# Group management report

# Market development

## Recession in Europe, economic weakness in the USA

At the end of 2011, a recession began in the Eurozone, which continued throughout 2012. Regional performances, however, varied. Whereas Germany and Austria, for example, continued to realize GDP growth during 2012, other countries, particularly in Southern Europe, fell into a deep recession. In the second half of the year, the economic slowdown originating in Southern Europe increasingly extended to the North. And in the fourth quarter of 2012, even Germany and Austria suffered a decline in their economic output compared to the prior quarter. At the end of 2012, economic momentum in the overall Eurozone reached its interim low point. In light of the weak economy, the inflation rate, averaging 2.5 per cent, was also unusually high. This was attributable mainly to the sharp increases in energy and food prices. Since mid-2010, inflation was additionally increased by fiscal measures, especially in the southern countries.

After growing by 4 per cent in the fourth quarter of 2011 compared to prior quarter, the US economy slowed considerably in 2012, achieving a plus of 2.2 per cent. Growth therefore remained below average for US standards, primarily due to declining government spending and a very subdued increase in private consumer spending. As in 2010 and 2011, consumer spending was dampened by weak trends in the US labor market and stagnating real wages. In the second half of the year, limited corporate investment activity slowed economic growth even further.

## Different trends in CEE

The economic recovery that began during 2011 in Central and Eastern Europe (CEE) slowed down somewhat during the course of 2012. While the region had registered growth of 3.7 per cent in 2011, it will probably post 2.0 per cent in 2012. Exports remained the main driver of growth, while domestic demand was predominantly weak. Economic trends in CEE therefore continue to be influenced by the Eurozone as the region's main export market. In addition, ongoing consolidation efforts by the public sector are having a negative impact on economic growth.

In the Central Europe region (CE), the economic performance of Poland and Slovakia (as in the prior year) particularly stood out, although economic growth also slowed in these countries. While Poland's economy grew by 4.3 per cent in 2011, it probably lay at 2.0 per cent in 2012. During the same period Slovakia posted a decline in growth, falling from 3.2 per cent to 2.0 per cent. The other three countries in CE were less resilient. Slumping from growth of 1.7 per cent to now minus 1.2 per cent, the Czech Republic slipped into recession in 2012, just like Hungary (2011: 1.6 per cent, 2012: minus 1.7 per cent). In Slovenia, which had achieved growth of 0.6 per cent in 2011, economic output contracted about 2.3 per cent in 2012.

The countries of Southeastern Europe (SEE), which had achieved GDP growth of 1.7 per cent in 2011, exhibited economic showdown with minus 0.3 per cent in 2012. On the one hand, political conflicts slowed the reform process, and on the other hand, austerity measures already taken curbed domestic demand. Moreover, the region's central banks were confronted with conflicting priorities as a result of looming inflation pressure and were unable to support the economy with interest rate reductions.

Despite overall good growth figures for 2012, economic growth in the Commonwealth of Independent States (CIS) also weakened tangibly in the second half of the year. In Russia, growth rates fell to 2.5 per cent in the second half of the year, after 4.5 per cent in the first half. This is attributable to a decline in growth in industrial production and investment, whereas consumer demand supported growth rates. The situation in CIS is unlikely to change in the first half of 2013; therefore following an increase in GDP of 3.1 per cent in 2012, growth of 2.8 per cent is currently expected for 2013.

All in all, economic growth of 2.0 per cent is the forecast from today's perspective for CEE in 2013.

Developments in the Eurozone will remain highly relevant in 2013. Thanks to solid momentum in Russia, where stable oil and commodity prices will likely continue to support the economy's performance, the strongest growth is expected once again in CIS. Southeastern Europe on the other hand, should probably achieve the most substantial turnaround compared to 2012, improving from minus 0.3 per cent to a forecast of 0.9 per cent. Likewise, growth in CE will presumably increase slightly, still driven by Poland and Slovakia. For Slovenia, however, there still is a perceived risk of continued recession in 2013. The situation in Hungary will also remain difficult, where numerous uncertainties (e.g., changes in taxation and an unpredictable political environment) may constitute a further contraction in growth. The Czech Republic is expected to develop positively during the course of the year, but may still exhibit slightly negative economic development in 2013.

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

| Region/country | 2011 | 2012e | 2013f | 2014f |
|---|---|---|---|---|
| Czech Republic | 1.7 | (1.2) | (0.2) | 1.8 |
| Hungary | 1.6 | (1.7) | (0.5) | 1.5 |
| Poland | 4.3 | 2.0 | 1.2 | 2.5 |
| Slovakia | 3.2 | 2.0 | 0.9 | 2.5 |
| Slovenia | 0.6 | (2.3) | (1.0) | 1.0 |
| **CE** | **3.1** | **0.6** | **0.5** | **2.1** |
| Albania | 3.1 | 2.0 | 2.0 | 3.5 |
| Bosnia and Herzegovina | 1.0 | (1.3) | 0.5 | 2.0 |
| Bulgaria | 1.8 | 0.8 | 0.5 | 2.5 |
| Croatia | 0.0 | (2.0) | (0.5) | 1.0 |
| Kosovo | 4.5 | 3.0 | 3.0 | 3.0 |
| Romania | 2.2 | 0.3 | 1.5 | 3.0 |
| Serbia | 1.6 | (1.9) | 1.0 | 2.0 |
| **SEE** | **1.7** | **(0.3)** | **0.9** | **2.4** |
| Belarus | 5.3 | 1.5 | 3.0 | 4.0 |
| Russia | 4.3 | 3.4 | 3.0 | 3.0 |
| Ukraine | 5.2 | 0.2 | 1.0 | 3.0 |
| **CIS** | **4.4** | **3.1** | **2.8** | **3.0** |
| **CEE** | **3.7** | **2.0** | **2.0** | **2.7** |
| **Austria** | **2.7** | **0.8** | **0.5** | **1.5** |
| **Germany** | **3.1** | **0.9** | **0.5** | **1.8** |
| **Eurozone** | **1.5** | **(0.5)** | **(0.1)** | **1.5** |



# Subdued trends in Austria

The economy in Austria has performed only moderately since the second half of 2011. GDP in real terms increased 0.8 per cent in 2012, following growth of 2.7 per cent in 2011. Compared to 2011, 2012 government consumption decreased slightly. Private consumption recorded a lower growth rate than 2011 despite favorable trends in employment and wages. Investments as well as imports and exports also grew considerably slower in 2012.

The decline in real GDP on a quarterly basis in the fourth quarter of 2012 should signify the economic trough; an economic recovery – even if not particularly dynamic – in the course of 2013 is the most likely scenario. For 2013, GDP growth of 0.5 per cent is expected.

Although inflation in Austria, at 2.6 per cent during 2012, remained above long-term trends, it was still considerably below the level of 2011 (3.6 per cent). For 2013, a decline to 2.2 per cent is expected.

# Economic slowdown in Asia

The large Asian economies, China and India, posted a slowdown in their respective economic growth rates in 2012, but still achieved the largest increases compared at global levels. In China, subdued demand for exports from Europe was apparent. Moreover, the Peoples Bank of China maintained a restrictive monetary policy overall despite two interest rate reductions. Additionally, measures taken by the Chinese government in 2011 to contain the looming real estate bubble continued to have a dampening effect on the economy. However, infrastructure projects were started as of the second quarter of 2012 and targeted tax incentives as well as subsidies were granted. The cyclical low point in the economic cycle was thus reached in the third quarter of 2012 and the fourth quarter saw a pick-up in the economy. All in all, China achieved economic growth of 7.7 per cent in 2012, following 9.2 per cent in 2011. Against the backdrop of lower volatility in food and oil prices, the inflation rate declined noticeably and amounted to just 2.5 per cent at the end of 2012.

# Sovereign debt crisis becomes a euro crisis

Even though there was a considerable decline during 2012 in market interest rates on the outstanding bonds of both Ireland and Portugal – two countries supported by funding from the European Financial Stability Facility (EFSF) – the financing problems for both the new and old debts of many European countries was a defining element of the trends on the financial markets in the year just concluded.

In March 2012, there was a debt haircut on Greek government bonds that were issued in accordance with Greek law and not held by central banks. Nevertheless, even after this debt relief provided by creditors totaling about € 100 billion, the country's level of indebtedness still did not reach sustainable levels. At the end of 2012, further debt relief was necessary, this time involving a repurchase of bonds by the Greek government at on average 35 per cent of the bond's nominal value. The funding for this measure was provided by the EU and the IMF.

High debts and high budget deficits, as well as significant overall economic problems, led to a further loss of confidence in the government finances of other Southern European countries. In light of the structural problems in several euro countries and the institutional deficits of the Eurozone as a whole, some market participants temporarily questioned whether the Eurozone would even continue to exist. When financing conditions deteriorated even further for Italy and Spain in the summer of 2012, the European Central Bank (ECB) seized the initiative. The ECB announced its willingness to intervene in the secondary markets for sovereign bonds in order to lower interest rates. This commitment was made under the condition of economic reforms as well as an austerity program for public finances, both subject to monitoring by external authorities. Once the prospect of central bank intervention became apparent, the situation on the financial markets eased and refinancing rates for Italy and Spain declined to manageable levels.

