency position from December 31, 2015, to December 31, 2016.

Net equity

The definition of net equity is in line with Eurosystem provisions established by the ECB (table 5).

Table 4

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Gold and gold receivables	9,884.733	8,761.081	+1,123.652	+12.8
Claims on non-euro area residents denominated in foreign currency	12,209.715	11,636.789	+572.927	+4.9
Claims on euro area residents denominated in foreign currency	1,939.891	1,220.516	+719.375	+58.9
Other assets	58.803	50.073	+8.731	+17.4
less:				
Liabilities to euro area residents denominated in foreign currency	0.074	0.164	-0.090	-54.7
Counterpart of Special Drawing Rights allocated by the IMF	2,213.106	2,209.980	+3.125	+0.1
Other liabilities	6.513	11.525	-5.012	-43.5
Revaluation accounts ¹	51.012	58.534	-7.522	-12.9
	21,822.436	19,388.254	+2,434.181	+12.6
Transactions not disclosed in the balance sheet (net)	-1,817.777	-5,063.998	+3,246.222	+64.1
Total	20,004.659	14,324.256	+5,680.403	+39.7

¹ Resulting from the change in net unrealized exchange rate gains on foreign currency-denominated securities and derivatives as on December 31, 2015, and December 31, 2016, respectively.

Table 5

	December 31, 2015	Increase	Decrease	December 31, 2016
	EUR million	EUR million	EUR million	EUR million
L 13 Risk provisions (equivalent to reserves)	3,525.000	+150.000	-	3,675.000
L 14 Revaluation accounts ¹	8,124.951	+1,537.023	-	9,661.974
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	74.980	+39.243	-	114.224
OeNB Anniversary Fund for the Promotion of Scientific Research and Teaching				
OeNB Anniversary Fund (initial funding)	31.500	+6.000	-	37.500
OeNB Anniversary Fund National Foundation endowment	1,500.000	-	-	1,500.000
Net equity	15,241.694	+1,732.266	-	16,973.960

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

Note: L = liability item.

Notes on the balance sheet

Assets

1 Gold and gold receivables

Closing balance	EUR million
December 31, 2016	9,884.733
December 31, 2015	8,761.081
Change	+1,123.652 (+12.8%)

The OeNB's gold holdings amounted to 9,002,111.563 fine ounces or 279,996.97 kg of fine gold on December 31, 2016. At a market value of EUR 1,098.046 per fine ounce (i.e. EUR 35,303.00 per kg of fine gold), the OeNB's gold holdings were worth EUR 9,884.733 million on the balance sheet date.

The annual change reflects valuation as on December 31, 2016.

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

Closing balance	EUR million	
December 31, 2016	12,209.715	
December 31, 2015	11,636.789	
Change	+572.927	(+4.9%)

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

The financial year 2016 saw the implementation of the 14th General Review of Quotas of the IMF in line with Federal Law Gazette I No. 93/2012. It resulted in an increase in total claims by SDR 1,818 million from SDR 2,113.9 million to SDR 3,932.0 million and an increase in the balances at the disposal of the IMF by SDR 1,364 million. As a consequence, receivables from the IMF increased by SDR 454.525 million (EUR 571.625 million). Balances at the disposal of the IMF increased by EUR 317.104 million in 2016 on account of net credit and debit entries. Moreover, valuation changes, net exchange rate gains and book value reconciliation totaled +EUR 2.830 million. In sum, receivables from the IMF increased by EUR 257.350 million to EUR 574.051 million.

The IMF remunerates participations in the Fund at a rate of remuneration that is updated weekly. In 2016, this rate hovered between 0.050% and 0.273% per annum, mirroring the prevailing SDR rate.

*SDR holdings*⁵ were recognized in the balance sheet at SDR 1,623.9 million at December 31, 2016. The net increase of holdings in 2016 by EUR 2.395 million resulted from the remuneration of the participation in the IMF, interest credited, realized gains/losses and revaluation differences less sales in the amount of EUR 0.808 million.

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 net cumulative allocation of SDRs, which in the OeNB's case 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.

Effective October 1, 2016, the IMF added the Chinese renminbi (RMB) to the basket of currencies that make up the SDR.

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.

Table 6

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Total claims (Austrian quota) ¹	5,011.727	2,690.572	+2,321.155	+86.3
less:				
Balances at the disposal of the IMF	4,437.676	2,373.871	+2,063.805	+86.9
Receivables from the IMF	574.051	316.701	+257.350	+81.3
SDR holdings	2,069.818	2,067.423	+2.395	+0.1
Other claims on the IMF	405.342	443.903	-38.561	-8.7
Total	3,049.210	2,828.027	+221.184	+7.8

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.

⁵ 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 but 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 7

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	374.362	883.063	-508.701	-57.6
Securities	8,786.142	7,925.699	+860.443	+10.9
Total	9,160.505	8,808.762	+351.743	+4.0

Table 8

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Balances with banks	631.278	184.063	+447.215	n.a.
Securities	1,308.613	1,036.453	+272.160	+26.3
Total	1,939.891	1,220.516	+719.375	+58.9

In 2016, the IMF approved a renewal of the NAB for five years until 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 319.4 million, bringing net drawings to SDR 318.0 million, which is equivalent to EUR 405.3 million. As on December 31, 2016, 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 as on December 31, 2016, was included, 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*).

On February 4, 2015, the IMF decided to establish a Catastrophe Containment and Relief Trust (CCR Trust). The OeNB agreed to provide Austria's contribution of EUR 2.7 million and made the necessary provision for this contribution in its financial statements for 2015.

In its opinion on the relevant draft law, the ECB concluded in 2016 that Austria's contribution to the IMF's CCR Trust was a form of monetary financing prohibited by Article 123(1) of the Treaty on the Functioning of the European Union and therefore had to be rejected. As a result, the OeNB did not provide a contribution to the CCR Trust and the provision was reversed (see also liability item 13 *Provisions*).

Table 7 shows the changes in 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 the changes in *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 3,084 million was made available in 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. As on December 31, 2016, the amount outstanding was USD 665 million (compared with USD 200 million as on December 31, 2015).

Table 9

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Securities	658.147	750.762	-92.615	-12.3
Marketable securities classified as held-to-maturity	587.594	738.565	-150.970	-20.4
Total	1,245.742	1,489.327	-243.585	-16.4

Table 10

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
5.1 Main refinancing operations	1,510.000	3,465.000	-1,955.000	-56.4
5.2 Longer-term refinancing operations	9,836.040	10,657.680	-821.640	-7.7
5.5 Marginal lending facility	–	100.000	-100.000	-100.0
Total	11,346.040	14,222.680	-2,876.640	-20.2

4 Claims on non-euro area residents denominated in euro

Table 9 shows the changes in asset item 4.1 *Claims on non-euro area residents denominated in euro* on December 31, 2015, and December 31, 2016.

