Group management report

Market development

Sluggish growth in Europe and US

2011 started off well but from spring onwards the eurozone economy became increasingly sluggish. In the first quarter, real gross domestic product (GDP) was still rising at a rate of 0.8 per cent, while in each of the following two quarters it increased only by approximately 0.2 and 0.1 per cent, respectively. In the fourth quarter, the eurozone even slipped into recession. For 2011 as a whole, GDP growth of 1.5 per cent is expected. At an average 2.7 per cent, the inflation rate in 2011 was significantly higher than the ECB's official target. The main cause for the rise in inflation was an increase in energy prices.

The US economy had grown by 3.0 per cent in 2010, but in 2011 growth here also slowed down again. This was mainly due to the sharp rise in oil prices as a result of the Arab Spring, modest rises in wages and salaries and the exceptionally high unemployment relative to US standards, all of which dragged private consumption down, especially in the first half of the year. Moreover, the steps taken to consolidate the budget slowed the momentum down. However, thanks to the lower rise in prices and higher capital expenditure by companies, the economy recovered in the second half of the year, with real US GDP growing by 1.7 per cent in 2011.

Diverging developments in CEE

In the Central and Eastern European (CEE) countries, which in 2010 had already somewhat recovered from the financial crisis, achieving economic growth of 3.5 per cent, the positive trend continued in 2011. Exports continued to be the main engine of growth while domestic demand slowed considerably almost everywhere. Public sector expenditure contributed modestly towards economic output in light of the budgetary consolidation measures being introduced in many places. The drag on the economy generated by events in the eurozone, however, slowed the generally positive growth in 2011.

Poland and Slovakia reported the highest growth in Central Europe in 2011. While Poland benefited once more from robust domestic demand, achieving solid growth of 4.3 per cent, Slovakia generated a growth rate of 3.3 per cent thanks to its strong export sector. As a result of massive cost-cutting efforts, economic growth in the Czech Republic lost momentum somewhat in 2011, falling to 1.7 per cent. Slovenia's weak banking sector put a strain on its growth, which consequently amounted to minus 0.2 per cent. Hungary's strong export sector made up for its weak domestic demand, resulting in GDP growth of 1.7 per cent.

At 1.9 per cent, GDP growth in Southeastern European countries was positive in 2011 after having suffered noticeably from the crisis with figures of minus 0.7 per cent in 2010 and minus 5.4 per cent in 2009. Governments, however, could do little to boost the economy in view of the strenuous budgetary constraints. Even though domestic demand remained at a low level, it still contributed to the reduction of current account deficits. The main driving force behind a return to growth was exports, although they also dropped.

In 2011, the economy continued to recover in the Commonwealth of Independent States (CIS). At 4.3 per cent, Russian economic growth remained at the previous year's level, mainly as a result of the persistently high prices for fuels and other commodities. Strong domestic demand, robust exports and a solid harvest accounted for economic growth of 5.2 per cent in Ukraine. In contrast, economic growth in Belarus came to a virtual standstill in the second half of 2011 as a result of the country's economic problems.

Overall, a considerable slowdown in economic growth in Central and Eastern Europe is expected in 2012, mainly due to the significant deterioration of the situation in the eurozone as a result of the sovereign debt crisis. Thanks to Russia acting as its engine of growth, the CIS region is likely to continue to record the strongest growth. As a global recession is not expected, prices for commodities, especially oil, will probably remain stable, which will support the region's economic model which is based on exports of commodities. By contrast, Southeastern Europe is expected to record a significant drop in exports in view of its geographical proximity to the eurozone members in Southern Europe that are under serious pressure. Within Central Europe, Poland is forecasted to see positive economic growth in 2012, supported – as before – by largely stable domestic demand. The other economies in Central Europe are suffering from a drop in foreign demand from the eurozone, which will probably push them back into recession in the first half of 2012. Analysts do not expect a boost to the economy of the CEE region as a whole until the second half of the year when the situation in the eurozone is expected to improve.

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

Country		2010	2011e	2012f	2013f
CE	Czech Republic	2.7	1.7	(0.2)	1.4
	Hungary	1.3	1.7	(0.5)	1.5
	Poland	3.9	4.3	2.8	3.7
	Slovakia	4.0	3.3	0.8	2.5
	Slovenia	1.4	(0.2)	0.0	1.5
	CE	**3.2**	**3.1**	**1.4**	**2.7**
SEE	Albania	3.9	2.0	2.5	3.5
	Bosnia and Herzegovina	0.7	1.9	0.0	2.0
	Bulgaria	0.4	1.7	1.0	2.5
	Croatia	(1.2)	0.2	(1.0)	1.0
	Kosovo	3.9	4.0	3.0	4.0
	Romania	(1.6)	2.5	0.5	2.5
	Serbia	1.0	2.0	0.0	1.0
	SEE	**(0.7)**	**1.9**	**0.3**	**2.1**
CIS	Belarus	7.6	5.3	3.0	3.0
	Russia	4.3	4.3	3.7	4.0
	Ukraine	4.2	5.2	3.5	4.0
	CIS	**4.4**	**4.4**	**3.7**	**4.0**
CEE		**3.5**	**3.7**	**2.6**	**3.4**
Austria		**2.3**	**3.1**	**0.3**	**1.3**
Germany		**3.6**	**3.1**	**0.0**	**1.1**
Eurozone		**1.8**	**1.5**	**(0.5)**	**1.1**

Positive trend in Austria

After the 2009 collapse in economic output (real GDP: minus 3.8 per cent), the Austrian economy performed very well in 2010 (real GDP up 2.3 per cent) as well as in the first half of 2011. This economic expansion was driven by high growth in exports and an increase in investment. In the second half of 2011, however, growth slowed down considerably; in the fourth quarter real GDP even declined slightly year-on-year. Nevertheless, the good first half year ensured strong growth for the full year (real GDP: plus 3.1 per cent). These generally positive trends led to a further decline in unemployment, which, compared to the eurozone, was already very low. In contrast, inflation rose sharply to 3.5 per cent as a result of higher crude oil prices in the first half of 2011 and government measures, such as tax increases. Inflation, however, had passed its peak in September (Harmonized Index of Consumer Prices: 3.9 per cent p.a.).

Asia remains growth engine

Asia remained by far the most dynamic region in the world in 2011, although it was slowed down noticeably in the second quarter by the events in Japan. Investments and a credit expansion fueled domestic demand in China, leading to a 9.2 per cent increase in 2011 after a 10.4 per cent rise 2010. Signs of overheating, however, led to a rapid rise in inflation which was countered by restrictive monetary policy measures. The Chinese government was equally restrictive in tackling the looming real estate bubble. The slowdown in economic growth that has been evident since the second half of 2011 is likely to continue in 2012. India also suffered from high inflation which stood on average at more than 9 per cent in 2011. Combined with a decrease in demand from Europe, this led to a slowdown in economic growth to 6.1 per cent in the fourth quarter of 2011, after 6.9 per cent in the third quarter and 7.7 per cent in the second quarter 2011.

Sovereign debt crisis puts a strain on financial markets

The European sovereign debt crisis had already had a negative impact on the financial markets in 2010 but the situation only deteriorated in 2011. Following Greece and Ireland, Portugal became the third country in the eurozone forced to resort to help from the EFSF/IMF safety net as of April 2011. While Ireland and Portugal were largely successful in implementing the restructuring programs negotiated with the EU and the IMF, it became increasingly clear as 2011 progressed that Greece would come nowhere near to meeting the targets it had agreed on for the consolidation of its budget. It soon became evident that another "rescue package" would have to be put together to avoid a default. EU finance ministers approved this second rescue package for Greece in July; in addition to further official loans, it stipulated a "voluntary" agreement by private bondholders to give up 21 per cent of their claims.

The fear that participation by the private sector would lead to a wave of contagion spreading to countries like Spain and Italy became reality in August 2011. Measured by GDP, Italy is the second-most heavily indebted country in the eurozone after Greece and its government bonds came under particularly heavy pressure. Even intervention by the ECB, which added Italian and Spanish papers to the government bonds it was buying at the beginning of August, only gave short-term relief. By the time the contagion reached Italy and Spain, at the latest, the sovereign debt crisis had become systemic with major negative effects on the whole financial sector and, in turn, on the real economy. To stop this downward spiral, eurozone heads of state and government agreed on a package of measures at the end of October. However, the plans for a coordinated capitalization of the European banking sector, a leveraging of the EU safety net (the EFSF) and an increase of the amount of claims to be given up by the private sector as agreed in the second package for Greece only led to a brief interruption in the sell-off of bonds issued by European peripheral states. The ECB's decision at the end of 2011 to improve the European banks' liquidity supply by issuing triennial refinancing operations caused a more sustainable relief in the European bond markets.

Global currencies

The sovereign debt crisis in the eurozone continued to dominate movements in the euro and US dollar exchange rates in 2011, with the negative developments in the US (such as the downgrading of its credit rating and the blocking of the budget reforms) only playing a secondary role. At 1.31, the euro started the year at a relatively low level against the US dollar but gradually recovered in the first few months – in view of hopes for progress on the sovereign debt crisis – reaching the peak of 1.49 EUR/USD at the beginning of May. As the debt crisis then escalated, and especially when it extended to countries like Italy and Spain in the summer, the euro weakened noticeably in the second half of the year, hitting its low of 1.29 EUR/USD at the end of December.

As a consequence of the euro debt crisis and the increased need for security by investors, the Swiss franc continued its upward trend against the euro that had started in the fall of 2007. The resulting strong franc increasingly became a problem for the Swiss export sector. In August the Swiss National Bank (SNB) initially tried to counter the franc's appreciation with a significant expansion in liquidity. When these attempts failed and the Swiss currency briefly came close to parity with the euro, the SNB decided at the beginning of September to introduce an exchange rate floor of 1.20 EUR/CHF. So far the SNB has managed to defend this mark without any problems.

CEE currencies

CEE currencies had initially remained stable up to the middle of 2011, but lost ground as the sovereign debt crisis deteriorated from mid-August onwards. This particularly affected the liquid currencies in Central Europe (the Czech koruna, Hungarian forint and Polish zloty), which dropped heavily against the euro. The rise in risk aversion due to the lack of a solution to the eurozone's problems spilled over into CEE and, as during the financial crisis, induced investors to treat the whole region indiscriminately.

The Polish zloty has been subject to particularly heavy market pressure since the beginning of the sovereign debt crisis in the eurozone. The reason behind this is the very high liquidity in the Polish currency and bond markets. However, interventions in the markets by the Polish authorities in the course of 2011 temporarily stabilized the zloty. The Czech koruna also fell sharply against the euro from August onwards, but the Hungarian forint was most affected: Political decisions and a downgrading of Hungary's credit rating pushed it back to its 2009 lows against the euro. While the currencies of countries in Central Europe were subject to strong fluctuations, Southeastern European currencies did not fully reflect the uncertainties and increase in risk aversion on a direct basis. However, indirect effects, such as a decline in foreign investment, were certainly noticeable and led, in particular in the second half of 2011, to a depreciation of the Croatian kuna, Romanian leu and Serbian dinar. This trend is likely to continue in 2012.

Development of the banking sector

Continued banking sector growth in Central and Eastern Europe

The shortage and higher cost of external financing for banks and governments and the lower demand for credit – both due to banks' more restrictive lending policies – resulted in stagnant credit growth in CEE (minus 1.5 per cent year-on-year) in 2009. The situation recovered in 2010 with credit in CEE expanding by almost 14 per cent overall. In 2011, a 14 per cent credit growth is expected to be achievable once more. CEE credit expansion rates were, however, generally much lower in 2010 and 2011 than in the years preceding the crisis from 2004 to 2008.

The positive trend continued in the first half of 2011 and lending increased slightly, above all for corporate customers. Faced with stricter lending standards, however, CEE credit growth weakened noticeably in the second half of 2011. This development is likely to continue in 2012 in light of the challenging regulatory environment and economic trends, above all in the first half of the year. Current forecasts for 2012 expect lending to expand only by 5 to 10 per cent in Central Europe and the CIS, and by 1 to 3 per cent in Southeastern Europe.

After rising by only 0.6 per cent in 2009, the banking sector's total assets (expressed in euros) grew by 13 per cent in 2010 and 14 per cent in 2011. As with the credit growth, these growth rates were significantly lower than in the pre-crisis years of 2004 through 2008. Over the next few years, percentage increases in total assets throughout the CEE region are forecast to be in the low single digits but differing widely between the various countries. For instance, a low double-digit percentage increase in total assets should still be possible in Russia over the next few years, while it is likely to be in high single digits in Central European countries (except for Hungary). In view of the challenging environment (such as high ratios of loans to deposits and a high level of lending in relation to the strength of the economy), percentage growth in total assets in Southeastern European countries is likely to only be in low single digits.

Governments and banks facing difficult financing environment

The financing environment for CEE states improved significantly in 2010 and the first half of 2011, securing both refinancing and new issues of sovereign debt on the local and global bond markets. Many countries took advantage of the favorable situation to pre-finance their requirements. Yields on local sovereigns trended sideways for a long time. This was partly due to the ongoing expansionary monetary policy in Western Europe and partly to the decline in risk premiums. At the same time, investors took a very differentiated view of the individual CEE countries on the debt market. Risk factors such as indebtedness, budget deficits and political uncertainty were all reflected in bond prices. This environment will continue to benefit the CEE countries promoting reforms. Risk premiums for many CEE countries are currently lower than those for a number of eurozone economies such as Italy, Portugal or Spain. The financing environment for CEE governments and banks, however, deteriorated significantly in the second half of 2011, which means that support measures (involving the IMF) for individual CEE countries cannot be ruled out for 2012.

Performance and financials

Introduction and scope of consolidation

The consolidated financial statements of RBI are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU. RBI AG also prepares separate financial statements in accordance with the Austrian Commercial Code (UGB) in conjunction with the Austrian Banking Act (BWG), which provide the formal basis of assessment for calculating dividend distributions and the tax assessment. For more information on the disclosures required by the UGB and BWG, please see the relevant sections of this Group management report, including the notes section.

The majority of RBI is indirectly held by Raiffeisen Zentralbank Österreich AG (RZB), which makes it part of the RZB Group. RZB held a stake of around 78.5 per cent at the end of 2011; the remaining shares were free float. As of 31 December 2011, RBI's scope of consolidation comprised 135 Group units, including 21 banks and a number of financial institutions and bank-related service providers. For information about the change in the scope of consolidation, please refer to the relevant sections in the notes.