The Eurozone's institutional framework was further improved in 2012. For instance, the decision was made to implement a European banking supervisor, and public finances were monitored more effectively as part of the stability pact. In addition, regular reporting was implemented to identify economic imbalances, from which appropriate countermeasures for individual countries must be derived.

# Global currencies

After fluctuating in a limited range of 15 cents between €/USD 1.20 and €/USD 1.35 during 2012, the euro to US dollar exchange rate ended 2012 at €/USD 1.32 and therefore lay at the starting point of the year in January 2012. As in prior years, the driver of currency trends was the euro sovereign debt crisis and the central bank policies of both the ECB and the US Federal Reserve. The euro came under significant pressure between May and July 2012, when the debt crisis intensified further and yields on Italian and Spanish government bonds climbed to record levels. The plunge in the euro only ceased when ECB President Mario Draghi announced at the end of July that the ECB was willing if necessary to purchase the government bonds of struggling countries in unlimited quantities. The subsequent recovery of the euro was supported by the US Federal Reserve's renewed plans to acquire significant amounts of government bonds on the market.

Following the announcement in September 2011 by the Swiss National Bank (SNB) that it intended to take unrestricted steps against further appreciation of the Swiss franc, there was initially no further need for action as market participants quickly accepted the exchange rate floor. In April 2012, the euro exchange rate versus the Swiss franc broke through the € 1.20 level for the first time – albeit only for a few seconds. The SNB had to actually take action only in May with the resurgence of the euro crisis. As a consequence of its intervention in the foreign exchange markets, the SNB's currency reserves rose from CHF 296 billion in April to CHF 430 billion in September. Since then, a noticeable easing is apparent again thanks to the declining levels of intervention by the SNB. The ECB's bond purchasing program had an impact too, contributing to relaxation in the Eurozone that resulted in a considerable decline in the pressure on the Swiss franc. The currency traded weaker for the first time and in September 2012 exceeded the €/CHF 1.21 level, a level the Swiss franc was able to stay close to until the end of the year.

## CEE currencies

CEE currencies generally appreciated versus the euro in 2012 because the ECB combated the financial crisis with additional measures and low interest rates. Surprisingly, next to the Polish zloty, the Hungarian forint was the strongest currency against the euro. However, this was mostly attributable to its weakness at year-end 2011/2012, when the exchange rate rose to a value of more than €/HUF 320. Further support came – as it did for other CEE currencies – from renewed declines in risk aversion globally. Following a volatile development against the euro in the first six months of 2012, the Polish zloty has since been moving sideways . The Czech koruna, which enjoys "safe haven" status among CEE currencies, moved mainly sideways in 2012, although it was quite volatile. A reduction in the reference interest rate to 0.05 per cent offset a steady appreciation trend, as did verbal intervention by the central bank.

In Southeastern Europe, currencies were very volatile, particularly in the first half of 2012. Ongoing risk aversion, which was reflected primarily in lower foreign investment, a strong decline in transfers from abroad by emigrants, and also political uncertainties – particularly in Romania and Serbia – contributed to considerable downward pressure on rates in these countries. Higher volatility and perhaps even new phases of weakness are also expected for the first half of 2013.

# Development of the banking sector

## Continued banking sector growth in CEE

With a plus of between 13 and 15 per cent in total, there had been a clear credit growth recovery in CEE during 2010 and 2011, even though the increase during this period was considerably below the levels seen in the pre-crisis years 2004 to 2008. This positive trend continued in 2012, primarily in the first half of the year. Lending increased in particular to corporate customers, thus a widespread credit crunch in CEE did not occur. As economic growth slowed sharply, credit growth in the region also weakened somewhat in the second half of 2012, but overall, there was still nearly a 10 per cent increase in credit volumes in CEE during 2012. Due to the difficult real economic conditions, the first half of 2013 will probably be dominated by rather weak demand for credit. Current forecasts for 2013 expect credit growth of 5 to 10 per cent in both Central Europe and CIS as well as between 1 and 5 per cent in Southeastern Europe.

Following a plus of 13 and 14 per cent, respectively, in 2010 and 2011, the total assets of the CEE banking sector grew at a slightly lower rate in the reporting period. These growth rates – like those for credit volumes – were considerably below the pre-crisis levels achieved between 2004 and 2008. Forecasts for the coming years predict total assets in CEE to grow at a single-digit percentage rate, with growth rates varying considerably between individual countries. For instance, a plus in the double-digit-percentage range should still be possible in Russia over the next few years, while the increase is likely to be in the high-single-digit percentage range in Central European countries (except for Hungary). In contrast, only low-single-digit growth in total assets appears possible in many Southeastern European countries in light of the challenging environment. This reflects the high loan portfolios compared with deposits and economic potential, which should lead to low demand for credit in the coming years.

## Better financing environment for governments and banks

There was a considerable improvement in the financing environment for governments in CEE during 2011 and 2012. This ensured both refinancing and new issues of government bonds on the respective local and global bond markets. Many countries used the favorable environment in the second half of 2012 to prefinance themselves for 2013 and have thus already covered the majority of refinancing requirements for this year. Yields on local government bonds moved sideways for an extended period of time. Indeed, sometimes they even declined due to ongoing expansionary monetary policy in Western Europe and reduction in risk premiums for CEE. At the same time, however, assessments of individual CEE countries differed quite substantially on the bond markets, and risk indicators – such as government indebtedness, budget deficits, balance of payment position and political uncertainty – were reflected in bond prices. Reform-minded CEE countries should also benefit from this differentiation in the future. Indeed, risk premiums for several CEE countries are currently even lower than those for several Eurozone countries, such as Italy, Portugal, and Spain, and sometimes even France or Belgium. Nevertheless, the need for support measures involving the IMF for a few isolated, structurally weaker CEE countries with self-made problems cannot be completely ruled out for 2013.

# 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 2012; the remaining shares were free float. As of 31 December 2012, RBI's scope of consolidation comprised of 137 Group units, including 21 banks and a number of financial institutions and bank-related service providers.

At the end of April 2012, RBI acquired 100 per cent of Polbank EFG S.A., Warsaw. At the time of initial consolidation, this acquisition increased total assets by € 6.2 billion, which influences the comparability of various items in the statement of financial position and income statement. For information about other changes in the scope of consolidation, please refer to the relevant sections in the notes.

## Performance

### Profit before tax

Despite the prevailing difficult economic environment and measures taken to achieve European Banking Authority (EBA) capital requirements, RBI realized profit before tax of € 1,032 million in 2012. However, this represents a 25 per cent or € 342 million decline compared to the previous year. Pre-tax profit was impacted by a considerably lower operating result (decrease of 20 per cent or € 479 million after goodwill impairment adjustments) as well as by valuation results due to easing on the financial markets. Furthermore, one-off effects from the sale of high-quality securities portfolio (gain of € 163 million) and the repurchase of hybrid bonds (€ 113 million) offset the decline by € 276 million.

### Operating income

Operating income – excluding impairment of goodwill – declined 6 per cent or € 336 million to € 5,140 million, primarily due to net interest income and net trading income. The year-on-year decline in net interest income of € 195 million was caused by net interest margin (calculated on interest-bearing assets), which decreased by 24 basis points to 2.66 per cent year-on-year.

Sales of high-quality securities portfolio resulted in considerably lower interest income from securities. Additionally, high liquidity and higher retail deposits led to a noticeable decline in net interest income. In Russia, however, net interest income developed favorably: Growing customer business and higher income from derivatives business resulted in an increase of € 159 million. The consolidation of Polbank significantly improved net interest income as well.

Net trading income fell by € 149 million to € 215 million. This decline was attributable to net income from interest-based transactions and net income from capital guarantees, where a statutory requirement for valuation model change had led to a valuation gain in the previous year. Hyperinflation accounting led to valuation losses in Belarus.

### General administrative expenses

General administrative expenses rose 5 per cent or € 143 million to € 3,264 million year-on-year. This increase was due almost exclusively to the consolidation and integration of Polbank, which accounted for € 137 million of the increase. Otherwise, expenses were flat year-on-year. The cost/income ratio (excluding impairment of goodwill) rose 6.5 percentage points to 63.5 per cent. When compared to the previous year, staff expenses increased 4 per cent or € 67 million to € 1,606 million. The average number of employees also rose by 903 to 60,924, primarily due to the inclusion of Polbank, which had 3,065 employees at the time of initial consolidation. Other administrative expenses increased 4 per cent or € 48 million to € 1,257 million year-on-year, largely attributable to higher IT expenses (up € 35 million) and office space expenses (up € 21 million). Compared to year-end 2011, the number of business outlets rose on balance by 178 locations to 3,106, of which 327 relate to Polbank.