As in 2015, on the balance sheet date, there was no requirement to impair the portfolio of securities classified as held-to-maturity. 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 changes in 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 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, should eventually 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 normally have a maturity of one week and are carried out on the basis of standard tenders; since October 2008, they have been carried out as fixed rate tender procedures with full allotment. Main refinancing operations play a key role in achieving the aims of steering interest rates, managing market liquidity and signaling the monetary policy stance.

With effect from March 16, 2016, the interest rate on the main refinancing operations was cut by 0.05 percentage points to 0.00% per annum.

5.2 Longer-term refinancing operations

Longer-term refinancing operations are aimed at providing counterparties with longer-term liquidity, in addition to the main refinancing operations. In 2016, these operations were conducted as fixed rate tender procedures with full allotment with maturities between 3 and 48 months.

In 2014, it was decided for the first time to conduct two targeted longer-term refinancing

operations (TLTROs) with a special term of around four years each and with the option of early full or partial repayment after two years.⁶ In this context, the OeNB conducted TLTROs in the total amount of EUR 7.6 billion with Austrian credit institutions (Eurosystème: EUR 212.4 billion). In 2015, the Eurosystem conducted four further TLTROs with a special term of around three years and with the option of early full or partial repayment after two years. In this context, the OeNB conducted TLTROs in the total amount of EUR 1.9 billion with Austrian credit institutions (Eurosystème: EUR 205.5 billion).

The interest rate on TLTROs (except operations under TLTRO-II, see below) is equivalent to the interest rate on the main refinancing operations.

In March 2016, the Governing Council of the ECB introduced a new series of four targeted longer-term refinancing operations (TLTRO-II) with a special maturity of around four years each and with the option of early repayment after two years.⁷ The interest rate applied to operations under TLTRO-II depends on the counterparty's net lending volume between the date of allotment and January 2018. The actual interest rate will be set in 2018; it will be within the range between the interest rate on the main refinancing operations and the interest rate on the deposit facility prevailing at the time of the allotment of each operation. As the actual interest rate will be established only in 2018 and no reliable estimate of the actual interest rate can be provided at the present time, the interest rate on the deposit facility was applied for calculating the interest on operations under TLTRO-II in 2016, in line with the principle of prudence.

In 2016, the Eurosystem conducted three of the four operations announced under TLTRO-II. The OeNB conducted operations with Austrian credit institutions in the total amount of

EUR 7.9 billion (Eurosystème: 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).

The longer-term refinancing operations conducted by the OeNB under the TLTRO had been paid back in full before the OeNB started to provide funding under TLTRO II. All longer-term refinancing operations were conducted as fixed rate tender procedures with full allotment.

5.5 Marginal lending facility

The marginal lending facility can be used by counterparties to obtain overnight liquidity from their NCB against eligible assets at a fixed interest rate.

In 2016, Austrian credit institutions obtained a total of EUR 270 million of overnight liquidity. With effect from March 16, 2016, the interest rate on the marginal lending facility was cut by 0.05 percentage points to 0.25% per annum.

6 Other claims on euro area credit institutions denominated in euro

Closing balance	EUR million	
December 31, 2016	0.088	
December 31, 2015	0.069	
Change	+0.018	(+26.4%)

This item comprises claims not related to monetary policy operations.

7 Securities of euro area residents denominated in euro

Table 11 shows the changes in *Securities of euro area residents denominated in euro* from December 31, 2015, to December 31, 2016.

⁶ Decision of the ECB of 29 July 2014 on measures relating to targeted longer-term refinancing operations (ECB/2014/34), as amended on February 10, 2015 (ECB/2015/5).

⁷ 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 11

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
7.1 Securities held for monetary policy purposes	37,087.132	19,256.341	+17,830.792	+92.6
7.2 Other securities	9,105.033	10,444.242	-1,339.208	-12.8
of which:				
Marketable securities other than held-to-maturity	7,346.691	7,709.170	-362.479	-4.7
Marketable securities classified as held-to-maturity	1,758.342	2,735.071	-976.729	-35.7
Total	46,192.166	29,700.582	+16,491.583	+55.5

7.1 Securities held for monetary policy purposes

This item contains securities acquired by the OeNB under the CBPP1, CBPP2, CBPP3⁸, SMP⁹ and PSPP¹⁰. These securities are accounted for at amortized cost subject to impairment.

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

Under the CBPP1, the ECB and the NCBs purchased euro-denominated covered bonds issued in the euro area. The purchases under this program were fully implemented by the end of June 2010. The CBPP1 provided for purchases by the Eurosystem of securities with a nominal

value of EUR 60 billion, the OeNB's share of which was around EUR 1.5 billion.

Under the 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, as well as encouraging credit institutions to maintain and expand lending to customers. The program ended as scheduled on October 31, 2012. The CBPP2 ultimately led to securities 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 CBPP3, 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 area since 2014

Table 12

	December 31, 2016			December 31, 2015			Change					
	Nominal value	Book value	Market value	Nominal value	Book value	Market value	Nominal value		Book value		Market value	
	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	EUR million	%	EUR million	%	EUR million	%
CBPP1	80.562	80.666	81.349	389.580	390.600	399.289	-309.018	-79.3	-309.934	-79.3	-317.941	-79.6
CBPP2	382.900	383.000	416.593	461.940	462.901	499.887	-79.040	-17.1	-79.900	-17.3	-83.293	-16.7
CBPP3	4,190.917	4,314.484	4,388.222	3,316.414	3,457.761	3,440.665	+874.503	+26.4	+856.724	+24.8	+947.557	+27.5
SMP	2,950.967	2,890.478	3,220.359	3,635.967	3,542.897	3,973.566	-685.000	-18.8	-652.419	-18.4	-753.207	-19.0
PSPP ¹	24,711.343	29,418.504	29,784.250	9,869.835	11,402.183	11,377.125	+14,841.508	+150.4	+18,016.321	+158.0	+18,407.125	+161.8
Total	32,316.689	37,087.132	37,890.774	17,673.736	19,256.341	19,690.533	+14,642.953	+82.9	+17,830.792	+92.6	+18,200.241	+92.4

¹ Government/agency bonds.

⁸ 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 January 11, 2017 (ECB/2017/2).

⁹ Decision of the ECB of 14 May 2010 establishing a Securities Markets Programme (ECB/2010/5).