Performance

Profit before tax up

RBI's profit before tax for 2011 rose by 7 per cent to € 1,373 million. The performance of the individual earnings components in the income statement differed widely. Performance also varied at regional level. While many CEE countries – in particular Russia (up 63 per cent to € 434 million), Slovakia (up 51 per cent to € 185 million) and the Group Corporates segment (up 26 per cent to € 374 million) – achieved significant growth in earnings, Hungary reported a loss before tax of € 375 million. The situation in Hungary is partly the result of measures taken at political level (legislation allowing early repayment of foreign currency mortgage loans at preferential rates) and partly of a further decline in the quality of the loan portfolio in the local Group units.

Positive trend in net provisioning

Net provisioning for impairment losses dropped sharply – in total by 11 per cent or € 131 million – in most countries with the exception of Hungary as a result of the ongoing improvement in the economic environment and actively managed measures to stabilize the loan portfolio. While significantly fewer loan loss provisions had to be allocated in many countries, net provisioning for impairment losses in Hungary rose as a result of its economic and political situation by € 282 million to € 478 million, thus making up almost half of the loan loss provisioning throughout the Group. Net provisioning for individual loan losses at RBI stood at € 1,177 million, representing a year-on-year decline of around 2 per cent. Owing to releases of provisions for Russia, Hungary, Ukraine and Slovakia, there was a net release of portfolio-based loan loss provisions in the reporting year amounting to € 105 million. The net provisioning ratio based on average credit risk-weighted assets fell by 28 basis points to 1.38 per cent. The NPL ratio – the proportion of non-performing loans in the loan portfolio – improved, falling for the first time in several years by 0.3 percentage points to 8.65 per cent.

Valuation gains on derivatives and designated liabilities

Year-on-year, net income from derivatives and designated liabilities turned positive and came to € 413 million. This was partly due to a € 258 million rise in net income from revaluations of derivative instruments entered into for steering purposes, in particular because of the yield curve becoming flatter from the second quarter onwards. At the same time, the value of designated liabilities arising from own issues decreased as a result of the significant widening in RBI's credit spread following the developments on the capital markets; this led to a valuation gain of € 184 million.

Market-related valuation losses on securities

The increased volatility on the financial markets caused by the European sovereign debt crisis is reflected in the valuation losses on securities and participations and the € 278 million drop in net income from financial investments to minus € 141 million.

Macroeconomic outlook required impairment of goodwill

The changed macroeconomic outlook for Ukraine and the rise in the discount rate used for valuations resulted in a partial impairment of goodwill at Raiffeisen Bank Aval of € 183 million. This left the bank with goodwill on its balance sheet of € 29 million at the end of 2011. The low goodwill stated on the balance sheets of the banks in Hungary (€ 3 million) and Slovenia (less than € 1 million) were written down in full. Total goodwill at year-end stood at € 408 million.

Slight increase in operating income

Operating income excluding impairment of goodwill rose by 1 per cent or € 72 million to € 5,475 million. Net interest income increased by 3 per cent, thus making up two thirds of operating income. Slight volume-based declines stood in contrast to an increase of the net interest margin by 10 basis points to 2.61 per cent. At € 1,490 million, net fee and commission income remained virtually unchanged compared to the previous year, while net trading income rose year-on-year by 11 per cent. This is mainly attributable to valuation gains owing to a change in the valuation model to adapt to the alteration in legislation for capital guarantees. Negative effects arose from hyperinflation accounting (for Belarus), which had to be applied for the first time in the fourth quarter of 2011. At minus € 45 million, other net operating income (excluding impairment of goodwill) was short of the prior-year figure by € 51 million. This is mainly due to the introduction of the Austrian bank levy, which resulted in additional expenses for RBI of € 83 million. This was reported as other non-income related taxes under other net operating income.

Moderate rise in general administrative expenses

General administrative expenses rose year-on-year by just under 5 per cent or € 141 million to € 3,120 million. The cost/income ratio (excluding impairment of goodwill) increased as a result by 1.8 percentage points to 57.0 per cent. Staff expenses rose year-on-year by 6 per cent or € 87 million. This was caused particularly by market-related salary adjustments and bonus payments in a number of markets and by changes in legislation for social security contributions in Russia and Slovakia. The average number of staff rose by 1 per cent or 833 to 60,021, primarily as a result of increases in staff numbers in Ukraine, Russia and Romania. The biggest increases were reported in the Czech Republic, Ukraine and Russia. Year-on-year, other administrative expenses increased by 2 per cent or € 23 million. Major factors here were the rise in deposit insurance fees (up 16 per cent) and IT expenses (up 10 per cent). The number of business outlets fell by 33 to 2,928 in the reporting year. Expansion in the Czech Republic (plus 17) was offset by declines in Ukraine (minus 22), Serbia (minus 10) and Hungary (minus 10).

Disproportionate rise in taxes

At € 399 million, income taxes were € 289 million higher than in the previous year. This is due to non-recurring effects with deferred taxes in the reporting year and in 2010. In 2011, the losses in Hungary could not be made fully deductible for tax purposes by recognizing tax loss carry-forwards and, in addition, gains on own liabilities increased deferred taxes. By contrast, 2010 brought some tax relief, particularly as a result of deferred tax income arising from the recognition of tax loss carry-forwards in Austria (€ 120 million); a change in tax legislation in Ukraine provided additional tax relief (€ 26 million). In total the effective tax rate rose from 8.6 per cent to 29.1 per cent. Without the one-off effects above, the effective tax rate would have been 20 per cent.

Consolidated profit of just under € 1 billion

Compared to profit after tax, profit attributable to non-controlling interests fell to a sharply disproportionate extent by 93 per cent to minus € 6 million. This decline was primarily due to the losses in Hungary in which non-controlling interests had a share of around 30 per cent. In addition, the rises in earnings were largely attributable to Group units with few non-controlling interests, if any. After deducting profit attributable to non-controlling interests, the consolidated profit accounted for by RBI amounted to € 968 million, which represents a decline of 11 per cent or € 120 million year-on-year.

Earnings per share of € 3.95

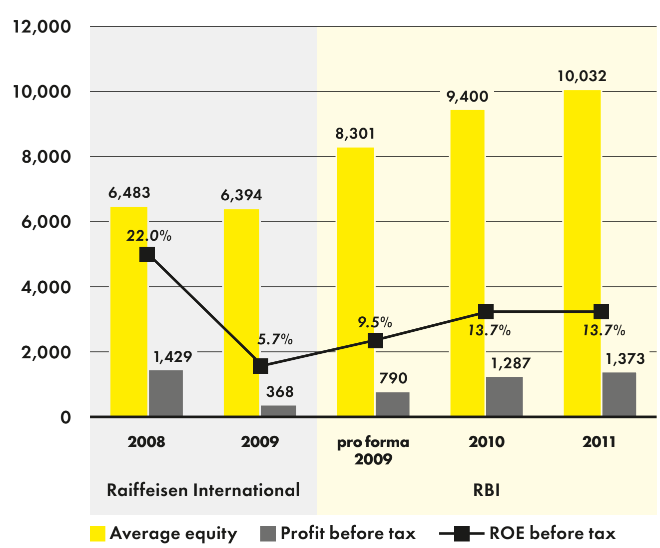
Earnings on each of the 194.6 million shares outstanding amounted to € 3.95 in 2011 after € 4.56 in the previous year. The Management Board will propose to the Annual General Meeting in June 2012 that a dividend of € 1.05 per share be paid for 2011, as for 2010. This would result in a total payment of € 205 million.

ROE before tax unchanged at 13.7 per cent

Return on equity before tax, an important figure for measuring performance, stood unchanged year-on-year at 13.7 per cent. This is primarily due to the straight-line increase in the components used to calculate it. Besides profit before tax, the average equity that underlies the calculation of ROE grew by 7 per cent to € 10,032 million. While retained earnings made a positive contribution, currency movements and dividend distributions had a dampening effect. Excluding the impairment of goodwill, at 15.6 per cent, ROE would have been higher year-on-year. Consolidated ROE – based on the capital attributable to RBI shareholders – fell as a result of higher taxes by 2.1 percentage points to 10.8 per cent.

Changes in profit and return on equity

in € million



Equity up 5 per cent to € 10.9 billion

Equity including non-controlling interests rose by 5 per cent or € 532 million compared with the beginning of the year to € 10,936 million. An increase from other comprehensive income of € 811 million and contributions by non-controlling interests of € 169 million were offset by dividend distributions for 2010 totaling € 463 million. Of this amount, € 204 million was attributable to RBI shareholders, € 200 million to the participation capital and € 58 million to non-controlling interests.

Other comprehensive income was determined on the one side by the profit after tax of € 974 million and, on the other side, by currency differences and capital hedges due to write-downs in Russia, Belarus and Poland totaling minus € 318 million. Net income from financial assets available-for-sale represented a valuation gain after tax of € 113 million. Reversing through profit or loss the valuation gain that arose from cash flow hedging as a result of the end of this hedging activity led to a minus of € 36 million (after taking deferred taxes into account). The hyperinflation accounting that it became necessary to apply in Belarus increased comprehensive income by € 95 million.

Increase in tier 1 ratio to 9.9 per cent

Regulatory own funds rose by 2 per cent year-on-year to € 12,858 million. The changes described in equity (excluding net valuation gains on financial assets available-for-sale that are not relevant for regulatory purposes) raised tier 1 capital by 2 per cent to € 9,434 million, while additional own funds (tier 2) remained unchanged at € 3,368 million. Short-term additional own funds (tier 3) increased by 45 per cent to € 100 million as a result of tier 2 issues approaching maturity.

Despite the introduction of the CRD III regulations, which mainly affected market risk and were responsible for a rise of € 324 million, the own funds requirement remained virtually unchanged, increasing by € 39 million to € 7,624 million. A 2 per cent increase in credit risk and a 66 per cent increase in market risk were offset by a 65 per cent reduction in the own funds requirement for foreign currency risk as a result of a change in methodology.

The tier 1 ratio (total risk) increased by 0.2 percentage points to 9.9 per cent. The own funds ratio rose by 0.2 percentage points to 13.5 per cent. The core tier 1 ratio (without taking hybrid capital into account) improved from 8.9 per cent to 9.0 per cent.

Liquidity-related rise in total assets by 12 per cent

Total assets gained 12 per cent or € 15.8 billion from the beginning of 2011, rising to € 147.0 billion. In all, currency effects reduced total assets by around 1 per cent. The growth in assets reflected higher short-term loans to banks, partly including repo transactions, which raised loans and advances to banks by € 4.2 billion. Cash reserves also increased by € 6.6 billion due to higher balances at central banks. Loans and advances to customers after provisioning rose by € 5.6 billion, largely as a result of loans to major customers and repo transactions with non-banks. On the liabilities side, the increase was mainly due to two items: deposits from customers increased by € 9.1 billion, which was mainly on account of institutional and corporate customers (€ 6.3 billion) and private individuals (€ 3.3 billion). The loan/deposit ratio (loans and advances to customers divided by customer deposits) improved by 9 percentage points compared with the end of 2010 to 122 per cent. Deposits from banks also rose by € 4.3 billion as a result of an inflow of short-term deposits, while debt securities issued declined by € 2.2 billion as a result of various issues maturing – in particular a € 1.5 billion state-guaranteed bond issued in 2009.

Detailed review of items in the income statement

Operating result

In € million	1/1-31/12/2011	1/1-31/12/2010	Change absolute	Change in %
Net interest income	3,667	3,578	89	2.5%
Net fee and commission income	1,490	1,491	(1)	(0.1)%
Net trading income	363	328	35	10.7%
Other net operating income[1]	(45)	6	(51)	–
Operating income	**5,475**	**5,403**	**72**	**1.3%**
Staff expenses	(1,540)	(1,453)	(87)	6.0%
Other administrative expenses	(1,209)	(1,187)	(23)	1.9%
Depreciation of intangible and tangible fixed assets	(372)	(340)	(31)	9.2%
General administrative expenses	(3,120)	(2,980)	(141)	4.7%
Operating result	**2,355**	**2,424**	**(69)**	**(2.8)%**

[1] Excl. impairment of goodwill

Net interest income

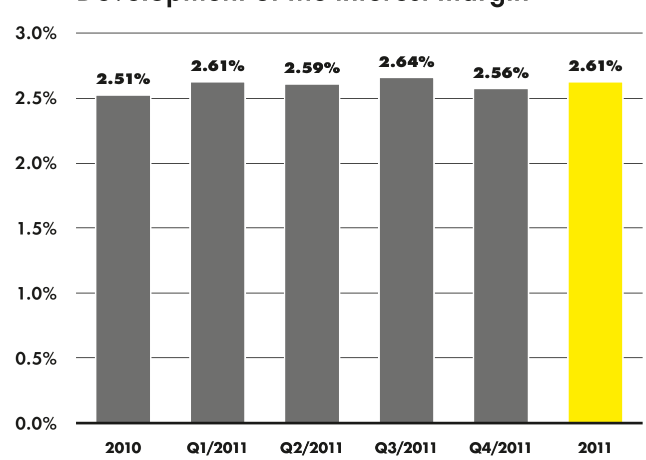
RBI's net interest income rose 3 per cent in 2011, adding € 89 million to reach € 3,667 million. Net interest income therefore made up 67 per cent of operating income. The net interest margin (calculated using average total assets) improved by 10 basis points, coming in at 2.61 per cent. Average total assets were down 1 per cent.

Net interest income was influenced by various factors in the reporting year. Business with customers improved considerably in Russia, Romania, Austria and Slovakia, and in addition, the more favorable refinancing conditions boosted net interest income. Net interest income from financial investments benefited from higher interest on government bonds acquired in Ukraine and Poland to place excess liquidity.

In Hungary, on the other hand, income fell by € 42 million due to the difficult credit environment and a decline in customer volumes. Belarus also saw income decrease by € 18 million, as the closing price on the reporting date was used for income statement items in line with IAS 29 (hyperinflation accounting).