## Net provisioning for impairment losses

Net provisioning for impairment losses declined € 55 million to € 1,009 million in 2012. This decline was attributable to higher releases of portfolio-based loan loss provisions; individual loan loss provisions remained nearly flat year-on-year. The prevailing difficult economic environment especially in the second half of 2012 led to a considerably higher net provisioning, particularly in the fourth quarter. In Hungary, net provisioning for impairment losses decreased by half to € 241 million year-on-year (2011: € 478 million). In Poland, however, net provisioning for impairment losses increased € 69 million to € 127 million. There was a higher need for provisioning mainly related to corporate customers at Group head office, in Slovakia and in Romania. All in all, the provisioning ratio declined from 1.34 per cent to 1.21 per cent. The non-performing loans portfolio increased € 1,127 million to € 8,183 million, of which € 508 million relate to the consolidation of Polbank.

## Net income from derivatives and liabilities

Following a profit of € 413 million in the previous year, net income from derivatives and liabilities declined to minus € 127 million in the reporting period. Particularly liabilities designated at fair value recorded a valuation loss of € 312 million after a valuation gain of € 184 million in 2011. Credit spreads of own liabilities, which are included in this figure, posted a valuation loss of € 145 million in the reporting year after a valuation gain of € 249 million in the previous year. Partial repurchasing of hybrid bonds led to a net income of € 113 million; in contrast, net income from the valuation of derivatives entered into for hedging purposes decreased to minus € 92 million.

## Net income from financial investments

Net income from financial investments increased € 459 million during the reporting period, improving from minus € 141 million in 2011 to plus € 318 million in 2012. The sale of high-quality securities from the available-for-sale portfolio at Group head office, initiated to meet the EBA requirements, resulted in a gain of € 163 million. Valuation of the fair-value portfolio of securities resulted in a gain of € 73 million (2011: loss of € 124 million), which was predominantly attributable to valuation gains on bonds at Group head office and municipal bonds in Hungary. Sales from this securities portfolio led to further positive net income of € 82 million.

## Goodwill impairment

In 2012, an impairment totaling € 38 million (2011: € 187 million) was recorded on goodwill. As in the previous year, prospects for Ukraine and the higher discount rate used for valuation purposes at Raiffeisen Bank Aval made a goodwill impairment of € 29 million (2011: € 183 million) necessary. The goodwill of Raiffeisen Bank Aval has therefore been completely written off as of year-end 2012. Additional other smaller goodwill impairments at various different Group units totaled € 9 million.

## Consolidated profit

Profit after tax totaled € 748 million for 2012, which represents a decline of 23 per cent or € 226 million. At 27.5 per cent, the tax rate was 1.6 percentage points below the previous year's rate. Profit attributable to non-controlling interests increased € 16 million to € 22 million, primarily caused by smaller losses in Hungary. After deducting profit attributable to non-controlling interests, consolidated profit totaled € 725 million, a decline of € 242 million year-on-year. During the reporting year, an average of 194.9 million shares were outstanding. Earnings per share in 2012 therefore amounted to € 2.70.

# Equity

Equity including non-controlling interests remained largely stable at € 10,873 million (down € 63 million). Total comprehensive income amounted to € 838 million, of which € 748 million was profit after tax. Dividend distributions for 2011 reduced equity by a total of € 463 million. Of this amount, € 204 million was attributable to shareholders of RBI, € 200 million to the participation capital and € 58 million to non-controlling interests.

The acquisition of non-controlling interests had a € 405 million effect on equity, primarily resulting from the purchase of a 24 per cent non-controlling stake in Raiffeisenbank a.s., Prague and 13 per cent in Tatra banka, a.s., Bratislava.

The Management Board will propose to the Annual General Meeting that a dividend of € 1.17 per share be paid for the 2012 financial year. This would result in a maximum total payout of € 229 million.

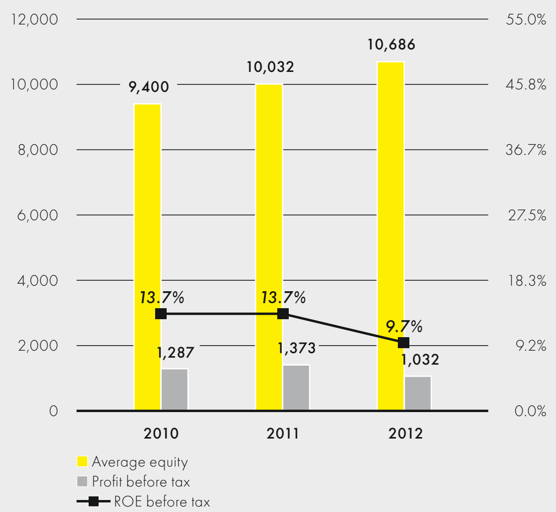
## Tier 1 ratio

As of 31 December 2012, regulatory own funds, which are calculated in accordance with IFRS since April 2012, totaled € 12,885 million. The comparable figures are based on the Austrian Commercial Code (UGB) in conjunction with the Austrian Banking Act (BWG). The change of calculation to international accounting standards positively impacted tier 1 capital while acquisitions of non-controlling interests, the repurchase of hybrid tier 1 capital and the Polbank consolidation reduced it. Short-term additional own funds (tier 3) increased because of maturing tier 2 issues.

The measures introduced in order to comply with EBA requirements led to a € 998 million reduction in own funds requirement to € 6,626 million. The decline was caused primarily by own funds requirements for credit risk (minus € 721 million) and position risk in bonds, equities and commodities (minus € 247 million).

Development of profit and return on equity

in € million




Tier 1 ratio (total risk) increased 1.3 percentage points to 11.2 per cent. Core tier 1 ratio (without taking hybrid capital into account) improved 1.6 percentage points to 10.7 per cent.

# Statement of financial position

Total assets declined 7 per cent or € 10.9 billion to € 136.1 billion year-on-year, with currency effects having only a marginal impact. Although the consolidation of Polbank resulted in an increase of € 6.2 billion, adjustments of the structure in the statement of financial position in compliance with stricter EBA requirements reduced total assets. On the assets side, excess liquidity was reduced (cash reserve: minus € 4.8 billion, interbank business: minus € 3.4 billion), and high-quality securities with a nominal value of € 3.2 billion were sold from the available-for-sale securities portfolio. On the liabilities side, the decline was mostly attributable to a reduction in deposits from banks due to lower short-term investments and a reduction in debt securities issued as a result of repayments.

Loans and advances to customers increased 2 per cent as a result of the Polbank consolidation. Despite the impact from Polbank, deposits from customers remained unchanged year-on-year due to a decline in deposits from corporate customers (particularly in the repo business). As a result, the loan/deposit ratio increased 4 percentage points to 126 per cent.

# Detailed review of income statement items

| in € million | 2012 | 2011 | Change absolute | Change in % |
|---|---|---|---|---|
| Net interest income | 3,472 | 3,667 | (195) | (5.3)% |
| Net fee and commission income | 1,516 | 1,490 | 26 | 1.8% |
| Net trading income | 215 | 363 | (149) | (40.9)% |
| Other net operating income[1] | (64) | (45) | (19) | 41.7% |
| **Operating income** | **5,140** | **5,475** | **(336)** | **(6.1)%** |
| Staff expenses | (1,606) | (1,540) | (67) | 4.3% |
| Other administrative expenses | (1,257) | (1,209) | (48) | 3.9% |
| Depreciation | (401) | (372) | (29) | 7.8% |
| **General administrative expenses** | **(3,264)** | **(3,120)** | **(143)** | **4.6%** |
| **Operating result** | **1,876** | **2,355** | **(479)** | **(20.3)%** |
| Net provisioning for impairment losses | (1,009) | (1,064) | 55 | (5.1)% |
| Other results[2] | 165 | 82 | 83 | 101.1% |
| **Profit before tax** | **1,032** | **1,373** | **(342)** | **(24.9)%** |
| Income taxes | (284) | (399) | 115 | (28.9)% |
| **Profit after tax** | **748** | **974** | **(226)** | **(23.2)%** |
| Profit attributable to non-controlling interests | (22) | (6) | (16) | 245.8% |
| **Consolidated profit** | **725** | **968** | **(242)** | **(25.0)%** |

[1] Excl. impairment of goodwill
[2] Incl. impairment of goodwill

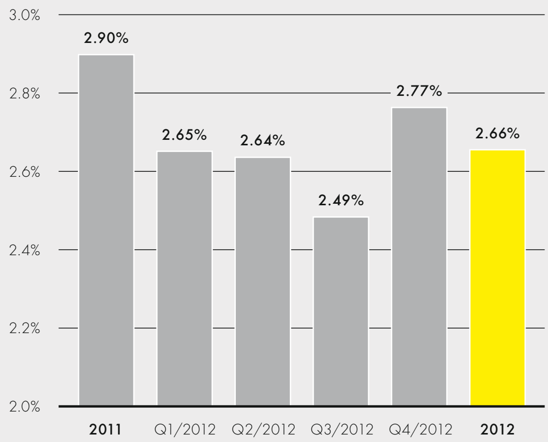


## Net interest income

Net interest income declined 5 per cent or € 195 million to € 3,472 million in 2012, representing 67 per cent of operating income. Net interest margin (calculated on interest-bearing assets) declined 24 basis points to 2.66 per cent. Average interest-bearing assets increased 3 per cent as net interest income decreased simultaneously.