¹⁰ 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).

with the objective of easing funding conditions for credit institutions.

Under the SMP, which was established in May 2010, 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. The SMP was discontinued in September 2012.¹¹

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. 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)¹² was added to the expanded asset purchase programme (APP), which already comprised the CBPP3, the ABSPP¹³ 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. Starting from March 2015, the Eurosystem made monthly purchases of securities worth, on average, some EUR 60 billion under the APP. From April 2016 to March 2017, the volume of monthly purchases was increased to an average of EUR 80 billion. In December 2016, the Governing Council of the ECB decided to continue the purchases under the APP at a monthly pace of EUR 60 billion from March 2017 until December 2017, or beyond, if necessary, and in any case until the

Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.¹⁴ If in the meantime the outlook becomes less favorable, or if financial conditions become inconsistent with further progress toward a sustained adjustment of the path of inflation, the Governing Council intends to increase the program in terms of size and/or duration. The net purchases are made in addition to reinvestments of principal payments from maturing securities purchased under the APP.

In accordance with Article 32.4 of the Statute of the ESCB and of the ECB, any losses from holdings of CBPP3 and SMP securities or of PSPP supranational bonds are to be shared in full by the Eurosystem NCBs, in proportion to the ECB capital key shares prevailing in the business year in which the relevant losses occur.

The Governing Council of the ECB regularly assesses 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 the impairment test conducted as at December 31, 2016, on securities purchased under the CBPP1, CBPP2, CBPP3, SMP and PSPP, the Governing Council of the ECB expects all future cash flows on these securities to be received.¹⁵ As in the previous year, the impairment test did not result in any requirement to impair.

7.2 Other securities

The change in *other securities* resulted chiefly from transactions. On December 31, 2016, there was no requirement to impair the portfolio of securities classified as held-to-maturity. Securities other than held-to-maturity are recognized at market value.

¹¹ Decision of the Governing Council of the ECB of September 6, 2012.

¹² Decision of the ECB of 1 June 2016 on the implementation of the corporate sector purchase programme (ECB/2016/16).

¹³ Decision of the ECB of 19 November 2014 on the implementation of the asset-backed securities purchase programme (ECB/2014/45), as amended on January 11, 2017 (ECB/2017/3).

¹⁴ Decision of the Governing Council of the ECB of December 8, 2016.

¹⁵ Decision of the Governing Council of the ECB of January 16, 2017.

8 General government debt denominated in euro

Closing balance	EUR million	
December 31, 2016	401.494	
December 31, 2015	404.822	
Change	-3.328	(-0.8%)

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 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 13 shows the changes in 2016.

Table 13

	EUR million
Government remuneration for silver commemorative coins returned to Münze Österreich AG	+4.537
Proceeds from metal recovery	-2.051
Redemptions made from the central government's profit share in 2015	-5.814
Total	-3.328

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 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, 2016	30,317.848	
December 31, 2015	29,594.344	
Change	+723.504	(+2.4%)

Table 14 shows the changes in *intra-Eurosystem claims* on December 31, 2015, and December 31, 2016.

9.1 Participating interest in the ECB

According to Article 28 of the Statute of the ESCB and of the ECB, the NCBs of the ESCB shall be 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 entered into force on January 1, 2015.

As a result, the OeNB's share in the ECB's paid up capital (capital key) remained unchanged at 2.7888%.

9.2 Claims equivalent to the transfer of foreign reserves

This subitem represents the OeNB's claims arising from the transfer of foreign reserve assets¹⁶ to the ECB. The claims are presented at the euro value the corresponding assets had at the time they were transferred to the ECB. They are remunerated at the latest available interest rate on the main refinancing operations, adjusted to

Table 14

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	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	28,958.598	28,235.094	+723.504	+2.6
Total	30,317.848	29,594.344	+723.504	+2.4

¹⁶ According to Article 30 of the Statute of the ESCB and of the ECB.

Table 15

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
11.1 Coins of euro area	93.357	122.650	-29.293	-23.9
11.2 Tangible and intangible fixed assets	141.059	144.578	-3.519	-2.4
11.3 Other financial assets	7,247.993	7,889.507	-641.514	-8.1
11.5 Accruals and prepaid expenses	567.110	472.620	+94.489	+20.0
11.6 Sundry	968.589	1,327.586	-358.996	-27.0
Total	9,018.108	9,956.942	-938.833	-9.4

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 item reflects the OeNB's claims vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see also *Banknotes in circulation, interim ECB profit distribution and intra-Eurosystem balances*).

Table 16

	Purchase and production costs as at January 1, 2016	Purchases	Sales	Transfer	Purchase and production costs as at December 31, 2016
	Accumulated depreciation as at January 1, 2016	Annual depreciation	Depreciation sales	Depreciation transfer	Accumulated depreciation as at December 31, 2016
	Book value as at January 1, 2016				Book value as at December 31, 2016
	EUR million	EUR million	EUR million	EUR million	EUR million
Premises	122.712 ¹	0.277	-0.261	-	122.728
	-65.285	-5.087	0.145	-	-70.227
	57.428				52.502
Assets under construction	2.104	3.064	-	-0.509	4.659
	-	-	-	-	-
	2.104				4.659
Equipment	97.589	4.900	-3.265 ²	0.509	99.733
	-59.629	-9.445	3.070	-	-66.004
	37.960				33.730
Tangible real assets	50.086	3.101	-	-	53.187
	-3.037	-	-	-	-3.037
	47.050				50.150
Intangible fixed assets	0.090	-	-	-	0.090
	-0.054	-0.018	-	-	-0.072
	0.036				0.018
Total	272.582	11.342	-3.526	-	280.397
	-128.004	-14.550	3.215	-	-139.339
	144.578				141.059

¹ 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).

² The disposal of assets at book value (i.e. the underlying historical purchase and production costs less accumulated depreciation) amounts to EUR 0.195 million.

Table 17

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Securities	6,599.610	7,196.275	-596.665	-8.3
Participating interests	647.852	692.715	-44.863	-6.5
Other investment	0.530	0.517	+0.013	+2.6
Total	7,247.993	7,889.507	-641.514	-8.1

11 Other assets

Table 15 shows the changes in *other assets*.

11.1 Coins of euro area

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

11.2 Tangible and intangible fixed assets

Tangible and intangible fixed assets comprise *premises, assets under construction, equipment* (including computers, related hardware and software, and motor vehicles), *tangible real assets and rights of use and exploitation* (table 16).

The acquisition and integration of a new treasury system accounted for the entire amount of purchases under *assets under construction*.