The net interest margin recorded the strongest gain, advancing 34 basis points to 1.97 per cent as a result of more profitable new lending volumes within the Group Corporates segment. In Russia, the net interest margin rose due to increased new business and improved refinancing conditions, up 33 basis points to 4.47 per cent. In the Group Markets segment the net interest margin increased 14 basis points to 0.85 per cent, while it increased 17 basis points to close at 4.07 per cent in the segment Southeastern

Development of the interest margin



Europe. This is largely due to improved refinancing and lower rates on customer deposits linked to excess liquidity in most SEE countries. The net interest margin in the CIS Other segment declined, mainly due to lower net interest income in Belarus, down 9 basis points to 6.10 per cent. In the Central Europe segment the net interest margin lost 13 basis points, coming in at 3.16 per cent due to the difficult market conditions and the resultant decline in customer volumes.

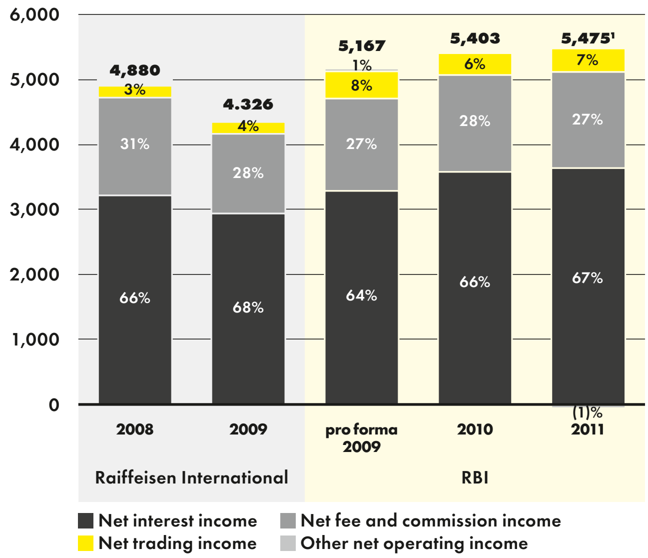
Net fee and commission income

Net fee and commission income remained stable year-on-year at € 1,490 million, accounting for 27 per cent of operating income. Net income from the payment transfer business increased by € 12 million, while net income from other banking services gained € 11 million. In contrast, income from the securities business decreased by € 16 million. Net income from the sale of own and third-party products declined € 6 million year-on-year.

Net income from the payment transfer business rose € 12 million to € 611 million, making it the largest component of net fee and commission income at 41 per cent. The increase was driven by the improved economic climate and the accompanying rise in transaction volumes. With € 103 million, Ukraine made the largest contribution, while optimized pricing policies in the Czech Republic generated a € 13 million increase.

Development of operating income

in € million



[1] Excl. impairment of goodwill

Net income from the loan and guarantee business remained unchanged year-on-year at € 280 million, with Russia and Romania accounting for the largest contributions at € 60 million and € 47 million respectively. While Russia recorded a € 26 million gain, narrower margins and lower volumes prompted a € 25 million decline in Romania.

Net income from the securities business declined € 16 million to € 119 million, partly due to developments in the Group Markets segment.

At € 330 million, net income from the foreign currency, notes/coins, and precious-metals business was on a par with the previous year. The main part of income was generated in Russia, Poland, the Czech Republic and Romania. Reflecting increased volumes, the highest gains were recorded in Russia and the Czech Republic.

Net income from the management of investment and pension funds remained unchanged year-on-year at € 27 million; the majority of income was generated in Slovakia and Croatia.

Net trading income

RBI's net trading income rose 11 per cent or € 35 million to € 363 million. The figure encompasses net income from interest-based transactions (down € 40 million), net income from currency-based transactions (down € 14 million), net income from equity and index-based transactions (down € 5 million), the credit derivatives business (up € 3 million) and from other transactions (up € 92 million).

Net income from interest-based transactions declined 19 per cent, or € 40 million, to end the year at € 171 million. Net income in Russia dropped by € 15 million year-on-year, the 2010 figure, however, had been particularly high due to valuation gains on interest-rate products. Net income also fell in Croatia, driven by valuation losses on government bonds, which came under a great pressure due to the European sovereign debt crisis. The yield curve for the Group Markets and Group Corporates segments also flattened, which resulted in a lower net income from interest swaps.

Net income from currency-based transactions was down 11 per cent, dropping € 14 million to close at € 107 million. IAS 29 was used to report hyperinflation in Belarus, which had a negative impact of € 84 million. However, this effect was partially offset by a € 44 million valuation gain linked to the high devaluation of the Belarusian rouble in relation to an existing strategic currency position taken to hedge equity. Net income in Russia on the other hand deteriorated due to valuation losses on currency transactions. In Central Europe, net income from currency-based transactions was improved by valuation gains on currency swaps, currency forwards and spot transactions in Poland, Hungary and the Czech Republic. Net income rose in Austria, boosted mainly by valuation gains on currency futures and the notes and coins business, which increased from € 17 million to € 25 million.

Net income from other business stemmed largely from capital guarantees issued. The valuation method was adjusted here to reflect changes to the statutory requirements, which resulted in a net income of € 81 million.

Other net operating income

Other net operating income excluding impairment of goodwill fell from € 6 million in 2010 to minus € 45 million. This was largely due to the bank levy introduced in 2011 in Austria amounting to € 83 million. In connection with the "Home Protection Plan" in Hungary, losses from the restructuring of non-performing loans could be offset against the bank levy, reducing it by € 31 million to € 10 million in the reporting year.

Rental income from investment property including operating leasing (land and buildings not used by the Group) added € 8 million year-on-year, largely due to new leasing contracts in Croatia and the turnover of a new Group unit in Russia. Net expense from allocation and release of other provisions declined by € 16 million to minus € 12 million. This was because of the need for higher provisions in 2010 for pending legal issues in Russia and Slovakia.

Net income from non-banking activities fell slightly year-on-year, as did net income from additional leasing services.

General administrative expenses

General administrative expenses rose by 5 per cent, up € 141 million to € 3,120 million. The cost/income ratio came to 57.0 per cent (2010: 55.1 per cent).

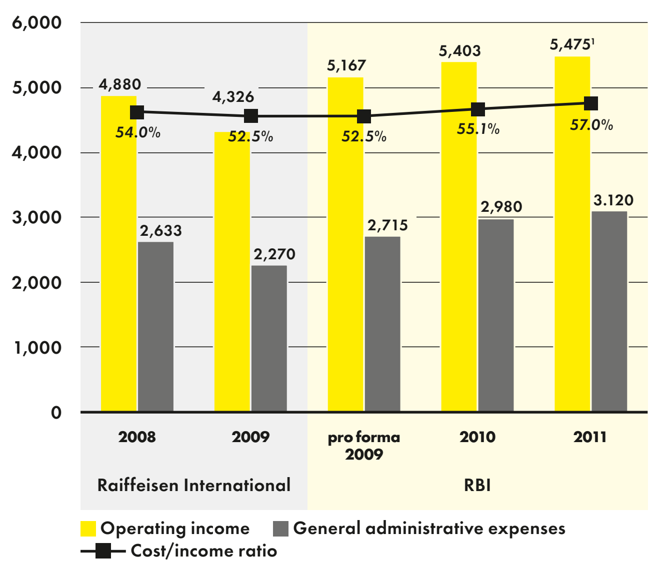
Staff expenses

Staff expenses, which constituted the largest item in administrative expenses at 49 per cent, rose by 6 per cent or € 87 million year-on-year, to € 1,540 million.

This increase was mainly the result of market-related salary adjustments and bonus payments in a number of markets as well as changes to statutory social security contributions in Russia and Slovakia. At the same time, the rise in the average number of staff increased staff expenses in the Czech Republic (especially due to the expansion of the branch network), Ukraine, Russia, Poland and Slovakia. The average number of staff employed by the Group (full-time

Cost/income ratio performance

in € million



[1] Excl. impairment of goodwill

equivalents) rose 1 per cent or 833 persons to 60,021 employees. The largest increases were recorded in the Czech Republic (up 349), Ukraine (up 189), Russia (up 137), Poland (up 87) and Slovakia (up 75).

Other administrative expenses

Other administrative expenses increased by 2 per cent or € 23 million to € 1,209 million. This was the result of increases in IT expenditure (up 10 per cent), deposit insurance fees (up 16 per cent), security expenses (up 11 per cent), and advertising, PR and promotional expenses (up 3 per cent). In contrast, other administrative expenses (down 14 per cent), office supplies (down 3 per cent) and communication expenses (down 2 per cent) all declined.

The rise in IT expenses was mainly driven by new projects and software service agreements in Russia, Romania, Poland and Slovakia. In the Czech Republic, new calculation rules resulted in higher deposit insurance fee expenses. Advertising, PR and promotional expenses rose due to additional marketing activities in Slovakia and the Czech Republic. Security expenses were higher as a result of increased volumes of precious-metal transactions.

The number of business outlets decreased by 33 to 2,928 at year-end. The bulk of these reductions were recorded in Ukraine (down 22) and Serbia (down 10), while the number of outlets increased in the Czech Republic by 17 and in Romania by 8.

Depreciation of tangible and intangible fixed assets

The depreciation of tangible and intangible fixed assets rose € 31 million year-on-year to € 372 million (2010: € 340 million). The depreciation of intangible assets recorded the most marked increase, advancing € 15 million to € 143 million. This was partly linked to the implementation of new software and a shorter useful life for the systems being replaced. New software projects in Ukraine, Romania, Russia and Austria also triggered further depreciation. The depreciation of tangible assets increased € 14 million, coming in at € 194 million. The main reason for this increase was an € 11 million impairment relating to property in Russia.

In the reporting year, investment in the Group totaled € 580 million. Of this, 49 per cent (€ 288 million) was on Group tangible assets. Investments in intangible assets, mainly in relation to software systems, accounted for 35 per cent of investment. Assets of the operating leasing business accounted for the remainder.

Consolidated profit

In € million	1/1-31/12/2011	1/1-31/12/2010	Change absolute	Change in %
Operating result	**2,355**	**2,424**	**(69)**	**(2.8)%**
Net provisioning for impairment losses	(1,064)	(1,194)	131	(10.9)%
Other results[1]	82	58	24	41.7%
Profit before tax	**1,373**	**1,287**	**86**	**6.7%**
Income taxes	(399)	(110)	(289)	262.4%
Profit after tax	**974**	**1,177**	**(203)**	**(17.2)%**
Profit attributable to non-controlling interests	(6)	(90)	83	(92.8)%
Consolidated profit	**968**	**1,087**	**(120)**	**(11.0)%**

[1] Incl. impairment of goodwill

Net provisioning for impairment losses

Signs of economic recovery in most of RBI's markets in 2011 improved borrower ratings and thereby decreased the growth of non-performing loans. As a result, net provisioning for impairment losses (the balance of allocations and releases of provisions for the lending business and direct write-offs against income received on amounts for written-down claims) was lower in 2011. In addition, during the financial and economic crisis RBI had already taken action to stabilize and improve the quality of the loan portfolio, as for example with the targeted loan restructuring. Overall, net provisioning for impairment losses declined 11 per cent or € 131 million to € 1,064 million in 2011. This item also included income from the sale of impaired loans totaling € 8 million. Although the improved economic climate resulted in significant improvements in net provisioning for impairment losses in most markets, net provisioning rose 144 per cent to € 478 million in Hungary. Marked improvements were recorded in the Russia (down € 119 million), CIS Other (down € 86 million) and Southeastern Europe segments (down € 77 million), largely due to the improved environment for corporate customers. Net provisions in the Corporate Customers division decreased 17 per cent to € 470 million, while in the Retail Customers division it remained virtually unchanged year-on-year at € 600 million, mainly because of the situation in Hungary.

The marked decline in Hungary as compared to the previous year was triggered by the market environment and the new legal conditions for foreign currency mortgage loans to retail customers, which required elevated loan loss provisions. This resulted in an increase of € 282 million in net provisioning, bringing the total to € 478 million. This figure included € 109 million in provisions for the government's "Home Protection Plan": a new legislation passed by the Hungarian Parliament, specifying that foreign currency mortgage loans could be repaid early at favorable exchange rates (with the cost being borne by the banks). The associated loan loss provisions allow for an expected repayment ratio of 29 per cent for the relevant foreign currency loans.

Individual loan loss provisions were down 2 per cent or € 19 million year-on-year at € 1,177 million, against the release of portfolio-based loan loss provisions totaling € 105 million. The situation was improved by a decline in the volume of non-performing loans in Russia and Slovakia as well as lower default rates among corporate and retail customers in Ukraine.

The net provisioning ratio – net provisioning for impairment losses to average credit risk-weighted assets – was 1.38 per cent, an improvement of 28 basis points. The loss rate – charged-off loans to total lending – was 0.38 per cent (2010: 0.41 per cent).

After currency effects, the value of non-performing loans was up € 266 million at € 7,056 million, with the biggest rises recorded in Hungary and Bulgaria. The NPL ratio, the ratio of non-performing loans to total customer loans, improved 0.3 percentage points to 8.6 per cent. Non-performing loans were covered by provisioning totaling € 4,826 million. This results in a coverage ratio of 68.4 per cent, an improvement of 2.1 percentage points against year-end 2010.

Other results

Net income from derivatives and designated liabilities
Net income from derivatives and designated liabilities advanced € 497 million to € 413 million. This item comprises net income from hedge accounting (up € 4 million), credit derivatives (up € 29 million), other derivatives (up € 258 million) and liabilities designated at fair value (up € 206 million).

Fixed interest swaps by Group headquarters accounted for the bulk of net income from other derivatives, which gained € 258 million to € 194 million. The sustained decline of the long-term euro yield curve since the first quarter of 2011 had a positive effect on valuation gains for these products.

Liabilities designated at fair value (fair value option, applied since 2007) also served to increase net income from derivatives. This portfolio containing RBI issues generated valuation gains totaling € 249 million in the reporting year as a result of higher credit spreads. Combined with the interest component, this generated a plus of € 184 million, compared with minus € 22 million in 2010.

These valuation gains do not affect regulatory own funds, and as such are not relevant when calculating regulatory capital ratio (EBA).

Net income from financial investments
In the period under review, the international capital markets were hit particularly hard by the European sovereign debt crisis, which resulted in a volatile development of the fair value of securities. In turn, this prompted a decline in net income from financial investments of € 278 million to minus € 141 million.