Interest income from loans and advances to banks in particular registered a significant decline of € 145 million to € 297 million due to a reduction in excess liquidity at Group head office. Interest income from securities also fell € 161 million to € 609 million, partially impacted by sales of securities at Group head office. On the other hand, net interest income in Russia performed well, posting a plus of € 159 million as a result of increased credit business combined with an improved net interest margin as well as higher interest income from derivatives. Furthermore, net interest income was positively impacted by the Polbank consolidation.

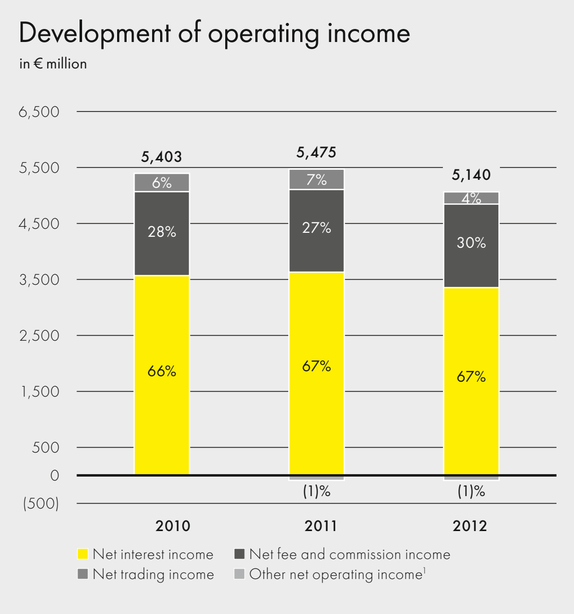
Development of the net interest margin (average interest-bearing assets)



The decline in net interest income resulted primarily from lower interest income due to reduced lending volumes and higher refinancing costs. In the Central Europe segment, the overall difficult market environment caused net interest margin to drop 50 basis points to 2.85 per cent. In Hungary, net interest margin fell 44 basis points to 3.43 per cent. Southeastern European countries also posted a decline of 20 basis points to 4.21 per cent in net interest margin. Bulgaria was particularly affected due to revised expectations concerning cash flows from impaired loans. The Group Corporates segment, however, posted only a slight decline of 4 basis points in net interest margin, mainly because of asset-related adjustments.

## Net fee and commission income

Net fee and commission income increased € 26 million year-on-year, thus contributing 30 per cent of operating income. Net income from both the payment transfer business as well as from the foreign currency, notes/coins and precious metals business rose particularly. In contrast, net income from the loan and guarantee business, as well as net income from other banking services, was lower year-on-year.




[1] Excl. impairment of goodwill

Net income from the payment transfer business increased € 52 million to € 663 million, which – at 44 per cent – makes it the largest component of net fee and commission income. The significant improvement is attributable to a higher number of transactions and increased transaction volumes. At € 19 million, Russia made the largest contribution to the increase, followed by Ukraine with € 18 million.

At € 19 million, net income from the foreign currency, notes/coins and precious metals business exhibited the second largest increase year-on-year. This rise was attributable primarily to better results in Russia (up € 8 million) and in Belarus (up € 7 million) due to increased turnover and improved margins.

With a decline of € 34 million to € 247 million, net income from the loan and guarantee business exhibited a reverse trend. This development is attributable mainly to lower lending fees (down € 43 million) in Romania as well as a methodology change that involved reclassification between net fee and commission income and net interest income. Net income in Hungary decreased € 7 million due to declines in volume. Russia, however, generated an increase of € 16 million because of new business.

Net income from the management of investment and pension funds decreased € 4 million, impacted primarily by lower business activity in Croatia.

Net income from the sale of own and third-party products increased € 4 million to € 45 million year-on-year, mainly in Poland and Ukraine.

## Net trading income

RBI's net trading income declined 41 per cent or € 149 million to € 215 million. On the one hand, currency-based transactions as well as equity and index-based transactions increased € 102 million and € 4 million, respectively. On the other hand, interest-based business (down € 137 million), credit derivatives business (down € 15 million) and other business (down € 103 million) posted reductions.

Net income from interest-based transactions decreased 80 per cent or € 137 million to € 34 million. Partly responsible for this decline was lower net income in Russia, resulting from valuation losses on derivatives. Net valuation income from interest swaps at Group head office was also lower, due in part to a change in the assessment of the counterparty credit risk.

Net income from currency-based transactions grew 95 per cent or € 102 million to € 209 million. Russia's contribution to net income from derivative financial instruments increased, whereas Hungary posted valuation losses caused by a higher number of derivatives transactions used for hedging purposes. The application of IAS 29 in connection with hyperinflation accounting in Belarus had a significant impact, increasing net income by € 64 million year-on-year. Group head office posted a rise in currency-based transaction volumes, which were, however, negatively impacted by currency volatility.

Net income from other business stemmed largely from capital guarantees issued by Group head office. It declined from a gain of € 79 million in 2011 to a loss of € 25 million in 2012 due to the lower level of long-term interest rates. The € 81 million net income in the previous year had resulted from a change in the valuation method to comply with statutory requirements.

## Other net operating income

Other net operating income excluding goodwill impairments fell from minus € 45 million to minus € 64 million in 2012. This was mainly due to higher bank levies in Austria and Hungary, as well as the first-time imposition of a bank levy in Slovakia. All in all, RBI's bank levies totaled € 157 million in 2012 (2011: € 93 million).

Net income from allocation and release of other provisions increased € 31 million to plus € 19 million, due to releases of provisions for litigation in Austria and Russia. Net income from non-banking activities and from additional leasing services also increased € 29 million during the reporting year.

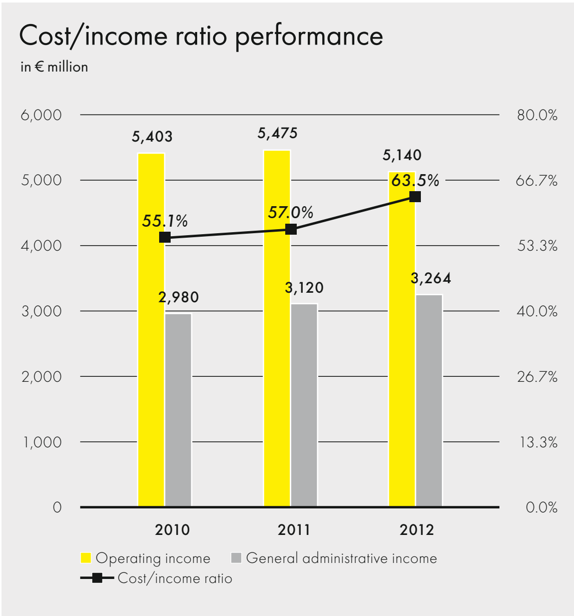
## General administrative expenses

General administrative expenses rose 5 per cent or € 143 million to € 3,264 million in the reporting period. The cost/income ratio thus increased to 63.5 per cent (2011: 57.0 per cent).

**Staff expenses**
Staff expenses, the largest component in administrative expenses at 49 per cent, rose 4 per cent or € 67 million year-on-year, reaching € 1,606 million.

This increase mainly resulted from the consolidation of Polbank as well as from salary adjustments in Russia. It was partially offset by declining staff expenses due to lower costs and headcount reductions in Hungary, the Czech Republic and Romania.

The average number of RBI Group staff (full-time equivalents) rose 1 per cent or 903 employees year-on-year to 60,924. The headcount increased in Poland (up 2,929) due to Polbank integration and in Slovakia (up 47). The largest reductions occurred in Ukraine (down 753), Russia (down 448), Romania (down 323) and Hungary (down 282).




**Other administrative expenses**
Other administrative expenses increased 4 per cent or € 48 million to € 1,257 million. IT expenses (up 16 per cent), deposit insurance fees (up 10 per cent) and office space expenses (up 6 per cent) recorded the largest increases. In contrast, advertising, PR and promotional expenses (down 10 per cent), security expenses (down 8 per cent) and communications expenses (down 4 per cent) all decreased.

The increase in IT expenses was primarily the result of the Polbank consolidation and the outsourcing of IT services at Group head office. Likewise, Poland and Group head office, due to their relocations, were the main reasons for higher office space expenses.

The number of business outlets increased by 178 to 3,106 compared to year-end 2011. Poland recorded an increase of 300 business outlets; Ukraine (down 84), Romania (down 24) and Hungary (down 9) posted the largest declines.

**Depreciation expense**
Depreciation of tangible and intangible assets rose € 29 million to € 401 million year-on-year (2011: € 372 million). The largest increase occured in depreciation of intangible assets, which rose € 36 million to € 179 million, most of it attributable to the impairment of software in Ukraine and the Czech Republic. Other important factors were Polbank consolidation as well as increases in Romania, Croatia and Ukraine resulting from system expansions. Depreciation of tangible assets declined € 6 million to € 188 million, caused by impairment relating to property in Russia in the previous year.

During the reporting year, Group investment totaled € 531 million, of which 52 per cent (€ 276 million) was in fixed assets. Investments in intangible assets, mainly related to software systems, equaled 38 per cent of investment. Assets of the operating leasing business accounted for the rest.