Tangible real assets comprise the coins of the OeNB's Money Museum and the OeNB's collection of historical string instruments. Two violins were added to the collection of historical string instruments, which as at December 31, 2016, comprised 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 17 shows the changes in *other financial assets*.

EUR 1,633.818 million of the OeNB's total securities portfolio represent investments of pension reserve assets, another EUR 1,544.393 million reflect investments of the *OeNB Anniversary Fund for the Promotion of Scientific Research*

and *Teaching* (of which EUR 1,503.322 million were earmarked as an endowment for the National Foundation). Under its own funds¹⁷ management, the OeNB had invested EUR 3,421.792 million. Revaluations of the own funds portfolios resulted in unrealized price gains of EUR 33.632 million and unrealized price losses totaling EUR 1.685 million.

Of the *participating interests*, EUR 348.358 million formed part of the own funds portfolio and EUR 299.494 million part of the investment portfolio relating to investments of the pension reserve assets. Table 18 shows the changes in *participating interests*.

Table 18

	EUR million
Net asset value on December 31, 2015	692.715
Purchases in 2016	-
Sales in 2016 (at book value)	-
Annual depreciation in 2016	-50.888
Revaluation in 2016	+6.025
Net asset value on December 31, 2016	647.852

A large part of the annual depreciation is the result of the reduction in Münze Österreich AG's net asset value due to a distribution of profits.

Other investments mainly consist of investment income tax repayment claims.

11.5 Accruals and prepaid expenses

Table 19 shows the changes in *accruals and prepaid expenses*.

11.6 Sundry

Table 20 shows the changes in *sundry assets*.

¹⁷ 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

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Accrued income	14.547	13.691	+0.856	+6.3
Prepaid expenses	552.563	458.930	+93.633	+20.4
Total	567.110	472.620	+94.489	+20.0

Table 20

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Claims arising from ERP loans to companies	702.800	668.292	+34.508	+5.2
Schilling coins	5.530	5.337	+0.192	+3.6
Advances on salaries	9.734	8.873	+0.861	+9.7
Employer loans	24.812	–	+24.812	x
Advances	7.859	8.840	–0.981	–11.1
Claims on the tax authorities arising from corporate income tax prepayment in 2016	21.649	–	+21.649	x
Accounts receivable	13.170	4.596	+8.573	+186.5
Claims on Münze Österreich AG in respect of the simultaneous capitalization of the dividend claim in 2016 and 2015	65.726	564.070	–498.344	–88.3
unsettled schilling coin returns	0.062	0.054	+0.008	+14.8
Claims on Betriebs-Liegenschafts-Management GmbH in respect of the simultaneous distribution of profit in 2015	–	40.000	–40.000	–100.0
Claims arising from loan acquisitions	–	25.900	–25.900	–100.0
Balancing item relating to forward sales or purchases	116.066	–	+116.066	x
Other accounts receivable	1.183	1.624	–0.441	–27.1
Total	968.589	1,327.586	–358.996	–27.0

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 657.030 million on December 31, 2016). The ERP loan portfolio managed by the OeNB thus totaled EUR 998.985 million on December 31, 2016. 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.

Other claims on December 31, 2016, mainly comprised claims arising from day-to-day business.

Liabilities

1 Banknotes in circulation

	EUR million	
Closing balance		
December 31, 2016	28,893.071	
December 31, 2015	27,795.371	
Change	+1,097.700	(+3.9%)

This item reflects the value of euro banknotes in circulation allocated to the OeNB (table 21).

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

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

Table 22 shows the changes in this balance sheet item.

Table 21

	December 31, 2016	December 31, 2015	Change
	EUR million	EUR million	EUR million
Euro banknotes actually put into circulation and taken out of circulation by the OeNB (unadjusted)	-65.527	-439.723	+374.196
Adjusted for: net claims related to the allocation of euro banknotes within the Eurosystem	28,958.598	28,235.094	+723.504
of which:			
Claims related to the allocation of euro banknotes within the Eurosystem	31,471.259	30,652.295	+818.965
less:			
Liabilities resulting from the ECB's 8% share in euro banknotes in circulation ¹	2,512.661	2,417.200	+95.461
Euro banknotes in circulation²	28,893.071	27,795.371	+1,097.700

¹ The amount corresponds to the OeNB's share of the 8% of the total value of euro banknotes in circulation within the euro area 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 within the Eurosystem as at December 31, 2016, and December 31, 2015.

Table 22

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
2.1 Current accounts (covering the minimum reserve system)	23,154.813	20,208.959	+2,945.854	+14.6
2.2 Deposit facility	4,291.000	1,323.000	+2,968.000	n.a.
Total	27,445.813	21,531.959	+5,913.854	+27.5

2.1 Current accounts (covering the minimum reserve system)

This item comprises the credit balances on the transaction accounts of credit institutions that are required to hold minimum reserves with the OeNB. Since January 1, 1999, these reserves have been remunerated at the latest available interest rate on the Eurosystem's main refinancing operations. Since June 2014, the reserves held in excess of minimum requirements have been remunerated at the lower rate of either 0% or the interest rate on the deposit facility.

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. In 2016, the interest rate on the deposit facility was cut from -0.30% per annum to -0.40% per annum, with effect from March 16, 2016.

5 Liabilities to other euro area residents denominated in euro

Closing balance	EUR million
December 31, 2016	11,500.089
December 31, 2015	6,602.241
Change	+4,897.849 (+74.2%)

This item comprises general government deposits of EUR 3,370.275 million (+EUR 2,530.395 million) and current account holdings to the amount of EUR 8,129.814 million (+EUR 2,367.453 million) of credit institutions not required to hold minimum reserves with the OeNB and of enterprises.

6 Liabilities to non-euro area residents denominated in euro

Closing balance	EUR million
December 31, 2016	998.928
December 31, 2015	736.565
Change	+262.363 (+35.6%)

This item consists of balances of central banks, credit institutions and supranational financial institutions headquartered outside the euro area.

9 Counterpart of Special Drawing Rights allocated by the IMF

Closing balance	EUR million	
December 31, 2016	2,213.106	
December 31, 2015	2,209.980	
Change	+3.125	(+0.1%)

This item represents the euro equivalent of the SDR 1,736 million allocated gratuitously to the OeNB by the IMF, measured at current market values. The OeNB was allocated SDRs on January 1 from 1970 to 1972, from 1979 to 1981 and on August 28 and September 9, 2009. The increase in this item resulted mainly from realized exchange rate losses and book value reconciliation.