Net income from securities at fair value through profit or loss, comprising valuation gains and income from sales, decreased from € 120 million to minus € 135 million in 2011. Share valuation losses in Austria, falls in the value of municipal bonds in Hungary and fixed-income securities in Ukraine all contributed to the decline.

Net income from equity participations dropped € 109 million year-on-year. This was mainly linked to converting a Bulgarian loan recognized in Austria to an equity participation, which was then written off. As the associated loan loss provision was released at the same time, the transaction had no effect on consolidated profit.

The sale of government bonds generated gains totaling € 94 million, which boosted net income from financial assets held-to-maturity. The sale was linked to the European Banking Authority's (EBA) increased regulatory capital requirements.

Impairment of goodwill
The other results were strongly affected by the € 187 million impairment in goodwill recorded in Ukraine, Hungary and Slovenia: The revised macroeconomic forecast for Ukraine and the rise in the applicable discount rate generated a partial goodwill impairment of € 183 million at Raiffeisen Bank Aval, which left the balance sheet showing goodwill for the Bank of € 29 million. Goodwill was already low for the banks in Hungary (€ 3 million) and Slovenia (less than € 1 million), and was completely written off. As at the end of the year, total goodwill came to € 408 million.

Net income from disposal of Group assets
In 2011, net income from the disposal of Group assets was minus € 3 million. Five subsidiaries were no longer consolidated, four of them on the grounds of immateriality. One subsidiary was dropped from the consolidation following closure. The companies are primarily active in leasing, investment and financial services.

Income taxes

Taxes in the reporting period came to € 399 million, against € 110 million in 2010.

The increase was driven above all by deferred tax expenses, which came to € 59 million in the financial year 2011. Deferred tax income of € 247 million had been recorded in 2010. This change was largely the result of valuation gains on derivatives and liabilities designated at fair value in Austria. Moreover, it was not possible to offset losses in Hungary fully for tax purposes by recognizing tax loss carry-forwards. By contrast, 2010 had brought some tax relief, notably through deferred tax income arising from the recognition of tax loss carry-forwards in Austria (€ 120 million) as well as changes to tax legislation in Ukraine (€ 26 million).

Current taxes fell due to lower taxes in Austria, down to € 341 million in 2011 (2010: € 357 million).

The net result is that the effective tax rate rose from 8.6 per cent to 29.1 per cent. Without the one-off effects, the effective tax rate would have been around 20 per cent.

OVERVIEW OF RBI
GROUP MANAGEMENT REPORT
SEGMENT REPORTS
CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Comparison of results with the previous quarter

Operating result

In € million	Q4/2011	Q3/2011	Change absolute	Change in %
Net interest income	943	943	1	0.1%
Net fee and commission income	365	388	(22)	(5.7)%
Net trading income	70	37	34	91.1%
Other net operating income[1]	(3)	(15)	13	(81.1)%
Operating income	**1,376**	**1,352**	**25**	**1.8%**
Staff expenses	(399)	(385)	(14)	3.7%
Other administrative expenses	(325)	(298)	(27)	9.2%
Depreciation of intangible and tangible fixed assets	(110)	(90)	(20)	22.1%
General administrative expenses	(834)	(772)	(61)	7.9%
Operating result	**542**	**579**	**(37)**	**(6.3)%**

[1] Excl. impairment of goodwill

Net interest income

Net interest income in the fourth quarter of 2011 remained virtually unchanged at € 943 million. However, the net interest margin (calculated on average total assets) fell 8 basis points to 2.56 per cent. Average total assets increased by 3 per cent.

Broken down by segment, Central Europe showed the biggest decline, with the net interest margin decreasing by 25 basis points to 2.89 per cent. The main reason for this was the difficult economic environment in Hungary. In Southeastern Europe, the net interest margin fell 12 basis points to 4.04 per cent. The net interest margin also declined in CIS Other, from 6.79 per cent to 5.91 per cent. The main cause was hyperinflation in Belarus, while in Russia, net interest income rose due to the significant increase in the corporate customer portfolio.

In the Group Corporates segment the net interest margin improved by 8 basis points to 2.16 per cent as a result of the expansion in business activities. The Group Markets segment showed a decrease of 7 basis points to 0.86 per cent, due to the sale of parts of the portfolio of securities held-to-maturity.

Net fee and commission income

Net fee and commission income declined in the fourth quarter by € 22 million to € 365 million. This was mainly the result of lower net income from the loan and guarantee business and lower income from the securities business.

Net trading income

Net trading income rose quarter-on-quarter by 91 per cent or € 34 million to € 70 million. Net income from other business rose by € 117 million, due to the change in the valuation model for capital guarantees and valuation gains mentioned earlier. At the same time, net income from equity-based transactions turned around from minus € 19 million to € 8 million. This was due to valuation gains from a positive trend in the EURO STOXX and ATX in the fourth quarter of 2011.

Net income from currency-based transactions declined, falling from € 29 million in the third quarter of 2011 to minus € 55 million. This was mainly due to the drop in net income in Belarus following the application of IAS 29 (hyperinflation accounting), which was offset by valuation gains on a strategic currency position.

Net income from credit derivatives business decreased quarter-on-quarter by € 13 million.

Net income from other transactions relates entirely to capital guarantees. Here, the valuation methodology was adapted to the change in the legislation. This adjustment resulted in net income of € 81 million.

Other net operating income

Other net operating income (excluding impairment of goodwill) in the fourth quarter was minus € 3 million, after minus € 15 million in the third quarter. There was a positive effect in the fourth quarter from other taxes due to the reduction in the bank levy in Hungary. In connection with the "Home Protection Plan," losses from the repayment of overdue loans could be offset against the bank levy. Expenses on allocations to provisions were higher in the fourth quarter at € 11 million than in previous quarters. Net income from non-banking activities made no contribution to other net operating income in the fourth quarter due to the lower billing of services, compared to the € 8 million achieved in the third quarter.

General administrative expenses

General administrative expenses in the fourth quarter totaled € 834 million, € 61 million more than in the previous quarter. Staff expenses rose € 14 million due to the expenses for future bonus payments recognized in the fourth quarter. As a result of the increase in the fourth quarter in legal, advisory and consulting expenses, security expenses, as well as advertising, PR and promotional expenses, other administrative expenses rose by € 27 million to € 325 million. Depreciation on tangible and intangible assets totaled € 110 million in the fourth quarter, up € 20 million compared to the previous quarter. The main reason for this was a depreciation of € 11 million on a building in Russia.

Consolidated profit

In € million	Q4/2011	Q3/2011	Change absolute	Change in %
Operating result	**542**	**579**	**(37)**	**(6.3)%**
Net provisioning for impairment losses	(282)	(377)	95	(25.1)%
Other results[1]	81	(49)	130	–
Profit before tax	**342**	**153**	**188**	**122.9%**
Income taxes	(127)	(71)	(56)	79.3%
Profit after tax	**214**	**82**	**132**	**160.1%**
Profit attributable to non-controlling interests	8	48	(40)	(83.5)%
Consolidated profit	**222**	**130**	**92**	**70.4%**

[1] Incl. impairment of goodwill

Net provisioning for impairment losses

Net provisioning for impairment losses declined quarter-on-quarter by 25 per cent to € 282 million. This decrease is due primarily to provisioning already effected in the third quarter for impairment losses in Hungary. In connection with the "Home Protection Plan," under which the Hungarian Government allows private borrowers to repay foreign currency mortgage loans prematurely on favorable terms, a further € 56 million to provisioning for impairment losses was posted in the fourth quarter. With a repayment ratio of 29 per cent, this meant a full-year loss for RBI of € 108 million. In the Group Corporates segment, individual cases among large international corporate customers required an increase of € 64 million in provisioning for impairment losses.

The Southeastern Europe and CIS Other segments recognized slightly lower provisions in the fourth quarter. In Russia, net releases of provisions for loan losses totaled € 63 million. This was due to premature repayments and sales of non-performing loans, increased collateral and the reversal of portfolio-based loan loss provisions due to lower loss rates.

Non-performing loans remained virtually unchanged in the first three quarters of 2011, with a slight organic increase offset by currency effects. However, in the fourth quarter there was a currency-adjusted increase in non-performing loans of € 234 million. This was due almost entirely to Hungary with an increase of € 97 million, and Bulgaria with an increase of € 145 million. However, the loans in question are mostly well collateralized. There was a significant decrease in non-performing loans in Austria and Russia.

Other results

Net income from derivatives and designated liabilities

Net income from derivative financial instruments rose in the fourth quarter of 2011 by € 154 million to € 264 million. The main reason for this was a gain of € 135 million from liabilities designated at fair value. This item shows the net income from RBI issues, which generated valuation gains in the fourth quarter due to the higher spreads.

Net income from financial investments

Net income from financial investments rose quarter-on-quarter by € 162 million to € 5 million. There was an increase here in net income from securities held-to-maturity due to a profit of € 94 million on the sale of government bonds. This sale was connected to the increase in regulatory own funds requirement by the European Banking Authority (EBA). Valuation gains from securities were stable in the fourth quarter, following significant losses in the third quarter due to the turbulence in the financial market.

Impairment of goodwill

Other net income was adversely affected in the fourth quarter of 2011 by the impairment of goodwill in the amount of € 183 million in Ukraine.

Income taxes

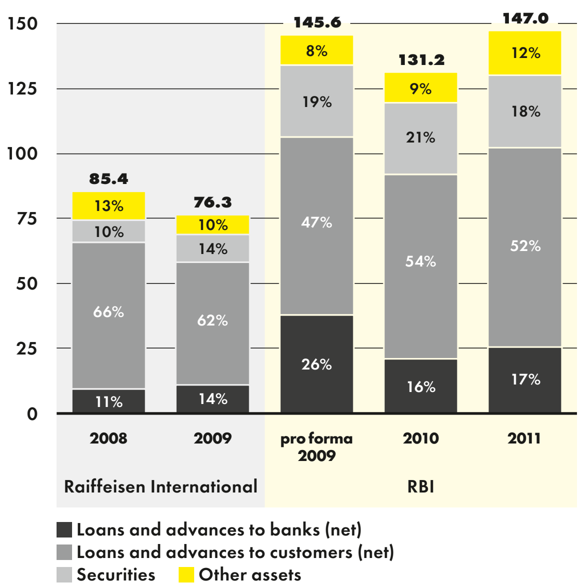
RBI reported taxes of € 127 million in the fourth quarter of 2011 (Q3/2011: € 71 million). Expenses on current taxes increased by € 19 million, mainly due to higher earnings before tax in Russia. In the fourth quarter, deferred tax expense due to net income from the revaluation of derivatives and own issues in Austria measured at fair value totaled € 32 million (Q3/2011: income of € 5 million). Moreover, it was not possible to offset losses in Hungary fully for tax purposes by recognizing tax loss carry-forwards.

Statement of financial position

As of 31 December 2011, total assets at RBI amounted to € 147.0 billion. This was 12 per cent or € 15.8 billion above the comparable figure for the end of 2010.

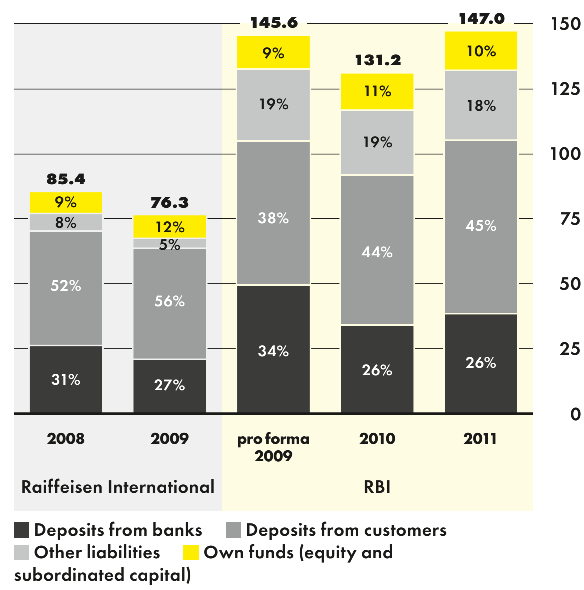
Breakdown of balance sheet assets

in € billion



Breakdown of equity and liabilities on the balance sheet

in € billion



Assets

Assets were dominated by loans and advances to customers (after provisioning), which accounted for a share of 52 per cent. The overall volume of financial investments (including those held-for-trading) amounted to 18 per cent, loans and advances to banks to 17 per cent, and other assets to 12 per cent.

Loans and advances to customers (before provisioning) rose 8 per cent or € 5.9 billion to € 81.6 billion in 2011. Of the overall loans and advances to customers, the credit business represented € 53.9 billion or 66 per cent and mortgage loans accounted for € 17.9 billion or 22 per cent. Credit business with corporate customers amounted to € 58.9 billion, of which large corporate customers represented € 55.2 billion. The corporate customer business registered the highest credit growth of 11 per cent or € 5.9 billion, above all in the Group headquarters, Asia and Russia. Loans to retail customers totaled € 21.3 billion at year-end, of which private individuals accounted for € 19.0 billion. At the end of 2011 the loan/deposit ratio (the ratio of customer loans to customer deposits) improved to 122 per cent (2010: 131 per cent).

Loans and advances to banks rose by 20 per cent or € 4.2 billion to € 25.7 billion. Due to market-related liquidity requirements, short-term interbank transactions were increased.

At the end of the year, the impairment losses on loans and advances totaled € 5.1 billion. Of this, € 4.8 billion represented provisions for loans and advances to customers and € 0.2 billion represented provisions for loans and advances to banks. € 3.0 billion of the customer-related loan loss provisions were related to corporate customers and € 1.8 billion affected retail customers. At € 1.6 billion, the highest amounts of loan loss provisions were attributed to Central Europe. The CIS Other segment and Southeastern Europe accounted for € 1.0 billion of loan loss provisions each, Group Corporates € 0.7 billion, Russia € 0.6 billion and Group Markets € 0.2 billion, respectively.

Compared to the end of 2010, financial investments (including those held-for-trading) decreased by 2 per cent or € 0.5 billion to € 27.2 billion. While assets held-for-trading increased by approximately € 2.5 billion due to the valuation of derivatives, financial investments contracted (minus € 3.1 billion). This reduction in financial investments was mainly due to the sale of financial assets held-to-maturity to meet the higher EBA regulatory own funds requirement, as well as to market developments.