## Net provisioning for impairment losses

While most of RBI's markets experienced economic recovery in 2011, there was a renewed deterioration in economic conditions in the second half of the reporting year. This was clearly reflected in an increase in non-performing loans. However, at € 1,009 million, net provisioning for impairment losses was 5 per cent or € 55 million below the 2011 figures. Although individual loan loss provisions increased € 5 million to € 1,182 million, net releases of portfolio-based loan loss provisions also increased, rising € 59 million to € 164 million. Net provisioning for impairment losses includes income from the sale of impaired loans amounting to € 9 million.

Trends in net provisioning for impairment losses varied in the individual countries: Hungary, for example, recorded a significant year-on-year decline as RBI had had high impairment needs due to government-induced loan conversions. Net provisioning declined to € 241 million, from € 478 million. In Russia, loan loss provisions were released due to quality improvements in the loan portfolio. In contrast, net provisioning for impairment losses in Poland increased € 69 million to € 127 million, relating to both large corporate customers and retail customers. Significantly higher net provisions were also recorded for corporate customers at Group head office, in Slovakia and Romania, as well as in Slovenia for both corporate and retail customers.

The provisioning ratio – i.e. net provisioning for impairment losses versus average loans and advances to customers – decreased 0.13 percentage points to 1.21 per cent.

The portfolio of non-performing loans to customers increased € 1,127 million to € 8,183 million in 2012. The Polbank consolidation contributed € 508 million to the increase and currency effects added a further € 95 million. Without these two effects, non-performing loans would thus have risen € 524 million year-on-year. Group head office, Hungary and Poland posted the largest increases, while Ukraine and Russia posted considerable declines. The NPL ratio – i.e. the ratio of non-performing loans to total customer loans – deteriorated to 9.8 per cent, following 8.6 per cent in the previous year. Non-performing loans were covered by provisions totaling € 5,484 million. This resulted in a NPL coverage ratio of 67.0 per cent, 1.4 percentage points below year-end 2011.

## Other results

### Net income from derivatives and liabilities

Net income from derivatives and liabilities fell from plus € 413 million to minus € 127 million in 2012. Liabilities designated at fair value (fair value option), which had generated a gain of € 184 million in 2011, caused a loss of € 312 million in the reporting year. This loss consisted of an interest component totaling minus € 167 million and valuation losses on lower credit spreads of € 145 million. However, liabilities were countered by positive valuation gains from other derivatives in the same amount. Net income from other derivatives declined € 135 million to € 59 million. The repurchase of liabilities generated income of € 110 million in the reporting year, which included the repurchase of hybrid bonds totaling € 113 million.

### Net income from financial investments

Net income from financial investments improved from minus € 141 million to plus € 318 million year-on-year. The sale of bonds from the available-for-sale securities portfolio at Group head office resulted in net sale proceeds of € 163 million.

After minus € 135 million in the previous year, net income from securities at fair value through profit and loss improved to plus € 155 million in 2012. The valuation of securities in the fair-value portfolio led to a gain of € 73 million after causing a loss of € 124 million in 2011. There were considerable valuation gains on bonds and municipal bonds at Group head office and in Hungary, while Ukraine posted valuation losses on bonds. Sales of securities from the fair-value portfolio, mainly recorded at Group head office, generated income of € 82 million (2011: minus € 11 million).

Net income from equity participations improved € 97 million to minus € 1 million (2011: minus € 98 million) and contained valuation losses totaling € 22 million and gains from sales of approximately the same amount.

Net income from securities held-to-maturity declined € 91 million to € 1 million. The previous year's high figure had included gains from the sale of high-quality securities in the amount of € 94 million, resulting from measures taken to meet the stricter EBA capital requirements.

**Impairment of goodwill**

Other results in the reporting year included goodwill impairments totaling € 38 million (2011: € 187 million). In the previous year, € 183 million goodwill impairment for the Ukrainian subsidiary was recorded due to revised forecasts and an increase in discount rate used for valuation. The remaining goodwill of € 29 million was also written down in 2012. A further € 9 million impairment was attributable to goodwill in Bosnia and Herzegovina, Croatia as well as various smaller Group units.

**Net income from disposal of Group assets**

In 2012, net income from the disposal of Group assets was € 12 million. Ten subsidiaries were no longer consolidated, eight of them on the grounds of immateriality. One subsidiary was excluded from the consolidation group following closure and another subsidiary was sold. The companies were primarily active in leasing and investment services.

## Income taxes

Income taxes in the reporting period totaled € 284 million, following € 399 million in the prior year. The effective tax rate was 28 per cent; adjusted for goodwill impairments, it would have been 27 per cent. In the previous year, the tax rate was 29 per cent.

# Comparison of results with the previous quarter

| in € million | Q4/2012 | Q3/2012 | Change absolute | Change in % |
|---|---|---|---|---|
| Net interest income | 876 | 834 | 42 | 5.0% |
| Net fee and commission income | 396 | 400 | (4) | (0.9)% |
| Net trading income | (6) | 54 | (59) | – |
| Other net operating income[1] | (12) | (16) | 4 | (26.6)% |
| **Operating income** | **1,255** | **1,272** | **(17)** | **(1.3)%** |
| Staff expenses | (428) | (411) | (18) | 4.3% |
| Other administrative expenses | (373) | (311) | (62) | 20.0% |
| Depreciation | (126) | (97) | (29) | 30.3% |
| **General administrative expenses** | **(928)** | **(818)** | **(109)** | **13.3%** |
| **Operating result** | **327** | **453** | **(126)** | **(27.8)%** |
| Net provisioning for impairment losses | (385) | (224) | (162) | 72.5% |
| Other results[2] | (25) | (42) | 17 | (39.8)% |
| **Profit/loss before tax** | **(84)** | **188** | **(271)** | **–** |
| Income taxes | (58) | (32) | (25) | 78.3% |
| **Profit/loss after tax** | **(141)** | **155** | **(297)** | **–** |
| Profit attributable to non-controlling interests | 24 | (14) | 38 | – |
| **Consolidated profit/loss** | **(117)** | **141** | **(258)** | **–** |

[1] Excl. impairment of goodwill
[2] Incl. impairment of goodwill

## Net interest income

Net interest income improved € 42 million to € 876 million in the fourth quarter of 2012. The net interest margin (calculated based on interest-bearing assets) rose 28 basis points to 2.77 per cent. Average interest-bearing assets fell 6 per cent or € 7,583 million to € 126,653 million.

Broken down by segment, Russia displayed an increase in the net interest margin by 48 basis points to 5.45 per cent. This development was influenced by an improved interbank business as well as a reduction in interest expenses on deposits from customers. In contrast, the net interest margin in CIS Other fell from 7.31 per cent to 6.96 per cent, mostly due to hyperinflation in Belarus. In Southeastern Europe, net interest margin rose 33 basis points to 4.27 per cent, mainly in Serbia where net interest income in the fourth quarter was driven by higher interest income from loans and securities. Central Europe posted a slight 8 basis points increase in the net interest margin to 2.81 per cent.

## Net fee and commission income

Net fee and commission income remained almost unchanged at € 396 million in the fourth quarter 2012. Higher earnings from the payment transfer business, other banking services and the securities business nearly compensated for profit decline from loan and guarantee business as well as from foreign currency, notes/coins and precious metals business.

## Net trading income

Net trading income fell by € 59 million to minus € 6 million quarter-on-quarter. This development can be attributed primarily to a decline in interest-based transactions owing to valuation losses. Furthermore, the valuation result of interest-based transactions was adversely influenced by a change in the assessment of counterparty credit risk.

Net income from currency-based transactions also slipped in the fourth quarter, declining € 3 million. One of the main causes here was the drop in net income in Belarus following the application of IAS 29 (hyperinflation accounting). It was offset by valuation gains on a strategic currency position.

In the credit derivatives business, an increase of € 3 million was recorded quarter-on-quarter.

Net income from other business rose € 3 million due to valuation of issued capital guarantees.

## Other net operating income

Other net operating income (excluding impairment of goodwill) was minus € 12 million in the fourth quarter 2012; in the third quarter, it had been minus € 16 million.

Net income from additional leasing services made a positive contribution in the fourth quarter, predominantly in Poland. In contrast, net proceeds from the disposal of tangible and intangible fixed assets in addition to the bank levies increased expenses in the fourth quarter.

## General administrative expenses

General administrative expenses in the fourth quarter 2012 totaled € 928 million, up € 109 million quarter-on-quarter. Staff expenses increased due to adjustments to future bonuses and the establishment of a restructuring provision in Poland in the amount of € 18 million. Furthermore, other administrative expenses rose € 62 million to € 373 million, resulting from a seasonal increase of legal, advisory and consulting expenses, IT expenses as well as advertising, PR and promotional expenses in the fourth quarter. Depreciation on tangible assets totaled € 126 million in the fourth quarter, up € 29 million from the previous quarter. The main cause here were software systems write-downs in Ukraine and in the Czech Republic as well as write-downs of tangible fixed assets in Hungary following the closure of business outlets. At Group head office, depreciation in the fourth quarter increased due to an adjustment in the useful lives of tangible assets.