10 Intra-Eurosystem liabilities

Closing balance	EUR million	
December 31, 2016	31,138.075	
December 31, 2015	29,146.892	
Change	+1,991.182	(+6.8%)

This 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 net claims arising at year-end from the difference between monetary income to be pooled and distributed, 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 prevailing interest rate on the Eurosystem's main refinancing operations.

12 Other liabilities

Table 23 shows the changes in *other liabilities*.

12.3 Sundry

Table 24 shows the changes in *sundry liabilities*.

Pursuant to Article 69 paragraph 3 Nationalbank Act, the *central government's share of profit*

Table 23

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
12.1 Off-balance-sheet instruments' revaluation differences	109.430	28.972	+80.458	n.a.
12.2 Accruals and income collected in advance ¹	19.644	13.618	+6.026	+44.3
12.3 Sundry	310.543	663.468	-352.925	-53.2
Total	439.616	706.057	-266.441	-37.7

¹ Accrued expenses.

Table 24

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Central government's share of profit	162.683	507.989	-345.306	-68.0
Liability from schilling banknotes in circulation with an exchange deadline	109.720	111.200	-1.480	-1.3
Earmarked funds of the OeNB Anniversary Fund				
OeNB Anniversary Fund (initial funding)	30.990	29.801	+1.189	+4.0
OeNB Anniversary Fund National Foundation endowment	1.907	7.584	-5.677	-74.9
Sundry	5.243	6.894	-1.651	-24.0
Total	310.543	663.468	-352.925	-53.2

corresponds to 90% of the profit for the year after tax and after transfers to the pension reserve.

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, 2016. Like 2015, 2016 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 2015 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 40.224 million. Of these funds, EUR 9.235 million were paid out in 2016; the remaining amount of EUR 30.990 million are funds that had not been disbursed by December 31, 2016; of this amount, EUR 17.434

million had been committed. In 2016, the OeNB's General Council endorsed 100 new projects which will receive funding amounting to EUR 10.344 million. Since 1966, when funds were first pledged as financial assistance, a total of EUR 780.608 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 2016, funding in the amount of EUR 1 million went into a special research focus on migration, labor market and economic growth.

The amount appropriated each year for the National Foundation comes to EUR 1.9 million (in investment income) in 2016, which the OeNB transfers the day after the OeNB's General Meeting.

Table 25

	December 31, 2015	Transfer from	Transfer to	December 31, 2016
	EUR million	EUR million	EUR million	EUR million
Risk provisions	3,525.000	–	+150.000	3,675.000
Pension reserve	1,909.104	–	+37.003	1,946.106
Personnel provisions				
Severance payments	52.826	–4.549	+14.406	62.682
Anniversary bonuses	13.574	–1.196	+2.518	14.895
Residual leave entitlements	13.787	–0.190	+0.189	13.785
Supplementary contributions to pension plans	23.867	–0.150	+21.016	44.734
Pension fund contributions	1.507	–0.272	+0.063	1.298
Death gratuity payments	0.878	–	+0.361	1.239
Overtime entitlements	–	–	+0.788	0.788
Prepaid salaries in 2015 and 2016	0.433	–0.433	+0.455	0.455
Compulsory social security contributions	0.135	–0.135	+0.126	0.126
Sabbaticals	0.074	–	+0.007	0.081
Provision for pending employment lawsuits	0.484	–0.027	+0.115	0.572
Other provisions				
Schilling banknotes without an exchange deadline	141.455	–2.532	–	138.923
Estimated unredeemable amount outstanding from the Austrian Federal Treasury for silver commemorative coins issued before 1989	31.095	–	+3.008	34.103
Accounts payable	1.857	–1.245	+2.776	3.388
Accounts payable to subsidiaries	1.009	–1.009	+2.630	2.630
Corporate income tax	99.547	–99.547	–	–
Provisions for pending lawsuits	8.981	–	+0.688	9.669
Provisions for the IMF's Catastrophe Containment and Relief Trust (CCR Trust)	2.700	–2.700	–	–
Sundry	2.546	–2.372	+2.336	2.509
Total	5,830.860	–116.359	+238.484	5,952.985

13 Provisions

Table 25 shows the changes in *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 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 2016, EUR 150 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: 7% in 2016; second generation: 10.25% of basic salaries up to the earnings cap as defined in the General Social Security Act, and in 2016, 4% 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 2,301.136 million on December 31, 2016; it was covered by the pension reserve and hidden reserves in the real estate portfolio in the amount of EUR 2,255.051 million. The EUR 46.085 million funding gap as at December 31, 2016, was recorded as a contingent liability in the *Notes on transactions not disclosed in the balance sheet* (table 28).

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, 2016, i.e. 3.28% (2015: 3.94%). In the calculation, it was assumed that the relevant assessment bases in the quali-

fyng period increase by 1.5% per annum and that current pension payments increase by 1.3% per annum (for 2015, a general increase by 1.31% was assumed).

Moreover, like in 2015, the most recent mortality tables were used to calculate the actuarial present value of the reserve.¹⁸ 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 had an impact of +EUR 195.715 million on the amount of reserve assets required to meet future pension obligations. This amount increased by another EUR 52.860 million in total because of the recognition of previous service credit that has been implemented in line with a ruling of the European Court of Justice and changes in the accumulation method in line with an opinion by the Austrian Financial Reporting and Auditing Committee (AFRAC).

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 anniversary bonuses* is the seven-year moving average of the yield on a zero coupon euro interest rate swap curve with an average residual maturity of eight years as published by the Deutsche Bundesbank on November 30, 2016, i.e. 2.64% (2015, with a residual maturity of 15 years: 3.94%).

The relevant assessment bases were assumed to increase by 1.5% per annum for both 2015 and 2016.

The change in the discount rate had an impact of +EUR 4.345 million on the *provisions for severance payments* and an impact of +EUR 0.970 million on *provisions for anniversary bonuses*. In addition, the *provisions for severance payments* increased by a total of EUR 3.418 million because of the recognition of previous service credit that has been implemented 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 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 resulted in a EUR 5.228 million increase in the *provisions for supplementary contributions to pension plans*. In addition, these provisions increased by another EUR +9.092 million in total because of the recognition of previous service credit that has been implemented 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 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 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 bank-

¹⁸ AVÖ 2008P – Rechnungsgrundlagen für die Pensionsversicherung – Pagler & Pagler (actuarial basis for pension insurance published by the Austrian actuaries association AVÖ).

note exchanges as adjusted for past annual exchange amounts. The provisions were drawn down in 2016 for exchanges of schilling banknotes.

14 Revaluation accounts

The amounts on the *revaluation accounts* (table 26) reflect the valuation gains established in the course of the valuation of assets (on a currency-by-currency and security-by-security basis) as on December 31, 2016. 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.