Other assets increased by 59 per cent year-on-year to € 17.6 billion (2010: € 11.0 billion), virtually all of which was due to the higher cash reserve (up € 6.6 billion). Other assets were made up of the cash reserve (€ 11.4 billion), tangible and intangible fixed assets (€ 2.6 billion), derivatives (€ 1.4 billion) and the remaining item of other assets (€ 2.2 billion).

Equity and liabilities

Equity and liabilities were dominated by deposits from customers, which accounted for a share of 45 per cent. Deposits from banks remained unchanged at 26 per cent. Equity and subordinated capital represented 10 per cent of the equity and liabilities side of the statement of financial position and the other liabilities totaled 18 per cent.

Deposits from customers rose by 16 per cent or € 9.1 billion to € 66.7 billion year-on-year. Of the total customer deposits, € 35.6 billion was attributable to corporate customers, who were responsible for a rise in deposits of € 6.2 billion. Of this, some € 3.7 billion was from repos. For retail customers, deposits rose € 3.4 billion to € 29.1 billion. This growth was almost entirely due to the higher number of deposits in the Czech Republic, Russia and Poland. ZUNO Bank contributed € 0.7 billion.

Deposits from banks amounted to € 38.0 billion. This represents an increase of 13 per cent or € 4.3 billion compared to the previous year's figure. This growth resulted primarily from deposits by commercial banks.

Other liabilities rose by 7 per cent or € 1.7 billion to € 27.2 billion. The largest growth came from trading liabilities with an increase of 69 per cent or € 4.0 billion to € 9.7 billion, caused primarily by swap valuations in Austria. Debt securities issued dropped by 13 per cent or € 2.2 billion to € 14.4 billion. Unsecured issues were no longer an option due to the market environment, so RBI moved increasingly towards private placements. Overall, the maturity of one of a total of three state-guaranteed RBI bonds led to a decrease of € 1.5 billion.

Equity

Equity on the statement of financial position

The bank's balance sheet equity, consisting of consolidated equity, consolidated profit and non-controlling interests, increased since the end of 2010 by 5 per cent or € 532 million to € 10,936 million.

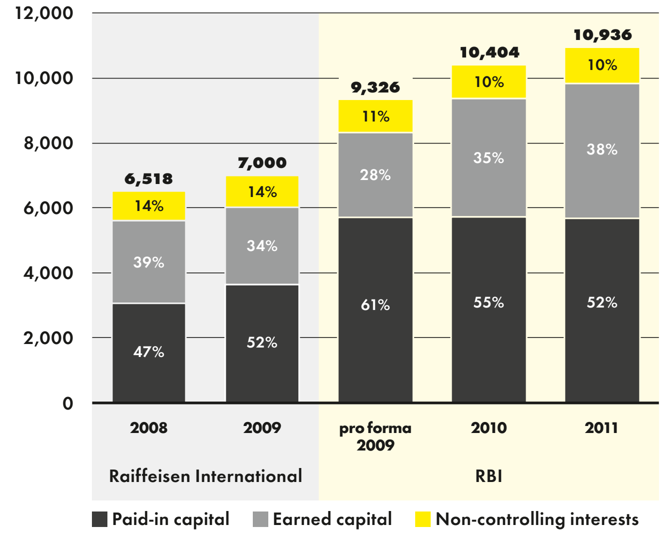
Consolidated equity, consisting of subscribed capital, participation capital, capital reserves and retained earnings increased by € 574 million to € 8,825 million. The growth in retained earnings was due primarily to the transfer of earnings of € 683 million from the financial year 2010. Other comprehensive income reduced retained earnings by € 127 million, primarily due to exchange differences totaling minus € 271 million (including capital hedges). Net income from the valuation of financial assets available-for-sale was € 113 million after deferred taxes. The effects from the application of hyperinflation accounting in Belarus amounted to € 83 million. As a result of a change in the hedging strategy, cash flow hedging was ended in the second quarter of 2011 and replaced by portfolio hedges. Valuation losses on ending the cash flow hedge (after taking deferred taxes into account) amounted to € 36 million.

RBI AG's Annual General Meeting in June 2011 approved the payment of a dividend of € 1.05 per share for the financial year 2010, which involved a distribution totaling € 204 million. In addition, a dividend of € 200 million was paid on the participation capital. Consolidated profit amounted to € 968 million.

Capital of non-controlling interests rose € 77 million to € 1,143 million, due primarily to capital contributions of € 169 million, mainly for Group units in Hungary, Slovakia and the Czech Republic. In addition, dividends amounting to € 58 million were distributed on non-controlling interests. The share of non-controlling interests in the effects of hyperinflation in Belarus amounted to € 12 million.

Breakdown of equity

in € million



Own funds pursuant to the Austrian Banking Act (BWG)

RBI does not form an independent credit institution group (Kreditinstitutsgruppe) as defined by the Austrian Banking Act (BWG) and therefore is not subject to the regulatory provisions on a consolidated basis as it is part of the RZB Group. The majority of credit risk is calculated using the standardized approach in accordance with Section 22 of the BWG, credit risk for most non-retail business at RBI AG and its subsidiaries in Croatia, Malta, Romania, Slovakia, the Czech Republic, Hungary and the US is measured using the internal ratings based approach (foundation IRB approach). A large part of the loans and advances to retail customers in Slovakia and Hungary are measured under this approach. Market risk is predominantly calculated according to the standard approach in accordance with Section 22 of the BWG, RBI AG carries out the calculation in part according to the internal model. The consolidated values shown below have been calculated in accordance with the provisions of the BWG and are assumed in calculation figures for the RZB credit institution group.

Consolidated own funds pursuant to BWG amounted to € 12,858 million as of 31 December 2011, which represents an increase of 2 per cent or € 250 million.

Core capital rose 3 per cent or € 228 million to € 9,434 million, primarily due to profit from the financial year. The presumed dividend for distribution in the financial year 2011 has already been deducted from this. The depreciation of in particular the Belarusian rouble, Hungarian forint and Polish zloty against the euro had a negative impact on own funds.

Additional own funds remained virtually unchanged from the previous year at € 3,368 million. This item consists of long-term subordinated capital, of which the largest part pertained to RBI AG at € 2,259 million, supplementary capital of RBI AG of € 599 million, and the provision excess of internal rating approach positions of € 234 million. Hidden reserves released in the reporting period pursuant to Section 57 of the BWG increased core capital by € 55 million.

Short-term subordinated capital rose € 31 million to € 100 million as a result of maturing tier 2 issues. The deduction items relating to participations, securitizations and insurance companies amounted to € 44 million (2010: € 34 million).

Own funds stood in contrast to a slightly higher own-funds requirement of € 7,624 million, an increase of € 39 million. The own funds requirement for credit risk was € 6,172 million (an increase of € 124 million), of which € 3,056 million related to the standardized approach and € 3,116 million to the IRB approach. The requirement for position risk in bonds, equities and commodities increased by € 193 million to € 520 million, primarily due to the introduction of the CRD III regulations. Despite increases due to CRD III, own funds required for open currency positions fell by € 245 million to € 140 million, resulting from a change in the calculation method. The requirement for operational risk was € 792 million (2010: € 824 million).

This led to an improvement of 2.4 percentage points in the excess cover ratio to 68.6 per cent or € 5,234 million.

The tier 1 ratio – based on credit risk – was 12.2 per cent. Based on total risk, the tier 1 ratio was 9.9 per cent, with a core tier 1 ratio of 9.0 per cent. The own funds ratio totaled 13.5 per cent.

Measures to achieve EBA requirements

European banks are required to raise their core tier 1 ratio as defined by the European Banking Authority (EBA) to 9 per cent by 30 June 2012 to shore up the financial system.

For RZB, this results in an additional need for roughly € 2.1 billion according to EBA calculations published in December 2011. RBI itself was not covered by the EBA study, as RZB acts as a superordinate banking institution. RZB is taking the necessary measures to comply with the new requirements without resorting to state funds.

To this end, RZB – with the involvement of RBI – is implementing some 20 work streams which are divided into three main areas and will contribute some € 3 billion to meet the target.

These include, among others:

- Reducing the capital required through a "capital clean-up" and reducing especially non-core business with a focus on market risk positions
- Generating regulatory capital through transformation of other own funds into core tier 1 capital according to EBA definition for 30 June 2012
- Release of hidden reserves, allowing for and allocating earnings (on a pro rata basis of regular dividend distributions)
- A multiplicity of smaller measures, e.g. liability management

Research and development

As a universal bank, RBI is not involved in research and development in the strictest sense of the term. In the context of financial engineering, however, it does develop customized solutions for investment, financing or risk hedging. Financial engineering encompasses not only structured investment products, but also structured financing: financing concepts which go beyond the application of standard instruments and are used in acquisition or project financing, for example. RBI also develops individual solutions to hedge a broad spectrum of risks – from interest rate risk and currency risk through to commodity price risk.

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

Balanced and comprehensive financial reporting is a priority for RBI and its governing bodies. Naturally, these reports must comply with all relevant statutory requirements. The Management Board is responsible for establishing and defining a suitable internal control and risk management system that encompasses the entire accounting process. The internal control system is intended to provide the management with the information needed to ensure effective internal controls for accounting, which are constantly being improved. The control system is designed to comply with all relevant guidelines and regulations and to optimize the conditions for specific control measures.

The consolidated financial statements are prepared in accordance with the relevant Austrian laws, notably the Austrian Banking Act (BWG) and Austrian Commercial Code (UGB), which govern the preparation of consolidated annual financial statements. The accounting standards used to prepare the consolidated financial statements are the International Financial Reporting Standards (IFRS) as adopted by the EU, which RBI has been using since 2000 – initially on a voluntary basis.

Control environment

An internal control system has been in place for many years at RBI and its parent, the RZB Group, which includes directives and instructions on key strategic topics. The system comprises

- the hierarchical decision-making process for approving Group and company directives and departmental and divisional instructions,
- process descriptions for the preparation, quality control, approval, publication, implementation and monitoring of directives and instructions
- rules on revising and repealing directives and instructions.

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

The consolidated financial statements are prepared by the Group Financial Reporting department, which reports to the Chief Financial Officer. The relevant responsibilities are defined Group-wide within the framework of a dedicated function.

Risk assessment

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

Control measures

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

Consolidation

The financial statement data, which are examined by an independent auditor, are usually entered directly in the Cognos Controller consolidation system by the end of January each year. The IT system is kept secure by limiting access rights.

The plausibility of each Group unit's financial statements is initially checked by the relevant key account manager within the Group Financial Reporting department. The subsequent consolidation steps are then performed using the Cognos Controller consolidation system, including capital consolidation, expense and income consolidation, and debt consolidation. Lastly, possible intra-Group gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and UGB.

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

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

Information and communication

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

The main department Accounting & Reporting is responsible for compiling the consolidated results to produce the final consolidated financial statements. These consolidated financial statements are examined by an independent auditor. In addition, the management summary (Group management report) provides verbal comments on the consolidated results in accordance with the statutory requirements.

The Group produces consolidated quarterly reports. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Corporation Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee. Analyses pertaining to the consolidated financial statements are also provided for the management, as are preliminary Group figures at regular intervals. The financial budgeting system includes a three-year Group budget.

Monitoring

The Management Board and Controlling department are responsible for ongoing internal monitoring. In addition, the relevant department heads are charged with monitoring their areas, including performing regular controls and plausibility checks.

Internal audits also constitute an integral part of the monitoring process. Group Audit at RZB is responsible for auditing. All internal auditing activities are subject to the Group Audit standards, which are based on the Austrian Financial Market Authority's minimum internal auditing requirements and international best practices. Group Audit's internal rules also apply (notably the audit charter).

Group Audit regularly and independently verifies compliance with the internal rules within the RZB Group units. The head of Group Audit reports directly to the RZB and RBI Management Boards.

Capital, share, voting and control rights

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

(1) The Company's capital stock amounts to € 596,290,628.20 and is divided into 195,505,124 voting common bearer shares. Of those, 943,771 are own shares as of 31 December 2011, which means that 194,561,353 shares were outstanding as of the balance sheet date. Please consult the notes on equity (34) for more information.

(2) The articles of association contain no restrictions concerning voting rights or the transfer of shares. The Management Board is not aware of any restrictions arising from agreements among shareholders.

(3) RZB holds around 78.5 per cent of the shares in the Company indirectly through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH, Vienna. The remaining shares are free float, containing no direct or indirect participations in the capital amounting to 10 per cent or more.

(4) Pursuant to the Company's articles of association, RZB is granted the right to delegate up to one third of the Supervisory Board members to be elected by the Annual General Meeting, as long as it holds a participation in the capital stock. Moreover, there is no special right of control associated with holding shares.

(5) There is no control of voting rights in the case of a participation in capital by employees.

(6) Pursuant to the articles of association, a person who is 68 years or older may not be appointed as a member of the Management Board or be reappointed for another term in office. The rule for the Supervisory Board is that a person who is 75 years or older may not be elected as a member of the Supervisory Board or be elected for another term in office. Furthermore, there are no regulations regarding the appointment and dismissal of members of the Management Board and the Supervisory Board or regarding amendments to the Company's articles of association beyond the provisions of the relevant laws.

(7) Pursuant to Section 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized since the Annual General Meeting of 8 June 2011 to increase the capital stock – in one or more tranches – by up to € 298,145,314.10 by issuing up to 97,752,562 new common bearer shares with voting rights against contributions in cash and/or in kind within five years after recording the relevant amendment to the articles of association in the commercial register, while preserving the right of subscription to which the law entitles shareholders, including the right of indirect subscription by way of a bank pursuant to Section 153 (6) of the Austrian Stock Corporation Act, and to fix the offering price and terms of the issue with the approval of the Supervisory Board. The Supervisory Board or a committee authorized for this purpose by the Supervisory Board is authorized to adopt amendments to the articles of association that arise upon issuing shares from the authorized capital.

Pursuant to Section 159 (2) 1 of the Austrian Stock Corporation Act, the capital stock has been increased contingently by up to € 47,173,587.50 through the issue of up to 15,466,750 common bearer shares (contingent capital). The contingent capital increase would only be carried out to the extent that holders of convertible bonds issued under the resolution of the Annual General Meeting of 10 June 2008 make use of their right to convert such bonds into shares of the Company. No convertible bonds have been issued to date, however.