## Net provisioning for impairment losses

Compared to previous quarters, net provisioning for impairment losses in the fourth quarter 2012 was significantly higher at € 385 million; compared to the third quarter, this represents an increase of € 162 million. Due to a few individual cases among large corporate customers, net provisioning rose particularly in Hungary (up € 55 million quarter-on-quarter); Group head office also increased provisioning by € 48 million. Further marked increases were reported in the Czech Republic, Poland and Slovenia.

The non-performing loans to customers portfolio fell € 157 million quarter-on-quarter to € 8,183 million, with currency movements accounting for € 64 million of the decline. The organic reduction was mainly attributable to Ukraine; Group head office, Slovenia and Poland recorded the largest increases in non-performing loans.



## Other results

### Net income from derivatives and liabilities

Net income from derivative financial instruments improved € 68 million to minus € 20 million in the fourth quarter, mainly due to the fair value option. Net income from own issues at fair value through profit or loss also stood at minus € 44 million following minus € 102 million in the previous quarter.

### Net income from financial investments

Net income from financial investments totaled € 19 million, € 27 million below the previous quarter. This was due to partial write-downs on other interests, particularly at Group head office, as well as lower valuation gains and sales income from securities at fair value.

### Impairment of goodwill

Other net income was adversely affected by goodwill impairment – primarily for the Ukrainian subsidiary bank – in the amount of € 37 million in the fourth quarter of 2012.

## Income taxes

Tax expenses in the fourth quarter of 2012 amounted to € 58 million, compared to € 32 million in the previous quarter. The increase was caused by Group head office – on account of lower deferred tax assets due to lower deductible tax loss carry-forwards – and Hungary due to higher deferred tax liabilities.

# Statement of financial position

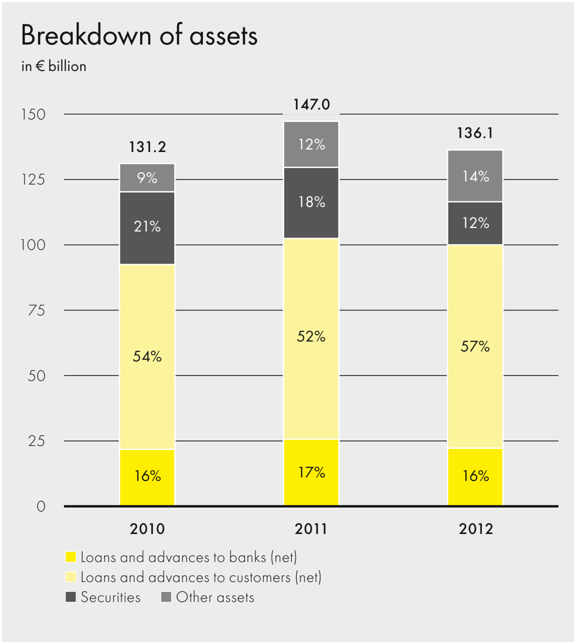
RBI's total assets declined 7 per cent or € 10.9 billion to € 136.1 billion during the course of 2012. The impact on statement of financial position was due to measures taken in compliance with stricter EBA requirements.

## Assets

Loans and advances to customers (before provisioning) rose 2 per cent or € 1.8 billion to € 83.3 billion in the reporting period. The retail customer business recorded growth of € 5.1 billion, primarily in Poland because of Polbank consolidation, and in Russia as a result of new business. Central and Eastern Europe showed moderate decline, especially in Ukraine, Croatia, and Hungary. The corporate customer business declined € 3.4 billion, primarily driven by Group head office (on account of lower new business and sales of receivables), business outlets in Asia and the finance company in New York.

Interbank business was reduced by 13 per cent or € 3.4 billion to € 22.3 billion, mainly at Group head office. Loan loss provisions, however, increased € 0.6 billion to € 5.6 billion compared to year-end 2011, of which € 5.5 billion pertained to loans and advances to customers.

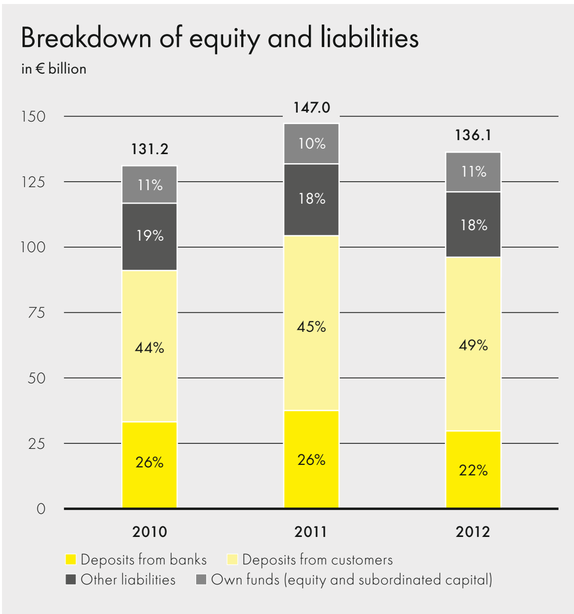
Sales of available-for-sale securities and securities in the fair value portfolio – mostly at Group head office – resulted in a decline of € 3.5 billion to € 16.4 billion in the securities portfolio including participations. Other assets contracted € 5.1 billion to € 19.7 billion, primarily due to a reduction of cash reserve.




## Equity and liabilities

Deposits from customers remained relatively stable year-on-year at € 66.3 billion. Deposits from retail customers grew € 3.9 billion, predominantly in Poland (consolidation of Polbank) and Russia, whereas deposits from corporate customers fell € 4.1 billion, in particular because of repo business at Group head office. The refinancing volume via banks – chiefly commercial banks – fell € 7.8 billion to € 30.2 billion due to lower short-term deposits.

Equity and subordinated capital remained nearly unchanged at € 14.8 billion. Other liabilities fell € 2.3 billion to € 24.8 billion. Debt securities issued dropped € 1.1 billion on balance to € 13.3 billion. Trading liabilities were reduced by € 0.9 billion, predominantly at Group head office.

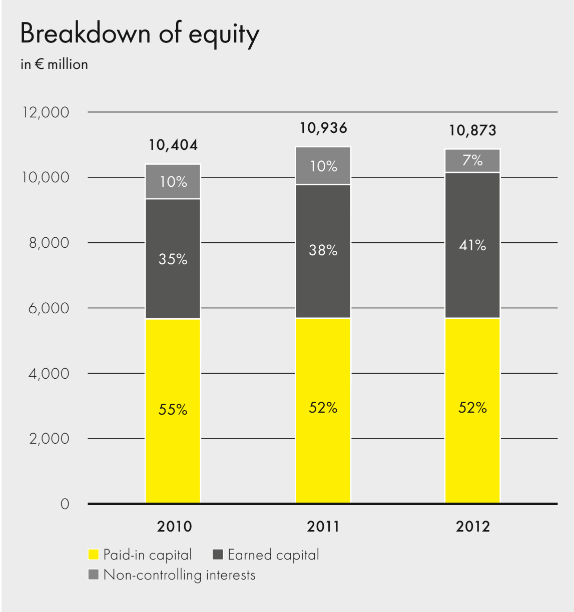


# Equity

## Equity on the statement of financial position

RBI's equity decreased € 63 million to € 10,873 million compared to year-end 2011.

Consolidated equity, consisting of subscribed capital, participation capital, capital reserves and retained earnings, increased € 603 million to € 9,428 million, which was mainly the result of the transfer of earnings in the amount of € 563 million from the financial year 2011. Other comprehensive income made a further contribution of € 69 million on balance: Exchange-rate differences showed a positive effect of € 150 million, whereas net income from the valuation of assets available-for-sale amounted to minus € 147 million, mainly due to the sale and subsequent reclassification of the result in the income statement. The related deferred taxes totaled € 37 million. Additionally, the impact from applying hyperinflation accounting generated a plus of € 30 million.




RBI AG's Annual General Meeting in June 2012 approved the payment of a dividend of € 1.05 per share for the financial year 2011, which equated to a distribution totaling € 204 million. In addition, a dividend of € 200 million was paid on the participation capital.

Consolidated profit contributed € 725 million to equity in 2012.

Capital of non-controlling interests declined € 424 million to € 719 million in 2012, attributable principally to purchases of non-controlling interests, which include 24 per cent in Raiffeisenbank a.s., Prague, 13 per cent in Tatra banka, a.s., Bratislava, 30 per cent in Raiffeisen Bank Zrt., Budapest, 12 per cent in Raiffeisen Banka d.d., Maribor, and 3 per cent in Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo. Furthermore, dividends of € 58 million were paid to minority shareholders in the reporting year.



## Own funds pursuant to the Austrian Banking Act (BWG)

During the reporting period, the calculation of eligible own funds according to Section 29a BWG was changed to international accounting standards. The comparable figures are based on BWG/UGB and have not been modified. RBI does not form an independent credit institution group (Kreditinstitutsgruppe) as defined by the BWG and therefore is not subject to the regulatory provisions on a consolidated basis as it is part of the RZB Group. The consolidated values shown below have been calculated in accordance with the provisions of the BWG and are assumed in calculations of the RZB credit institution group.