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 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 27 shows the changes in *reserves*.

The change in the *profit-smoothing reserve* resulted from allocations out of the profit for the year 2015, which were made according to the General Meeting's decision of April 28, 2016.

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.

Table 26

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Revaluation accounts				
Gold	7,666.902	6,543.250	+1,123.652	+17.2
Foreign currency	931.545	661.734	+269.811	+40.8
Securities	734.091	596.556	+137.535	+23.1
Participating interests	57.403	51.378	+6.025	+11.7
Coins of the OeNB's Money Museum	9.269	9.269	–	–
Revaluation accounts total	9,399.210	7,862.187	+1,537.023	+19.5
Unrealized valuation gains from January 1, 1999				
Participating interests	262.764	262.764	–	–
Total	9,661.974	8,124.951	+1,537.023	+18.9

Table 27

	December 31, 2016	December 31, 2015	Change	
	EUR million	EUR million	EUR million	%
Profit-smoothing reserve	114.224	74.980	+39.243	+52.3
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	1,531.500	+6.000	+0.4
Earmarked capital funded with net interest income from ERP loans	657.030	653.924	+3.106	+0.5
Total	4,282.016	4,233.668	+48.349	+1.1

Table 28

	December 31, 2016	December 31, 2015
	EUR million	EUR million
Obligation under the IMF's Articles of Agreement to expand SDR holdings to up to three times the amount of SDRs received gratuitously ¹	4,569.499	4,562.518
Contingent liabilities to the IMF under the New Arrangements to Borrow (NAB) ¹	1,912.506	4,111.754
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)	40.934	40.876
Forward purchases (euro- and foreign currency-denominated forward transactions and swaps)	1,824.413	5,035.027
Forward sales (euro- and foreign currency-denominated forward transactions and swaps) ²	1,824.413	5,063.998
Book value reconciliation and realized gains/losses on forward sales and purchases	–	28.972
Liabilities from foreign currency investments effected in the OeNB's name for third account	49.033	39.029
Repayment obligation equivalent to the interest accrued on pension contributions paid by OeNB staff terminating employment	14.321	13.502
Contingent liabilities relating to the funding gap in the pension reserve	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	8.276	7.191
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	9.844	9.975

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

² In 2015, this item included forward sales denominated in U.S. dollar, pound sterling and Japanese yen to hedge the SDR currency risk. These transactions were reversed in 2016.

Table 29

	2016	2015	Change ¹	%
	EUR million	EUR million	EUR million	
1 Net interest income	650.300	633.546	+16.754	+2.6
2 Net result of financial operations, writedowns and risk provisions	–152.058	–131.081	+20.977	+16.0
3 Net income from fees and commissions	1.103	0.551	+0.552	+100.2
4 Income from equity shares and participating interests	146.544	635.361	–488.817	–76.9
5 Net result of pooling of monetary income	17.242	–14.784	+32.026	n.a.
6 Other income	29.784	24.294	+5.490	+22.6
Total net income	692.915	1,147.887	–454.972	–39.6
7 Staff costs	–156.894	–141.926	+14.968	+10.5
8 Expenses for retirement	–142.066	–122.035	+20.032	+16.4
9 Administrative expenses	–83.863	–84.736	–0.873	–1.0
10 Depreciation of tangible and intangible fixed assets	–14.550	–16.334	–1.784	–10.9
11 Banknote production services	–15.117	–14.577	+0.539	+3.7
12 Other expenses	–12.634	–15.703	–3.069	–19.5
Total expenses	–425.123	–395.311	+29.813	+7.5
Operating profit	267.791	752.576	–484.785	–64.4
13 Corporate income tax	–66.948	–188.144	–121.196	–64.4
	200.844	564.432	–363.588	–64.4
14 Transfer to the pension reserve and central government's share of profit	–182.768	–507.989	–325.221	–64.0
15 Profit for the year	18.076	56.443	–38.367	–68.0

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

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 28 shows the changes in *transactions not disclosed in the balance sheet*.

Notes on the profit and loss account

Table 29 shows the changes in the *profit and loss account*.

1 Net interest income

Net interest income represents the balance of interest income and interest expense (table 30).

2 Net result of financial operations, writedowns and risk provisions

Table 31 shows *realized gains/losses arising from financial operations*.

Table 32 shows *writedowns on financial assets and positions*.

The *net result of financial operations, writedowns and risk provisions* reflects *transfers to risk provisions* of EUR 150 million in 2016 (2015: EUR 350 million).

Table 30

	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Net interest income from foreign currency investments	149.565	140.789	+8.776	+6.2
Net interest income from euro investments	129.563	189.618	-60.055	-31.7
Monetary policy operations	359.382	302.251	+57.131	+18.9
Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem	3.051	14.616	-11.565	-79.1
Transfer of foreign reserve assets to the ECB	0.101	0.490	-0.389	-79.5
TARGET2 transactions	-3.512	-17.869	-14.357	-80.3
Sundry	12.151	3.651	+8.500	n.a.
Total	650.300	633.546	+16.754	+2.6

Table 31

	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Realized gains/losses arising from exchange/interest rate changes of				
currencies (gold and foreign currencies)	28.107	234.611	-206.503	-88.0
securities	80.745	53.225	+27.520	+51.7
Total	108.852	287.836	-178.984	-62.2

Table 32

	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Writedowns on				
securities	-59.824	-30.002	+29.822	+99.4
foreign currencies	-0.198	-38.915	-38.717	-99.5
participating interests	-50.888	-	+50.888	x
Total	-110.910	-68.917	+41.993	+60.9

Table 33

	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Dividends				
BIS	2.320	2.422	-0.102	-4.2
Münze Österreich AG	109.357	564.070	-454.713	-80.6
Profit distributions by				
BLM Betriebs-Liegenschafts-Management GmbH	-	40.000	-40.000	-100.0
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.	0.100	0.197	-0.097	-49.3
Oesterreichische Banknoten- und Sicherheitsdruck GmbH (OeBS)	0.300	1.868	-1.568	-83.9
Interim ECB profit distribution	26.947	22.649	+4.298	+19.0
Distribution of ECB profit for the previous year	7.520	4.155	+3.365	+81.0
Total	146.544	635.361	-488.817	-76.9

Table 34

	2016	2015
	EUR million	EUR million
Monetary income	197.526	268.490
Deductible items (in particular interest on the liability base)	61.534 ¹	-3.460
Net monetary income to be pooled	259.060	265.031
Net redistribution of monetary income	276.312	250.455
Monetary income (+)/loss (-) reallocation for the reporting year	+17.252	-14.576
Net income (+)/loss (-) resulting from the revision of monetary income of the previous years	-0.010	-0.208
Total	+17.242	-14.784

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

4 Income from equity shares and participating interests

Table 33 shows *income from equity shares and participating interests*.