The Annual General Meeting of 8 July 2010 authorized the Management Board to acquire own shares, under the provisions of Section 65 (1) 8 of the Austrian Stock Corporation Act, during a period of 30 months from the date of the resolution, up to a maximum of 10 per cent of the Company's respective capital stock and, if deemed appropriate, to retire them. This authorization may be exercised in one or more installments, for one or more purposes, by the Company, by affiliated enterprises or, for their account, by third parties. The Management Board was further authorized to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the exclusion of shareholders' subscription rights. This authorization replaces the authorization to buy back and use own shares that was granted at the Annual General Meeting of 10 June 2008. No own shares have been bought since the authorization was issued in July 2010.

The Annual General Meeting of 8 July 2010 also authorized the Management Board to acquire own shares for the purpose of securities trading, under the provisions of Section 65 (1) 7 of the Austrian Stock Corporation Act, during a period of 30 months from the date of the resolution, up to a maximum of 5 per cent of the Company's respective capital stock. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition. This authorization may be exercised in one or several installments by the Company, by affiliated enterprises or, for their account, by third parties.

The Annual General Meeting of 9 June 2009 authorized the Management Board of the Company to issue, in one or more tranches, participation rights having equity characteristics pursuant to Section 174 of the Austrian Stock Corporation Act in a total nominal amount of up to € 2 billion within five years from the date of the resolution with the approval of the Supervisory Board in accordance with the terms for participation rights to be set by the Management Board and to the exclusion of shareholders' subscription rights. It should be noted that, under the provisions of the relevant laws, participation rights confer no voting rights or other membership rights. Issuing participation rights therefore entails no change of ownership structure from the standpoint of stock corporation law and shareholders' voting rights. The Company decided on 15 July 2009 to strengthen its capital by issuing participation rights in the amount of € 600 million based on the authorizing resolution of June 2009. In the course of the merger of RZB's principal business areas with Raiffeisen International to form RBI with effect from 10 October 2010, the mutual loans and liabilities of the receiving and the transferring company were wiped out. The same is true of the participatory rights in the amount of € 600 million, which had been subscribed in full by RZB. No further participation rights have been issued to date. Please consult the notes on equity (34) for more information.

In the course of the merger of the principal business areas of RZB with Raiffeisen International on 10 October 2010, the RZB issue "Raiffeisen-Partizipationskapital 2008/2009" in the amount of € 2.5 billion was transferred to RBI on unchanged terms.

Pursuant to Section 102a of the Austrian Banking Act (BWG), the Annual General Meeting of 8 June 2011 authorized the Management Board of the Company, within five years of recording the relevant amendment to the articles of association in the commercial register, to retire either the participation capital in its entirety or the participation capital of individual tranches that were differentiated on issue, with the approval of the Supervisory Board and taking into account the terms of issue; partial retirement of participation capital of individual issues or tranches is permissible, provided the equal treatment of eligible holders of participation capital is ensured.

(8) The following material agreements to which the Company is a party and which take effect upon a change of control in the Company as a result of a takeover bid exist:

- The following is provided in the context of the Company's D&O insurance:
  "If the insured, RBI, comes under new control due to a change in the management or control in respect to the management or control over a subsidiary or if it merges with another enterprise, the insurance will only cover events of loss due to wrongful acts occurring prior to the change in control and management and only for events of loss up to the end of the period of insurance."

- The Company's Share Incentive Program (SIP) provides the following upon a change in corporate control:
  "If a change in corporate control or a merger occurs during the vesting period without the combination being exclusively concerned with subsidiaries, all contingent shares will lapse without replacement at the time of acquiring the shares of RBI and the investor's actual possibility of disposing of them, or at the time of the merger. An indemnification payment will be made for these contingent shares. The indemnity sum calculated will be paid out with the next possible salary payment."

- Furthermore, the syndicate agreements concluded by RBI in relation to individual subsidiaries with the relevant shareholders will automatically be terminated upon a change of control.

- The brand agreement concluded with RZB AG on the unrestricted use of the name and logo of Raiffeisen Bank International for an indefinite period of time in all jurisdictions in which the brand is registered now or in the future includes a right of cancellation upon a change of control.

(9) There are no indemnification agreements between the Company and its Management Board and Supervisory Board members or employees for the case of a public takeover bid.

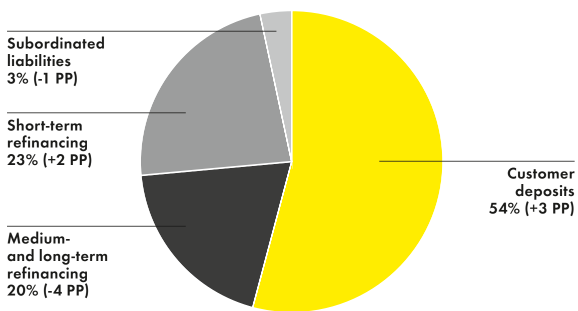
Funding

Banks refinance themselves using equity, customer deposits and various capital and interbank market tools. In 2011 the banking environment was heavily influenced by the sovereign debt crisis, which made refinancing difficult for banks – particularly via the financial markets.

Continuing uncertainty in the capital markets

The refinancing environment for banks deteriorated, particularly in the second half of 2011, as it was impossible to insulate it from the developments in the financing of sovereigns. The public debate on equity requirements for European banks and their holdings of sovereign bonds also contributed to the general uncertainty.

Funding structure



There is still a demand for far-reaching solutions, and particularly for an intervention by the European Central Bank (ECB) in the form of even more extensive purchases of sovereign bonds issued by the peripheral European states. In the face of this situation, the ECB announced on 8 December 2011 that it will support banks by increasing liquidity, specifically through refinancing transactions with a maturity of 36 months. At the same time, the ECB has eased requirements for securities it will accept for repo transactions, and prior to this had reduced the main refinancing rate to 1 per cent.

Even so, the excessive dependance on central bank financing is not a long-term solution. Given the current climate and relatively limited progress on the political level, banks – particularly from the peripheral European states – will continue to face higher risk premiums.

Stable basis for refinancing

RBI refinancing is based on two key elements. First, there are customer deposits which at the end of 2011 accounted for € 66.7 billion or 54 per cent of refinancing, and second there is wholesale funding, which totaled € 56.5 billion, or the remaining 46 per cent. The high share of customer deposits creates a stable refinancing basis, making RBI less vulnerable to the upheaval in the financial markets.

Diversified funding sources

In 2011 some 64 per cent of medium- and long-term wholesale funding of the RBI Group was generated by Group headquarters. The remaining 36 per cent came from the network banks.

The network banks in CEE also used the international markets for financing, e.g. through a syndicated loan by the Romanian subsidiary, with participation by the European Bank for Reconstruction and Development (EBRD), or structured financing in Croatia. Especially important for CEE subsidiaries is long-term financing from sources which are less affected by changes in the international capital market. These should become even more important in future. Besides financing backed by the Export Credit Agency (ECA), supranational institutions are another source of funding. At the end of 2011, some 11 per cent of the outstanding volume came from institutions like the European Investment Bank (EIB) or EBRD. These loans are generally long-term, and significantly improve the structure of the financing mix. Cooperation with these supranational institutions is an important element of funding in the regions where RBI operates, and will continue to play an important role. RBI cooperates with these institutions not only in financing but also in other areas, e.g. in risk sharing programs which optimize risk-weighted assets.

In addition, the network banks benefit in financing from support by the Austrian Raiffeisen Banking Group (RBG). This long-standing partnership aids in both procurement of liquidity via the Raiffeisen sector and placement of the sector's funding instruments with its customers.

A key goal of RBI's funding activities is the broadest possible diversification of financing sources for the network banks. In combination with customer deposits, this is intended to lead to an even more sustainable and independent structure for network bank financing in the future.

Successful benchmark issues

RBI's resources for medium- to long-term refinancing include two issue programs, the "EUR 25,000,000,000 Debt Issuance Program" and the "EUR 20.000.000.000 Emissionsprogramm der Raiffeisen Bank International AG." Under these programs, bonds can be issued in different currencies and with different structures. The total volume of outstanding bonds under the programs may not exceed € 25 billion or € 20 billion respectively. At the end of the year 2011, there was a total of € 12 billion outstanding in the two programs.

In view of the difficult market environment, RBI implemented its funding plan quickly in 2011, with two-thirds of the total funding requirement raised in the first quarter via wholesale funding, through the placement of two senior benchmark bonds. In January, the first benchmark bond was issued as a senior fixed-rate bond with a total volume of € 1 billion and a three-year maturity. This issue makes RBI the first Austrian bank to issue an unsecured bond for over € 500 million since the start of the financial crisis. It was placed at 145 basis points over mid-swaps, with a coupon of 3.625 per cent. The issue was significantly oversubscribed.

A few weeks later, RBI took advantage of the more positive market environment in March 2011 to issue a second benchmark bond with a volume of € 1 billion. This issue was also significantly oversubscribed. The bond had a variable coupon with a premium of 90 basis points over 3 month EURIBOR and a maturity of two years.

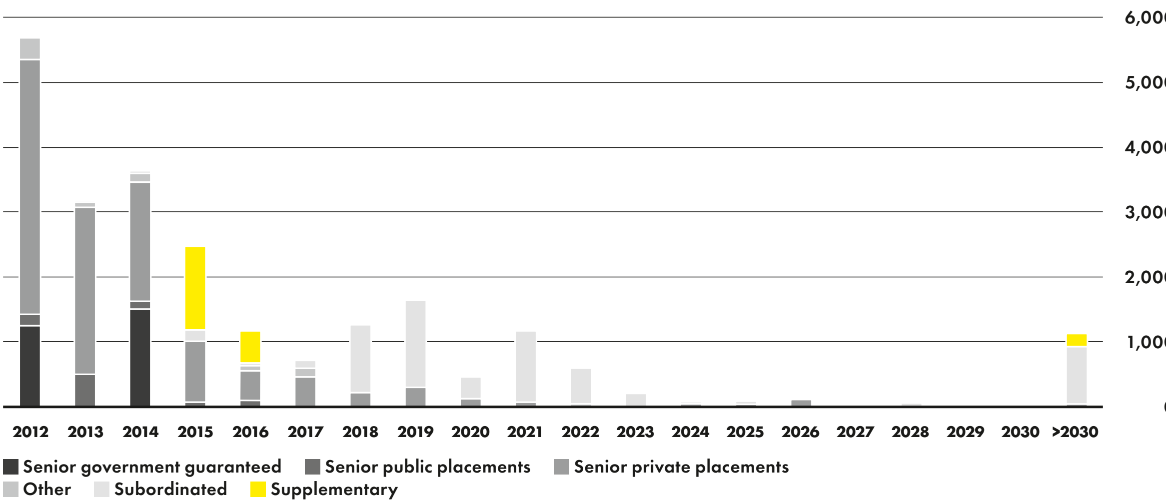
In May 2011 RBI was the only Austrian bank to place a subordinated bond for € 500 million with a ten-year maturity. This replaced a bond for € 366 million that had been called. It was placed at 325 basis points over mid-swaps, with a coupon of 6.625 per cent.

Further refinancing measures

For short-term funding RBI used both the interbank market and its two programs for short-term issues (commercial papers), the "European Commercial Paper Program" and the "US Commercial Paper Program." Under these two programs RBI can issue commercial papers in various currencies, thereby enabling it to refinance also outside the interbank market.

To diversify its funding sources, RBI is also working actively on developing secured refinancing sources where longer-term funding can be secured by otherwise illiquid assets. The resulting mobilization of assets is to become increasingly important in the future.

Maturity profile of the debt securities issued
in € million



Besides the difficult market environment for refinancing USD by non-US banks, RBI's move to advance its funding activities to the first quarter of 2011 for security purposes is reflected in net interest income for 2011. The early implementation of the 2011 funding plan made a positive contribution to profit.

Risk management

2011 was marked by enormous market uncertainty. While the recovery of the global economy from 2010 continued in the first six months of the year, the second half of 2011 offered a different setting. The sovereign debt crisis in the peripheral European states and the protracted negotiations, and in particular the political tensions regarding the countermeasures to be adopted, fueled anxiety and caused distrust on the European markets. During summer, financial institutions started stockpiling their excess liquidity and placed it in "the safe haven" of the ECB rather than providing liquidity to the interbank market. Compared to previous years, the number and volume of new issues declined sharply. The increased nervousness was also reflected on the stock markets, both by the high price volatility and some significant declines in value, especially of financial stocks.

In this environment, RBI Risk Management took into account the increased market volatility by using existing and new management tools and thus was able to respond in time to the changes in economic conditions. Particular emphasis was placed on maintaining a strong liquidity position and on reducing existing exposure to countries and financial institutions especially in the markets affected by the sovereign debt crisis. Furthermore, internal processes and structures were critically evaluated, both to ensure the desired efficiency of the risk control systems as well as to uncover potential risks from operational processes at an early stage and be able to manage them. All of these measures contributed towards further enhancing the robustness of the RBI loan portfolio.

Stress tests

In the first six months of 2011 the European Banking Authority (EBA) performed a stress test in which 90 European banks took part. The test analyzed the impact of various economic development scenarios, using variables such as GDP growth rates, exchange rates and risk premiums, on future capital requirements, required loan loss provisioning as well as revenue and capital components. The direct and indirect influences of predetermined crisis scenarios were examined in detail.

The EBA in this case defined a core capital ratio of 5 per cent (core tier 1 capital ratio pursuant to CRD III) as a target over a two-year period after the onset of the crisis scenarios. RBI clearly exceeded this level with 7.8 per cent. In addition, the only minimal decline in the capital ratio of 0.3 percentage points over the stress period showed RBI's ability to withstand the crisis compared to the scenarios presented.

Especially the detailed publication of the banks' loans and advances to countries provided the financial markets with fundamental information for risk assessment. Thereby RBI was shown to hold only a very small amount of debt from the peripheral European states and since publication has reduced it even further. To this end, risk management reduced both the limits as well as the outstanding risk exposure, to counteract negative consequences arising from the European sovereign debt crisis.