Credit risk is predominantly calculated according to the internal ratings-based approach (foundation IRB approach) in accordance with Section 22 BWG. This affects most non-retail business at RBI AG and its subsidiaries in Croatia, the Czech Republic, Hungary, Malta, Romania, Russia, Slovakia and the USA. A large portion of the loans and advances to retail customers in the Czech Republic, Hungary and Slovakia are measured using the advanced IRB approach. Market risk is predominantly measured using the standardized approach; RBI AG carries out the calculation in part according to the internal model.

Consolidated own funds pursuant to BWG amounted to € 12,885 million as of 31 December 2012, which represents an increase of € 27 million for the reporting year.

Core capital fell 2 per cent or € 155 million to € 9,279 million. The impact of the change in calculation methodology to international accounting standards was positive at the end of the second quarter at € 497 million. In contrast, core capital declined by a total of € 405 million as a result of the acquisition of non-controlling interests by RBI. The repurchase of hybrid tier 1 capital from external investors reduced core capital by a further € 359 million. Likewise, the consolidation of Polbank at the beginning of May reduced core capital by another € 229 million. The profit of the financial year is included in the calculation. However, the projected financial year 2012 dividend has been deducted. In contrast, the appreciation in particular of the Polish zloty, the Hungarian forint and the Russian rouble against the euro had a positive impact on own funds.

Additional own funds were down € 28 million year-on-year at € 3,340 million. This item consists of long-term subordinated capital, of which the largest part pertained to RBI AG at € 2,878 million, and the provision excess of IRB positions of € 226 million. Short-term subordinated capital increased € 202 million to € 302 million as a result of maturing tier 2 issuances. The deduction items related to participations, securitizations and insurance companies came to € 36 million (2011: € 44 million).

Own funds stood in contrast to a lower own funds requirement of € 6,626 million, a decrease of € 998 million. The own funds requirement for credit risk was € 5,451 million (a decrease of 12 per cent or € 721 million year-on-year), of which € 2,439 million related to the standardized approach and € 3,012 million to the IRB approach. The requirement for the position risk in bonds, equities and commodities fell € 247 million to € 273 million. This decline occurred in part due to EBA requirements to reduce the bank's non-core business with a focus on market risk positions and partly owing to the update of the internal model. This also reduced the own funds requirement for open currency positions by 60 per cent or € 84 million down to € 56 million. The requirement for operational risk was € 845 million (2011: € 792 million).

This led to an improvement of the excess cover ratio by 25.8 percentage points to 94.5 per cent or € 6,260 million.

The tier 1 ratio – based on credit risk – was 13.6 per cent. Based on total risk, the core tier 1 ratio was 10.7 per cent, with a tier 1 ratio of 11.2 per cent. The own funds ratio totaled 15.6 per cent.

## Successful implementation of EBA requirements

In the fall of 2011, the EBA decided to implement stricter capital requirements for about 70 system-relevant banks in the EU, in order to fortify the financial system. As part of this initiative, a core capital ratio (core tier 1 ratio as per EBA definition) of 9 per cent was defined as a target value to be reached by 30 June 2012. For RZB Group – RBI itself was not covered in the EBA analysis – this decision resulted in an additional capital requirement of about € 2.1 billion pursuant to EBA calculations. Following the implementation of numerous internal measures by the bank itself, this amount was well exceeded without government support. At the set date, the figure for RZB Group was 10.0 per cent, and even 10.6 per cent including net profit.

# Research and development

As a bank, RBI is generally 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, i.e. financing concepts that 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.

## Control environment

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

- the hierarchical decision-making process for approving Group and company directives and departmental as well as 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.

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.

## Group 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 of the subsequent 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. Group-wide control activities comprise the analysis and, where necessary, modification of the financial statements which are submitted by the Group units. In this process, the reports submitted by the auditor and the results of meetings with the representatives of the individual companies where the financial statements are discussed, are taken into account. The discussions cover the plausibility of the individual financial statements as well as critical matters pertaining to the Group unit.

The subsequent consolidation steps are then performed using the Cognos Controller consolidation system, including capital consolidation, expense and income consolidation, and debt consolidation. Finally, 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 the 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 are also presented to the Supervisory Board for information. The consolidated financial statements are published on the company's website, 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 standardized 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.

Each year the annual report shows the consolidated results in the form of a complete set of consolidated financial statements. These consolidated financial statements are examined by an external auditor. In addition, the management summary (Group management report) provides verbal comments on the consolidated results in accordance with the statutory requirements.

Throughout the year the Group produces consolidated monthly reports for Group management. 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 prepared by the Planning & Finance department includes a three-year Group budget.

## Monitoring

The Management Board and the Controlling department are responsible for ongoing internal monitoring. In addition, the relevant department heads are responsible for monitoring their areas which includes 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, 557,295 are own shares as of 31 December 2012, which means that 194,947,829 shares were outstanding as of the reporting 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) As of 31 December 2012, RZB holds around 78.5 per cent of the capital stock in the company indirectly through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH, Vienna; the remaining shares are free float. The Management Board knows of no direct or indirect participations in the capital amounting to 10 per cent or more. The R-Landesbanken-Beteiligung GmbH, Vienna, holds around 78.5 per cent of the shares of RZB directly, and Raiffeisen-Landesbanken-Beteiligung's shares are, in turn, wholly owned by the Raiffeisen-Landesbanken-Holding GmbH.

(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. Beyond that, 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 re-elected for another term in office. Moreover, no person who holds already eight supervisory board mandates in a publicly traded company may become a member of the Supervisory Board. Holding a position as chairman of the supervisory board of a publicly traded company counts twice for this purpose. The Annual General Meeting may choose to waive this restriction through a simple majority of votes if permitted by law. Any candidate who has more mandates to, or chairman positions in, supervisory boards in publicly traded companies must disclose this to the Annual General Meeting. Beyond that, there are no regulations regarding the appointment or dismissal of members of the Management Board and the Supervisory Board beyond the provisions of the relevant laws. The articles of association stipulate that the resolutions of the Annual General Meeting are, notwithstanding any mandatory statutory provisions or articles of association to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the votes. As a result of this provision, members of the Supervisory Board may be dismissed prematurely via a simple majority. The Supervisory Board is authorized to adopt amendments to the articles of association that only affect the respective wording. This right may be delegated to committees. Furthermore, there are no regulations regarding amendments to the company 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 AktG, 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 AktG, 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 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. Pursuant to Section 174 (2) of AktG, the Annual General Meeting of 10 June 2008 authorized the Management Board to issue, in one or more tranches, convertible bonds in a total nominal amount of up to € 2 billion, which grant owners conversion or subscription rights for up to 15,466,750 common bearer shares of the company with a pro rata amount of the capital stock of up to € 47,173,587.50, within five years from the date of resolution adopted by the Annual General Meeting, with the approval of the Supervisory Board. Shareholders' subscription rights to the convertible bonds are excluded. No convertible bonds have been issued to date.

The Annual General Meeting of 20 June 2012 authorized the Management Board to acquire own shares, under the provisions of Section 65 (1) 8 of AktG, 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. The authorization may be exercised in one or more installments, for one or more purposes – with the exception of securities trading – by the company, by affiliated enterprises or, for their account, by third parties. The acquisition price for repurchasing the shares may be no lower than € 1.00 per share and no higher than 10 per cent above the average unweighted closing price over the 10 trading days prior to exercising this authorization. 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. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses or branches of activity of one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program (SIP) for executives and members of the Management Boards of the company and affiliated enterprises. In addition, if convertible bonds are issued in accordance with the Annual General Meeting resolution on 10 June 2008, shareholders' subscription rights may be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted them under the terms of the convertible bonds to shares of the company. This authorization replaces the authorization to buy back and use own shares that was granted in the Annual General Meeting of 8 July 2010. No own shares have been bought since the authorization was issued in June 2012.

The Annual General Meeting of 20 June 2012 also authorized the Management Board, under the provisions of Section 65 (1) 7 of AktG, to acquire own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution, of 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 this closing price. This authorization may be exercised in one or several installments by the company, by affiliated enterprises or, for their account, by third parties. This authorization replaces the authorization for the purpose of securities trading that was granted in the Annual General Meeting of 8 July 2010.

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 AktG 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 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 as of 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, 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, change or come to an end upon a change of control in the company as a result of a takeover bid exist:

- The company's D&O insurance provides that, if RBI comes under new control due to a merger, the insurance contract automatically terminates without notice and the insurance will only cover events of loss due to breach of duty occurring prior to the merger. In the event of multiple insurance policies resulting from the change in control, the insurance contract also only covers events of loss due to breach of duty occurring prior to the change in control.

- The company's SIP provides the following upon 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.
- The company's refinancing agreements and financing guarantees granted to subsidiaries provide for the right of early termination upon a change of control with negative material ramifications.