The dividend payout from Münze Österreich AG in 2016 comprises a EUR 43.631 million distribution from the net profit for the year 2015 and a simultaneous capitalization of the dividend claim for 2016 in the amount of EUR 65.726 million (2015: EUR 564.070 million).

The Governing Council of the ECB has decided to transfer EUR 966 million of the ECB's profit for the year 2016 as an interim profit distribution to the NCBs at end-January 2017; the OeNB's share amounted to EUR 27 million.

5 Net result of pooling of monetary income

Table 34 shows the *net result* arising for the OeNB from the calculation of *monetary income* in the Eurosystem.

This item comprises the OeNB's net result from the reallocation of monetary income within the Eurosystem. 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 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 deferred interest at end-quarter related to claims resulting from monetary policy operations with a maturity of 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 PSPP government/agency bonds generate income at the prevailing interest rate on the Eurosystem's 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 the prevailing interest rate on the Eurosystem's main refinancing operations to the value of the difference.

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key.¹⁹ The pooling and reallocation of monetary income to the NCBs 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 259.060 million) and the income reallocated to the OeNB (EUR 276.312 million) results from the calculation of monetary income.

6 Other income

Other income comprises e.g. rental income and income from transactions between the OeNB and OeNB affiliates and/or the ECB amounting to EUR 12.725 million and the FMA's reimbursement to the OeNB for the direct costs resulting from banking supervision and the costs

related to bank recovery and resolution amounting to the statutory maximum of EUR 8 million and EUR 1.7 million, respectively. Furthermore, it includes income from the reversal of provisions for the IMF's CCR Trust in the amount of EUR 2.7 million (see also asset item 2 *Claims on non-euro area residents denominated in foreign currency*).

7 Staff costs

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

Salaries increased by EUR 4.053 million net to EUR 121.190 million against the previous year (2015: EUR 117.137 million). The OeNB's outlays were reduced by recoveries of salaries totaling EUR 5.755 million (2015: EUR 5.928 million) for staff members on secondment to affiliates and foreign institutions.

The four members of the OeNB's Governing Board received emoluments totaling EUR 1.139 million in 2016 (2015: EUR 1.125 million; table 35).

Table 35

	Emoluments EUR million
Governor Ewald Nowotny	0.3040
Vice Governor Andreas Ittner	0.2866
Executive Director Kurt Pribil	0.2740
Executive Director Peter Mooslechner	0.2740

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 emoluments for the members of the OeNB's Governing Board were increased by 1.2 % per annum from January 1, 2016. Anniversary bonuses, remuneration

¹⁹ Under Article 33.2 of the Statute of the ESCB and 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.

in kind (tax value of the private use of company cars, subsidies to insurance) and other benefits totaled EUR 0.106 million in 2016 (2015: EUR 0.046 million). The emoluments of the OeNB's President and Vice President amounted to EUR 0.121 million in 2016 (2015: EUR 0.120 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 committees. Travel expenses associated with the exercise of General Council members' functions are appropriately reimbursed.

Table 36 shows the changes in staff in full-time equivalents (FTEs).

Expenses for severance payments and contributions to severance funds came to EUR 14.848 million (2015: EUR 4.983 million) and EUR 0.749 million (2015: EUR 0.667 million), respectively. Expenses for severance payments for management officials (Governing Board members) totaled EUR 0.1672 million in 2016 (2015: EUR 0.0403 million).

Expenses for compulsory social security contributions as well as compulsory contributions and charges related to wages and salaries totaled EUR 21.711 million (2015: EUR 20.634 million). Of this amount EUR 12.794 million (2015: EUR 12.095 million) were social security contributions, EUR 5.199 million (2015: EUR 5.040 million) were contributions to the Family Burden Equalization Fund, and EUR 3.480 million (2015: EUR 3.389 million) were municipal tax payments.

8 Expenses for retirement

This item includes pension plan contributions made in 2016 to the externally managed pension fund and respective reserves set aside, amount-

ing to EUR 25.580 million (2015: EUR 11.401 million). Pension payments in 2016 totaled EUR 123.727 million (2015: EUR 120.862 million), of which EUR 7.240 million (2015: EUR 10.228 million) were covered by investment income on the pension reserve. All pension payments relate to the OeNB's (defined benefit) retirement plan based on internally funded pensions for employees recruited up to April 30, 1998. The cost of remunerating retired board members or their dependents amounted to EUR 4.167 million (2015: EUR 4.133 million).

9 Administrative expenses

Administrative expenses include, inter alia, rent, operating expenses, maintenance and repair costs of EUR 37.714 million (2015: EUR 32.323 million) as well as banknote processing expenses of EUR 11.019 million (2015: EUR 11.131 million). The headline figure also includes EUR 4.580 million (2015: EUR 4.249 million) that were refunded by OeNB affiliates or the ECB, in particular rent, operating costs and security-related service costs, part of which affiliates must reimburse to the OeNB. Administrative expenses for auditing the financial statements came to EUR 0.116 million (2015: EUR 0.113 million), those for other certification services of the external auditor to EUR 0.036 million (2015: EUR 0.022 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 7.001 million in the subsequent financial year (2015: EUR 7.085 million). In the subsequent five financial years, these obligations total EUR 33.799 million (2015: EUR 34.862 million).

Table 36

	Reporting date December 31 ¹			Annual average ¹		
	2016	2015	Change	2016	2015	Change
FTEs staff resources ²	1,091.8	1,085.9	+5.9	1,094.0	1,117.8	-23.8
Total	1,227.5	1,229.2	-1.7	1,237.6	1,245.6	-8.0

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

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

11 Banknote production services

Expenses for *banknote production services* result from the purchase of euro banknotes from the OeBS.

12 Other expenses

Other expenses include EUR 3.008 million (2015: EUR 3.307 million) of transfers to the provision for the estimated unredeemable amount outstanding from the Austrian Federal Treasury for silver commemorative coins issued before 1989.

13 Corporate income tax

Pursuant to Article 72 paragraph 1 Nationalbank Act, the operating profit of the annual accounts 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 Körperschaftsteuergesetz (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 37.

Profit for the year and proposed profit appropriation

With the statutory allocations of the OeNB's profit having been made in line with Article 69 paragraphs 2 and 3 Nationalbank Act (item 14 of the profit and loss account), EUR 162.683 million of which account for the central government's share of profit, the balance sheet and the profit and loss account show a profit for the year 2016 of EUR 18,075,921.49.