After analyzing the results of the stress tests and in view of the macroeconomic developments in the fall of 2011, the EBA decided to re-examine the capital adequacy of banks. Thereby it investigated the capital requirements necessary for the participating banks to achieve a capital ratio of 9 per cent. To shore up European financial institutions against the volatile market environment and to ensure the stability of the financial markets, banks must now attain this ratio by the end of June 2012. RBI only participated indirectly in this exercise as part of RZB; consequently there are no detailed results for RBI. Nevertheless, RBI developed a number of initiatives as part of RZB, to attain the prescribed ratio. The implementation of these measures already started in 2011.

In addition to the core tier 1 capital ratio of 9 per cent, EBA identified further capital requirements as a buffer for the banks' portfolios of sovereign risk, arising from unrealized losses from loans and advances to countries whose market value fell during the sovereign debt crisis. For RZB, there was no additional capital requirement.

Besides the regulatory stress tests carried out by the regulatory authorities, RBI also performed internal analyses for further scenarios and potential risk drivers in 2011. Through close cooperation of all areas of risk management and the involvement of other experts from the network banks and controlling, these internal stress tests took into account a large number of risk factors and their impact on solvency. Market risks, operational risks, increased funding costs and numerous other capital and income components were included in the integrated approach, in addition to the increased capital requirement and high write-downs on the loan portfolio in case of stress. The Management Board was regularly informed of the stress test results and their analyses, so that the rapid introduction of countermeasures in case of a threatening situation is ensured.

Hungary

Both economic development as well as the political environment in Hungary posed special challenges to risk management in 2011. Compared to other Central and Eastern European countries, the Hungarian economy shows lower growth rates; for 2012 Raiffeisen Research even expects a decline in real GDP to about 0.5 per cent. In light of this, RBI expects a further increase in the NPL ratio for the Hungarian market, which stood at 22.7 per cent as of year-end 2011. In order to minimize potential losses, RBI credit risk management therefore employs an early warning system, which identifies any potential deterioration in credit quality and actively pursues the reduction of the credit exposure as well as the increase of collateral for clients with a poor credit rating.

In 2011 provisions for impairment losses totaling € 478 million were booked for Hungary. While € 521 million was allocated to individual loan loss provisions, portfolio-based loan loss provisions generated a release of € 43 million. Thus, the coverage ratio increased to about 61.7 per cent.

In addition to the bank levy introduced in Hungary in 2010 and the existing legal restrictions on banks, e.g. in property sales, legislation passed by the Hungarian Parliament on 20 September 2011 facilitated the premature repayment of mortgage loans in Swiss francs, euros and Japanese yen at fixed exchange rates. These were 180 HUF per CHF, 250 HUF per EUR and 200 HUF per 100 JPY. In comparison, the actual exchange rates on 31 December 2011 were 259.3 HUF per CHF, 314.8 HUF per EUR and 310.5 HUF per 100 JPY. The fixed exchange rates on 31 December 2011 for the Swiss franc were some 31 per cent, for the euro some 21 per cent and for the Japanese yen roughly 36 per cent below the actual rates. The regulation applies to bank customers who took on their foreign currency loans at a time when the rates were not above these levels. These clients had until 30 December 2011 to state their intention of full repayment which would then have to be completed within 60 days.

The following table shows the volume of foreign currency mortgage loans to retail customers in Hungary:

In € million	2011	Share	2010	Share
Euro	34	2.8%	38	2.6%
Swiss franc	1,185	97.2%	1,429	97.3%
Other foreign currencies	0	<0.1%	0	<0.1%
Total	**1,218**	**100.0%**	**1,468**	**100.0%**

The volume of actual or expected repayments as at 31 December 2011 totaled € 401 million, which corresponds to an acceptance rate of 28.9 per cent. Roughly half were already converted in 2011 and appropriate measures were taken for the remainder. The resulting loss amounted to € 109 million. Lower interest income in subsequent periods lies at around € 18 million.

Liquidity risk

Liquidity risk management was one of the most affected risk control units in 2011. In addition to the increased frequency of internal reporting and the high number of additional analytical tasks, especially since the new issues markets dried up, measures were taken to ensure that RBI maintained its strong liquidity buffer. At the same time, the crisis scenario analyses used for internal risk measurement and management were further developed and more closely integrated into the liquidity and the balance sheet management of the principal Group units.

The cash flow modeling for the expected base case was also revised in 2011 to include findings from past years, in order to adjust the resulting forecasts for capital commitment and refinancing needs. On the one hand, this should increase transparency with respect to actual costs and risks, and on the other hand naturally set a course for the correct management decisions.

The planned implementation of the liquidity requirements according to Basel III in 2011 was another issue regarding liquidity risk. Although there is still no final draft of the regulatory requirements and these can therefore be interpreted very differently, calculations have already been conducted for RBI and individual Group units. The implementation of the required data landscape and of the corresponding calculation applications has also already been introduced and will constitute a key area of activity in 2012.

The Liquidity Contingency Committee (LCC) is a committee that concerns itself with liquidity management and measures in the case of difficult market situations or crises. Due to the difficult market situation, the LCC was convened in the second half of 2011 and had met several times by year-end.

Simulation of net interest income

RBI's interest income represents a significant earnings factor and thus makes a material contribution towards stabilizing the capital base and to the success of the business model. To do justice to this significance, risk management of interest flows is realized in its own entity independently of liquidity risk. Here, particularly the impact of different interest rate scenarios on interest income is simulated. In close cooperation with the front-office units, RBI thus prepares for various developments on the market and can react quickly in the case of negative trends. The emphasis in this area in 2011 was on further developing the available analytical and reporting tools on the one hand and on harmonizing these systems within the Group on the other.

Market risk

Since January 2010 market risk management has been based on figures from an internal model. This is calculated using a hybrid approach; in other words, a combination of historical and Monte Carlo simulation with 5,000 scenarios, the value-at-risk (VaR) for changes in the risk factors of foreign currencies, interest rate development, credit spreads from bonds, Credit Default Swaps and equity indices. To improve modeling of risk factors where the probability of extreme price changes exceeds the probability given by the normal distribution, numerous approaches were integrated into the model. These include the enhancement of the scenarios to include extreme events or the consideration of the current volatility levels in generating scenarios and different time horizons in the volatility estimate. This choice of model access already today forms the basis for putting in place the strict Basel III requirements in internal models. The model was additionally expanded to include a stressed-VaR module that meets the regulatory requirements that have been in effect since 31 December 2011.

Having passed the review process of the FMA and the Oesterreichische Nationalbank (OeNB), the model has been used since 30 August 2010 for calculating own funds requirements of foreign currency and the general interest rate risk in the trading book for Group headquarters. The daily scope of management includes the RBI trading and banking books based on the VaR on a holding period of 1 day and a confidence interval of 99 per cent as well as sensitivity limits. The market risk position, the limit process and the presentation of all capital market activities in the income statement are among the items on the fixed agenda for the weekly market risk committee meeting.

To ensure the quality of the model, daily back testing is performed. The results of these tests were always within the limits of the model expectations and have also featured no significant deviations in recent months. Based on these positive results, the internal model is to be allocated to the best class ("green status") from a regulatory perspective.

Management of non-performing loans

The fact that 2011 was a difficult year for the CEE region and thus for RBI's home market, was reflected in an increase in non-performing loans to non-banks (up 4 per cent or € 266 million compared to 2010). However, the allocation of corresponding loan loss provisions was partially offset by high returns from reorganization measures. Furthermore, adequate coverage was ensured through write-downs. This will also be one of the priorities in 2012.

In 2011, RBI also made significant process improvements in the early recognition of troubled loans and their processing, thus largely preventing a further increase in non-performing loans. The larger range of the portfolios considered and the improved process efficiency, the further development of the reporting system and the continuous exchange of experience between the individual members of the Group are significant cornerstones here.

Basel II and III – regulatory environment

Once more, RBI was intensively involved with current and pending regulatory developments in 2011. The majority of the expected changes result from the EU CRD III guidelines on capital requirements and the even more extensive CRD IV/ CRR legislation proposed by the EU Commission. The potential impact on RBI of new and amended legislation has been analyzed in detail. The corresponding internal guidelines were adopted where necessary, for example, in relation to the remuneration policy and the appropriateness of remuneration.

In addition to the measures already taken in connection with the new Basel III regulations, risk management focused in 2011 on the ongoing implementation of the advanced Basel II approach. The Basel II related activities included the implementation of the internal ratings-based approach (IRB) in the retail- and non-retail sector in the subsidiaries in the CEE region, further development of the internal market risk model as well as the introduction of the standardized approach to operational risk throughout the Group.

The following table gives an overview of the current status of these projects. The implementation of the IRB approach in subsidiaries in the CEE region will continue in 2012.

	Credit risk			
Unit	**Non-retail**	**Retail**	**Market risk**	**Operational risk**
Raiffeisen Bank International AG, Vienna (Austria)	IRB [1]	n.a.	Internal Model [2]	STA
RB International Finance (USA) LLC, New York (USA)	IRB	STA [3]	STA	STA
Raiffeisenbank a.s., Prague (Czech Republic)	IRB	STA	STA	STA
Raiffeisen Bank Zrt., Budapest (Hungary)	IRB	IRB	STA	STA
Raiffeisen Malta Bank plc., Sliema (Malta)	IRB	STA	STA	STA
Tatra banka a.s., Bratislava (Slovakia)	IRB	IRB	STA	STA
Raiffeisen Bank S.A., Bucharest (Romania)	IRB	STA	STA	STA
Raiffeisenbank Austria d.d., Zagreb (Croatia)	IRB [4]	STA	STA	STA
All other units	STA	STA	STA	STA

[1] IRB = Internal ratings-based approach
[2] Only for risk related to the open currency positions and general interest rate risk in the trading book
[3] STA = Standard approach
[4] Only on a consolidated basis

The standard approach is currently used in all principal Group units for the capital backing of operational risk in accordance with Basel II.

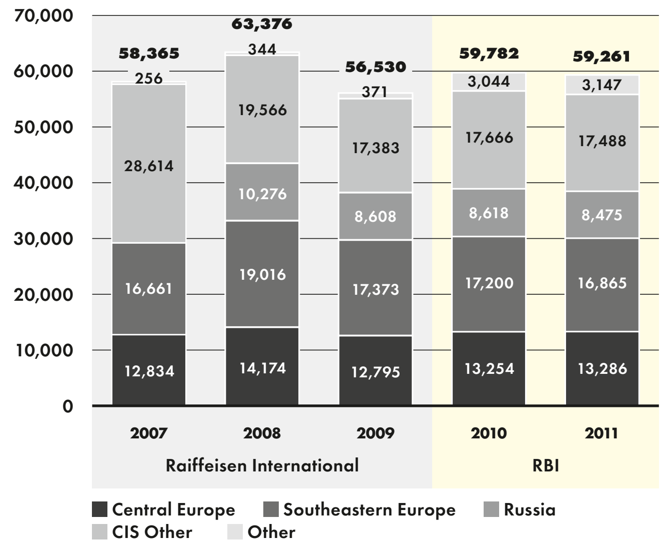
Human resources

Human Resources (HR) management is closely linked to RBI's economic performance. As a result, 2011 was a year of contrasts. The first half of the year was marked by optimism and forecasts of growth, which prompted investments in recruitment and training, plus alterations to compensation principles. The situation changed in the second half of the year, however, and cost-cutting programs were introduced in all countries.

As of 31 December 2011, RBI had 59,261 employees (measured on a full-time equivalent basis), down 1 per cent or 521 people against the end of 2010. The largest cutbacks, based on the total number of employees in a particular country, were recorded in Hungary, Russia and Ukraine. The average age of employees remained relatively low at 36 years, which reflects the image of RBI as a young and dynamic bank. Graduates accounted for 74 per cent of employees, indicating a highly skilled workforce. 68 per cent of employees were women.

Development of personnel

Number of staff on balance sheet data



Performance management

The performance management process was adapted to comply with the CRD III Requirements Directive (further details at the end of the section). In 2011, the bulk of improvements to HR tools and guidelines was based on these requirements. The key priorities lay in matching individual managers' performance targets to the business strategy, providing intensive training for managers and staff, and improving processes.

Training and international transfer of knowledge

The priorities of professional development are closely linked to the RBI Group business strategy. Consequently, the 2011 training programs focussed on capital market products and risks with a view to enhancing corporate customer advisors' skills in this area, as well as on risk management and premium banking. All staff have access to a wide range of courses. In order to increase the impact of Group-wide training, so-called master trainers were appointed at each network bank. These serve as multipliers, facilitating the transfer of knowledge and expertise.

Alongside traditional training, the promotion of intra-Group mobility and the international exchange of knowledge and personnel were key aspects. For example, international trainee programs in Risk Management and Treasury encouraged a purposeful exchange of know-how and experience between the network banks.

The range of e-learning courses – a vital component in ongoing training – was expanded in the period under review. E-learning is primarily used to provide the best possible support for training on common topics as well as on local and Group-wide initiatives. Improvements to the technical infrastructure and more user-friendly features resulted in considerably higher levels of use and acceptance in 2011.

Talent management and management development

As an employer, RBI creates an environment that challenges employees, thereby developing and supporting their personal skills. In order to highlight the career options open to the most talented specialists and to encourage them to stay with the company, RBI wants to ensure that attractive alternatives to a career in management are available to them. The requisite structures have been established and provide the basis for a broad range of talent management measures.

Top companies for leaders

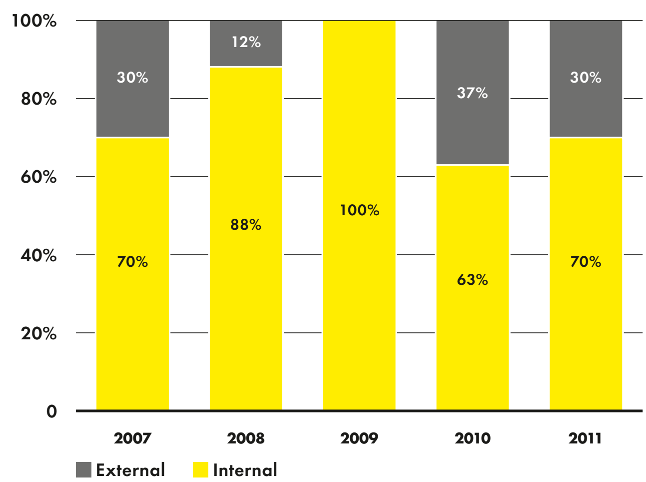
In recognition of its management development strategy and programs, RBI became the first Austrian company to be recognized in the international study "Top Companies for Leaders 2011." RBI came in sixth in the European ranking of the study, which was conducted by the American Fortune magazine in cooperation with human resources consultancies AonHewitt and the RBL Group. RBI was one of only a few banks to make it onto the list. Evaluation criteria included the strength of leadership practices and culture, examples of leader development on a global scale, alignment of leadership and business strategy, business performance, and company reputation.