In its meeting of February 7, 2017, the Governing Board decided to submit the appropriation proposal shown in table 38 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.

Table 37

	2016	2015	Change	
	EUR million	EUR million	EUR million	%
Transfer to the pension reserve under Article 69 paragraph 2 Nationalbank Act	20.084	–	+20.084	x
Central government's share of profit of 90% under Article 69 paragraph 3 Nationalbank Act	162.683	507.989	–345.306	–68.0
Total	182.768	507.989	–325.221	–64.0

Table 38

	EUR
Payout of the 10% maximum dividend on the OeNB's capital stock of EUR 12 million pursuant to 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	6,875,921.49
Profit for the year 2016	18,075,921.49

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
 Gottfried Haber
 Erich Hampel
 Anna Maria Hochhauser
 Werner Muhm
 Gabriele Payr
 Walter Rothensteiner
 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

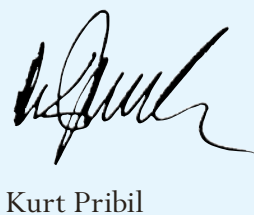
Vienna, March 7, 2017



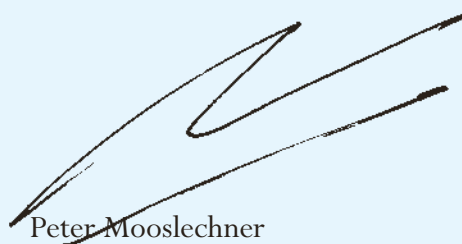
Ewald Nowotny



Andreas Ittner



Kurt Pribil



Peter Mooslechner

Auditors' opinion



Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2016
7. März 2017

Bestätigungsvermerk

Bericht zum Jahresabschluss

Prüfungsurteil

Wir haben den Jahresabschluss der

Oesterreichische Nationalbank,
Wien,

bestehend aus der Bilanz zum 31. Dezember 2016, der Gewinn- und Verlustrechnung 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 2016 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.



Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2016
7. März 2017

Verantwortlichkeiten der gesetzlichen Vertreter und des Generalrats 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 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 Generalrat 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 bedeutsame 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 kommunizieren mit dem Generalrat unter anderem über den 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.



Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2016
7. März 2017

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.

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.



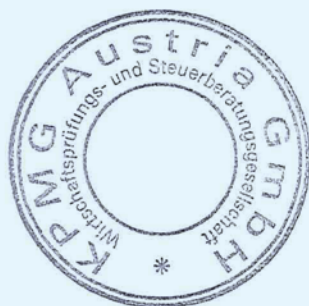
Oesterreichische Nationalbank, Wien
Bericht über die Prüfung des Jahresabschlusses zum 31. Dezember 2016

Erklärung

Angesichts der bei der Prüfung des Jahresabschlusses gewonnenen Erkenntnisse und des gewonnenen Verständnisses über die Gesellschaft und ihr Umfeld wurden wesentliche fehlerhafte Angaben im Geschäftsbericht nicht festgestellt.

Wien, am 7. März 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft



DDr. Martin Wagner
Wirtschaftsprüfer

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, 2016
March 7, 2017

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, 2016, the profit and loss account for the fiscal year ended December 31, 2016, 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, 2016, and of its financial performance in the fiscal year from January 1, 2016, to December 31, 2016, 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.

Responsibility of the management and of the General Council for the financial statements

The company's 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 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 General Council 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 judgement 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.

Oesterreichische Nationalbank, Vienna*Auditor's report on the German version of the financial statements as of December 31, 2016**March 7, 2017*

- Conclude on the appropriateness of the management's use 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 General Council 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.

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 7, 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Martin Wagner
External auditor

Report of the General Council on the Annual Report and the financial statements for 2016

The General Council (Generalrat) fulfilled the duties incumbent on it under the 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 2016 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 Steuerberatungsgesellschaft, 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 21, 2017, the General Council approved the Annual Report of the Governing Board and the financial statements for the year 2016. The General Council submits the Annual Report and recommends that the General Meeting approve the financial statements of the Oesterreichische Nationalbank for the year 2016 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 2016.



Notes

Abbreviations

ABS	asset-backed security	GDP	gross domestic product
ABSPP	asset-backed securities purchase programme	GSA	Geldservice Austria Logistik für Wertgestionierung und Transportkoordination G.m.b.H.
AG	Aktiengesellschaft (stock corporation)	HICP	Harmonised Index of Consumer Prices
BaSAG	Federal Act on the Recovery and Resolution of Banks	HOAM.AT	Home Accounting Module Austria
APP	expanded asset purchase programme	IHS	Institute for Advanced Studies
BIS	Bank for International Settlements	IMF	International Monetary Fund
BRRD	Bank Recovery and Resolution Directive	JVI	Joint Vienna Institute
CBPP	covered bond purchase programme	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
CRD	Capital Requirements Directive	OeKB	Oesterreichische Kontrollbank Aktiengesellschaft
CRR	Capital Requirements Regulation	OeNB	Oesterreichische Nationalbank
CSD	central securities depository	OPAL	optimization and reorganization project at the OeNB
CS.A	Clearing Service.Austria	OPEC	Organization of the Petroleum Exporting Countries
CS.I	Clearing Service.International	PSPP	public sector purchase programme
EBA	European Banking Authority	SDR	Special Drawing Right
ECB	European Central Bank	SEPA	Single Euro Payments Area
EMAS	Eco-Management and Audit Scheme	SMP	Securities Markets Programme
EONIA	euro overnight index average	SRB	Single Resolution Board
ERF	European Reporting Framework	SRF	Single Resolution Fund
ERP	European Recovery Program	SRM	Single Resolution Mechanism
ES	expected shortfall	SSM	Single Supervisory Mechanism
ESA 2010	European System of Accounts 2010	T2S	TARGET2-Securities
ESCB	European System of Central Banks	TARGET2	Trans-European Automated Real-time Gross settlement Express Transfer system
ESRB	European Systemic Risk Board	TFEU	Treaty on the Functioning of the European Union
EU	European Union	TLTRO	targeted longer-term refinancing operation
EURIBOR	euro interbank offered rate	TU Wien	Vienna University of Technology
FAQ	frequently asked question	VaR	value at risk
FMA	Austrian Financial Market Authority	WIFO	Austrian Institute of Economic Research
Fed	U.S. Federal Reserve System	wiiw	The Vienna Institute for International Economic Studies
FMSB	Financial Market Stability Board		
FTE	full-time equivalent		

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>

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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*.

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