RBI's talent management features clear processes and effective tools. RBI has an impressive pool of top talent comprised of more than 120 individuals meaning that most high-level positions can be filled by internal candidates.

Numerous Group-wide and local initiatives

In order to give key managers detailed feedback on their current performance – including a market comparison – RBI developed a Group-wide top management audit in 2011. The audit forms the basis for individual development plans that promote internationalization and a diversification of management skills.

Filling of Board positions in network banks



In addition, a wide variety of local initiatives were set up to identify and encourage high potentials, such as assessment centers for branch managers in Kosovo, for middle management in Russia and for top local talent in Hungary, as well as the Croatian School of Excellence and the Executive Education Program launched in cooperation with local and international business schools in Russia and Poland.

Long-standing successful management development programs for various target groups and management grades, as well as coaching and "360-degree feedback," continued in 2011. RBI also worked with the training teams of the Austrian Raiffeisen Banking Group (RBG) on the Raiffeisen Campus project – a project designed to foster more transparent talent management within the Raiffeisen Group as a whole in the medium term.

Employee surveys

Many Raiffeisen units conducted employee surveys in 2011; in addition to Austria also Albania, Croatia, Kosovo, Poland, Romania and Serbia. In Austria more than 70 per cent of employees completed the survey. Alongside questions regarding working conditions, cooperation, information, communication and job satisfaction, one focus of the survey was dedicated to the concept of leadership. After evaluating the results, over 60 projects were developed and initiated in 2011. Moreover, measures were taken to improve internal information and communication and various features of the performance management and compensation systems were modified.

Joining forces in Human Resources

Group-wide management, knowledge management and mutual learning remained key issues for RBI's Human Resources management activities in 2011. Priorities included implementing Group standards and promoting cooperation between subsidiary banks, particularly the exchange of experiences and best practices. The annual meeting of RBI HR managers was held in April and covered current topics such as job grading, change projects, compensation programs, performance management, and incentive schemes. Moreover, two regional meetings held in Minsk and Zagreb looked at different regional and national requirements. The spotlights here were on optimal HR structure, employee development, and the optimization of administrative HR processes.

New compensation rules

The Austrian Banking Act (Section 39b BWG), amended to comply with new EU legislation (Capital Requirements Directive III, CRD III), requires banks to have variable remuneration schemes from 2011 onwards. The aim is to motivate employees to adopt practices promoting sustainability and long-term growth. Consequently, RBI modified its remuneration schemes in 2011, introducing special rules for managers, risk buyers (roles where business decisions directly affect the risk profile), employees with supervisory duties, and employees who fall into the same remuneration group as managers and risk buyers and whose activities have a significant impact on the risk profile ("identified staff").

All RZB Group companies were evaluated to determine how certain criteria (e.g. business model, assets, economic capital, etc.) affect risk, after which decisions were taken on how to apply the new remuneration guidelines (in full, partially, or the basic minimum) and who qualified as "identified staff." Based on that assessment, a detailed set of compensation principles was developed that form the backbone of remuneration policy and practices in RBI and RZB banks. This provides a framework across the Group to ensure that employee remuneration is aligned with the new legal requirements:

General RBI Compensation Principles

- Compensation principles support the business strategy and the long-term company targets, interests and values through using the RBI KPI (Key Performance Indicators) set and key cultural competencies.
- Compensation principles incorporate measures to avoid conflicts of interests.
- Compensation principles and policies are consistent with effective risk-taking management practices and avoid incentives for inappropriate risk taking through KPIs and management processes (e.g. performance management process, risk committees, bonus pool approach).
- Compensation is driven by a functional structure (e.g. grading structure) and is performance-related.
- Compensation is competitive and affordable and is defined according to the relative value of the job, market value and practices.
- Fixed compensation is defined in accordance with local market conditions.
- The pay-mix (portion of variable compensation to fixed compensation) is well balanced which allows every employee an adequate living based on fixed income, thus allowing a full flexible variable remuneration policy including the possibility of no variable remuneration.
- The variable compensation may consist of:
  - Short-term Incentive (STI): for performance of up to one year measured at Group, bank, business unit and individual level using quantitative and qualitative criteria.
  - To ensure that total organization/unit performance is reflected in short-term incentives, bonus pools define total amounts of payments.
  - Mid-/Long-term Incentive (LTI): for sustained performance up to five years based on mid- and long-term measurements.
- All variable compensation programs include regulations for thresholds and caps.
- The total variable remuneration is not allowed to limit the ability of the institution to strengthen its capital base.
- Variable remuneration is not to be paid through vehicles or methods that facilitate the avoidance of the requirements of this corporate directive.
- Performance is the basis for all variable compensation schemes and takes into account:
  - the bank, business unit (where applicable) and individual performance (including compliance with the RZB Group Code of Conduct and the compliance regulations).
  - the costs of risks, liquidity and capital.

- Individual performance is the output of achieved results and behaviors/competencies based on both quantitative and qualitative measures, assessed within the performance management process and by taking into account financial and non-financial criteria.
- Group/unit performance is the output of achieved results based on quantitative measures following the RBI Group KPI set.
- Employees engaged in control functions are compensated independent of the business unit they supervise, have appropriate authority and their remuneration is determined on the basis of achievement of their organizational objectives, regardless of the results of the business activities they monitor.
- The pension benefits are in line with the business strategy, objectives, values and long-term interests of the institution. If the employee leaves the company before retirement, discretionary pension benefits will be held for a period of five years in the form of the equity/non-cash instruments. In case of an employee reaching retirement, discretionary pension benefits shall be paid to the employee in the form of equity instruments subject to a 5-year retention period.
- Guaranteed variable payments are used only as an exception limited to the first year of employment.

Additional rules apply to "identified staff," such as deferring parts of the variable remuneration for a stipulated period.

New compensation rules were introduced in all Group units, in line with the Group principles and the relevant local statutory requirements. In some countries, this involved altering existing variable remuneration schemes, as was the case for the annual bonus system in Bosnia and Herzegovina and the incentive schemes for individual retail units in Serbia.

In the course of the merger of Raiffeisen International with the principal business areas of RZB in 2010, the compensation structures in Austria were standardized and harmonized. This process was completed in 2011. The compensation and bonus systems were completely overhauled to comply with the new regulatory demands. The basic compensation model was compared against market standards, and salary margins were defined for all function groups. With these steps, the compensation scheme harmonization process – a key component in the development of a new corporate culture – was completed.

Outlook

Economic prospects

Central Europe

Having benefited from stable growth in their export markets in 2011, Central Europe's economic forecast for 2012 is significantly gloomier. In this climate, Poland's GDP growth is likely to drop from 4.3 per cent in 2011 to 2.8 per cent in 2012. The situation is similar in Slovakia, which was still reporting growth of 3.3 per cent in 2011, but is likely to suffer a drop in economic output to 0.8 per cent in 2012. With domestic demand remaining weak and exports falling as a result of the expected recession in the eurozone, total economic output in the Czech Republic is expected to fall by 0.2 per cent in 2012. Similar developments are expected in Slovenia where the heavy dependence on exports, a fragile banking sector and a delay in political reforms generate grim prospects. The latest political decisions in Hungary have had an impact on investor confidence. Combined with low domestic demand, the forecast here in 2012 is for economic output to fall by 0.5 per cent.

Southeastern Europe

The renewed slowdown in the eurozone's economy, combined with persistently weak investment activity, is, as in the case of Central Europe, likely to have a dampening effect on Southeastern Europe and could lead to stagnation or even recession in some countries. Tighter lending, persistently high unemployment and a drop in transfers from Southeastern Europeans working abroad are impairing consumer spending. Governments there also have limited resources to significantly increase consumption or finance investments. Consequently, GDP is expected to rise only marginally by around 0.3 per cent in 2012.

CIS

Even though oil prices are expected to remain high, lower growth is forecasted for the Russian Federation in 2012. Russia is increasingly struggling to transform its export price level into significant economic growth. Nevertheless, at 3.7 per cent it should still be well within positive territory and above the average eurozone level. Domestic factors boosting the economy – through both private demand and investments – are likely to be somewhat weaker year-on-year. Similar developments are expected in Ukraine. Like Russia, it is heavily dependent on the volatile prices of commodities and, as such, is particularly exposed to risk in the current global environment. Growth in the economy is likely to drop from 5.2 per cent to 3.5 per cent. Domestic consumption remains high, while exports are decreasing slightly. Belarus will still have to struggle with the consequences of the economic crisis in 2012. With pressure from inflation and depreciation still high, GDP growth of 3.0 per cent is expected.

Eurozone

Current forecasts predict a distinctive economic downturn at the end of 2011/beginning of 2012. Owing to the high financing costs, fiscal counter steering is nearly impossible in most countries. On the contrary, persistent restrictive fiscal policies are to be expected for the majority of eurozone countries in 2012. Furthermore, the political environment will remain turbulent. Budget cutbacks and structural changes on the national, as well as bail-out packages on the European level will most likely be accompanied by criticism and protests. In light of these circumstances, a noticeable recession is anticipated from year-end 2011 until mid-2012. On the eurozone demand side this will be characterized by a decline in the demand for investments and public consumption. It is likely that some eurozone countries will experience a decline in their economic performance: Austria (0.3 per cent), Belgium (minus 0.2 per cent), Finland (0.0 per cent), France (0.1 per cent), Germany (0.0 per cent), Ireland (minus 0.7 per cent), Italy (minus 1.8 per cent) and Spain (minus 1.2 per cent). The largest GDP declines are forecast for Greece (minus 5.5 per cent) and Portugal (minus 3.8 per cent).

Asia

China will remain the motor for growth in Asia in 2012, even though economic growth will be noticeably slower due to the worldwide decline in demand for exports, as well as internal imbalances in the real estate market. Decreasing inflation enables monetary countermeasures. At the same time, it is expected that fiscal policy will not interfere quite as strongly as it did in 2009 (strong increase in investments), but that smaller measures, geared towards stimulating consumption and supporting low income households, will be taken. In general, the government's targeted growth of 7.5 per cent in 2012 will be exceeded. India also faces a significant slow-down in economic growth that will reach its low in the first half of 2012. For 2012 the growth forecast stands at an average of 7.0 per cent.

Outlook for RBI

In the context of expected overall economic developments, particularly in CEE, we are aiming, with the inclusion of the acquisition of Polbank, for a return on equity before tax of around 15 per cent in the medium term. This is excluding future acquisitions, any capital increases, as well as unexpected regulatory requirements from today's perspective.

In 2012, we expect a stable business volume due to the economic environment and restrictive regulatory requirements. From the customer standpoint, we plan to retain our Corporate Customers division as the backbone of our business and in the medium term to expand the proportion of business volume accounted for by our Retail Customers division.

Against the backdrop of a permanently changing regulatory environment and further strengthening of our balance sheet structure we are continuously evaluating the level and structure of our regulatory capital to be able to act promptly and flexibly. Depending on market developments, a capital increase also continues to be a possible option.

Despite the cautious economic growth forecast, we expect to see a stabilization of the net provisioning ratio along with only a marginal increase in non-performing loan volumes. Due to current developments on the economic and political fronts, it is not possible to accurately predict when we will reach a turning point as far as non-performing loans are concerned.

In 2012, we expect higher bank levies than in the previous year. In Austria and CEE this will presumably result in a negative earnings effect of some € 160 million (of which approximately € 100 million in Austria, € 40 million in Hungary and € 20 million in Slovakia).

We plan to raise around € 4.6 billion in long-term wholesale funding (maturity of more than one year) for the RBI Group in 2012. In the capital markets we intend to raise € 2.1 billion in wholesale funding, of which around € 1.3 billion had already been placed as of mid-March.

In 2012 we will once again pay increased attention to cost development. Therefore, we have implemented Group-wide cost efficiency programs in order to achieve a flat cost development. The number of Group outlets is to remain fairly stable in 2012 (excluding Polbank), although there may continue to be some optimization of our network in some countries.

Events after the balance sheet date

Acquisition of Polbank

RBI signed an agreement with the Greek EFG Eurobank Ergasias S.A. (Eurobank EFG) on 3 February 2011 for the acquisition of a majority share of 70 per cent in its business unit Polbank EFG (Polbank) as a first step. With its strong focus on private customers, Polbank would complement Raiffeisen Bank Polska ideally, which mainly focuses on corporate customers.

Significant steps towards acquiring Polbank – for example the approvals by the European Commission and the transition to an independently licensed bank – as well as the preparations for the future organizational structure of the merged bank were successfully carried out in the 2011 financial year. Closing the transaction now depends on the regulatory approval in Poland.

Strengthening the core capital

The tender offer period for buying back several RBI hybrid bonds ended on 5 March 2012. In total, RBI bought back securities with a total nominal value and at a liquidation preference amount of € 358 million. The buyback increases the core tier 1 capital by approximately € 113 million (the difference between the nominal and redemption amount) or the core tier 1 ratio by 0.12 percentage points. This strengthens the capital structure accordingly against the backdrop of the changes in the regulatory requirements.

RBI optimizes structure of participations to prepare for Basel III

In the course of its measures to prepare for the Basel III guidelines that will be in force as of 2013, RBI is currently optimizing its structure of participations. The European implementation of Basel III will limit the recognition of the capital contributions provided by minority shareholders. In order to avoid this effect, RBI will acquire the minority shareholdings that RZB holds in the Slovak Tatra banka a.s. and the Czech Republic's Raiffeisenbank a.s. By doing so, RBI will increase its already existing majority shareholdings in these network banks and will further simplify the shareholder structure.

On the completion of this measure – which is still subject to approval from the relevant regulatory authorities – RBI's equity share in Tatra banka in Slovakia will increase from 65.8 per cent to 78.6 per cent and from 51.0 per cent to 75.0 per cent in Raiffeisenbank in the Czech Republic. The purchase price for the shares will total approximately € 344 million, which will initially impact RBI's core tier 1 ratio by around 0.35 percentage points.