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

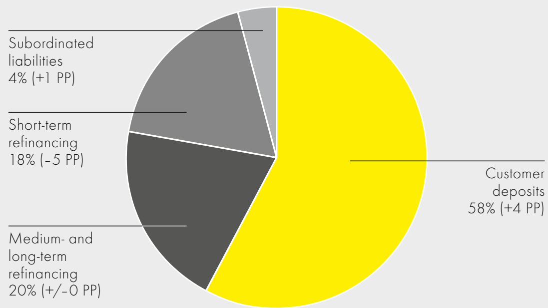
# Funding

Banks essentially refinance themselves using their own funds, customer deposits and various capital and interbank market tools. In the first half of 2012, the banking environment was again heavily influenced by the sovereign debt crisis, which made refinancing difficult for banks – particularly via capital markets. This situation improved gradually over the second half of the year.

## Stable basis for refinancing

RBI's refinancing need is based on two key elements. First, there are customer deposits, which at the end of 2012 accounted for € 66.3 billion or 58 per cent of refinancing. Second, there is wholesale funding, which totaled € 47.4 billion, or the remaining 42 per cent. The high share of customer deposits creates a stable refinancing basis, making RBI less vulnerable to the financial markets volatility.

Funding structure




## Diversified funding sources

The wholesale funding of network banks was further diversified in 2012. More than 40 per cent of the wholesale funding of RBI subsidiaries in Central and Eastern Europe came from external sources.

Supranational institutions (e.g., EBRD and IFC) and their contributions to refinancing support SME and energy efficiency projects in CEE. Thus, they are important partners for the Group, particularly because their financing has a positive influence on the development of the loan to local stable funding ratio. RBI cooperates with these institutions not only in financing but also in other areas such as risk-sharing programs that optimize risk-weighted assets.

Additional sources of funding include structured transactions such as the securitization of PLN 500 million for the Polish leasing subsidiary, which was organized by RBI in the first quarter of 2012 and successfully placed with private investors. In June 2012, the first tranche of diversified payment rights securitization, originated by Raiffeisenbank Moscow, was placed for a total of USD 125 million.

# Successful benchmark issues

RBI's resources for medium to long-term refinancing include two issuance 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 these two programs may not exceed € 25 billion and € 20 billion, respectively. At the end of 2012, a total of € 12 billion had been drawn on from the two programs.

In spite of the volatile market environment, RBI promptly covered its funding needs for 2012 with the issuance of a senior benchmark bond and numerous private placements within the first six months. In March, the first benchmark bond was issued. It was a € 500 million senior fixed-rate bond with three-year maturity. The issue was significantly oversubscribed.

In the first quarter of 2012, RBI also issued its first Chinese currency bond (the first CNY senior bond issued by a Western bank) valued at CNY 750 million.

Before the summer break, RBI took advantage of the friendlier market environment to issue a second benchmark bond for € 750 million. This issue was also oversubscribed. The bond which has a five-year maturity was placed with a coupon of 2.75 per cent.

In addition to senior bonds, RBI successfully raised subordinated funding as well. In October, the Group was the first Austrian bank to issue a subordinated bond in Swiss francs. Due to high demand, the bond raised CHF 250 million, thereby greatly surpassing expectations. The bond's maturity is ten years with a 4.75 per cent coupon.

Shortly after the Swiss francs bond's debut, RBI offered existing investors to exchange supplementary capital with a tier 2 subordinated bond, which approximately half of the investors accepted.

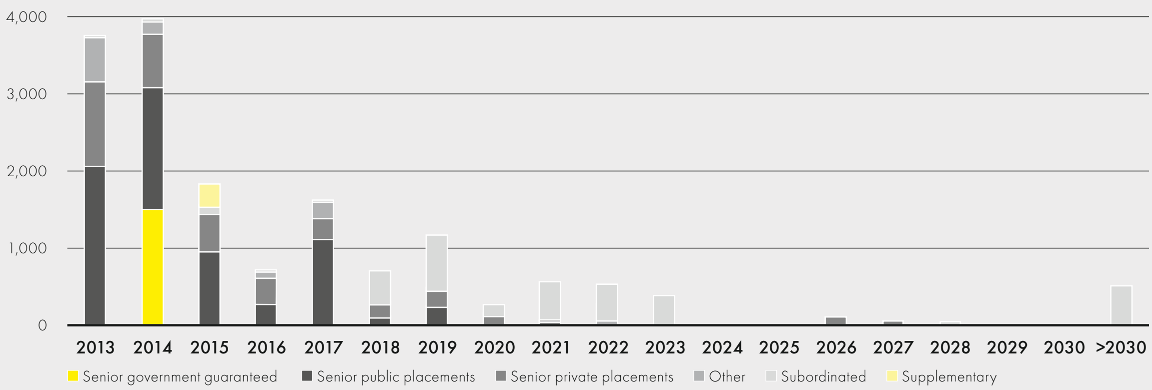
# Further refinancing measures

For short-term funding, RBI used both the interbank market and its program for short-term issues (commercial paper), the European Commercial Paper Program. Under this program, RBI issued commercial papers in various currencies, therefore enabling it to refinance itself outside the interbank market.

In an effort to diversify its funding sources, RBI is actively working on developing additional secured refinancing options, where existing assets can be used to secure long-term funding.

## Maturity profile of the debt securities issued

in € million



# Risk management

Taking and transforming risks are an integral component of the banking business. This makes active risk management as much a core competence to the overall bank governance as the management of the bank's profitability. In order to effectively recognize, classify and contain risks, the Group utilizes comprehensive risk management and controlling.

This function reaches across the entire organizational structure, including all levels of management. It is also implemented in each of the subsidiaries by local risk management units. Risk management is structured to ensure the conscious handling and professional management of credit risk, country risk, market risk, liquidity risk, investment risk, and operational risk in order to ensure an appropriate risk-reward ratio.

## Capital requirements

The first six months of 2012 were primarily dedicated to implementing the steps necessary to reach a core tier 1 capital ratio of 9 per cent as required by the EBA. The largest European banks, including RZB Group, were assigned this target in the fall of 2011 in order to fortify the banking system against the volatile market environment and to improve the stability of the financial markets. RBI itself was not part of the EBA stress tests, therefore there are no detailed results for RBI. Nevertheless, RBI, functioning as part of RZB, has worked on several initiatives to achieve the stipulated ratio. The implementation of these measures was initiated in 2011. This time frame enabled RBI to not only meet the core tier 1 target set by the EBA by June 2012 but also to surpass it considerably.

Risk management also employs firmly established stress tests to assist with capital planning and budgeting. In addition to the regulatory stress tests carried out by the supervisory authorities, internal analyses for further scenarios and potential risk drivers were also conducted in 2012. Market risks, operational risks, increased financing 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.

## Liquidity risk

Liquidity management incorporates findings from past years into the cash flow modeling for the expected base case 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. On the other hand, it should also provide the right management impetus.

In 2012, the planned implementation of the liquidity requirements in accordance with Basel III was again a further issue regarding liquidity risk. Although there is no final draft of regulatory requirements yet, meaning interpretation of these requirements still varies, calculations have already been conducted for RBI and individual Group units. The implementation of the required data landscape and of the corresponding calculation applications constituted a key area of activity in 2012.

Due to the steady improvement in available liquidity on the financial markets and RBI's favorable access to refinancing opportunities, the increased liquidity buffer of 2011 was reduced again over the course of the year under report. At the same time, the structure of the assets contained was optimized. These steps should assist in the strengthening of the net interest margin over the long term, while maintaining an adequate liquidity buffer.

# Interest rate risk

RBI's net interest income contributes significantly to earnings and thus is an important component for capital base stabilization and the success of the bank's business model. To do justice to this significance, risk management of interest rate flows is treated as its own entity by a dedicated unit which is independent from liquidity risk. Here, particularly the impact of different interest rate scenarios on net interest income is simulated. In close cooperation with the front office, RBI prepares for various developments in the markets and can react quickly in the case of negative trends. In 2012, the emphasis in this area was on further developing the available analytical and reporting tools as well as on harmonizing these innovative systems within the Group.

# Market risk

Since January 2010, market risk management has been based on the figures from an internal model. The model uses a hybrid approach – i.e. a combination of historical and Monte Carlo simulations with 5,000 scenarios – to calculate value at risk (VaR) for changes in the risk factors of foreign exchange, interest rate development, bonds credit spreads, credit default swaps and equity indices. To improve the 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 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 model already forms the basis for implementing the strict Basel III requirements into internal models. The model was expanded to include a stressed VaR module, to include current regulatory requirements since 31 December 2011. An additional model was established in 2012 to improve the measurement of option risks.

The daily scope of management includes RBI's trading and banking books based on 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 on the income statement are among the items on the fixed agenda for the weekly Market Risk Committee meeting.

To ensure model quality, daily back testing is performed. The results of these tests were always within the limits of the model expectations. Based on these good results, the internal model is to be allocated to the best class ("green light") from a regulatory perspective.

# Management of non-performing loans

The fact that 2012 was a difficult year for the CEE region, and thus for RBI's home market, was reflected in the increase in non-performing loans to non-banks (up 16 per cent or € 1,127 million compared to 2011) whereof € 508 million resulted from the integration of Polbank at the time of its first-time consolidation.

The allocation of corresponding loan loss provisions was, however, partly offset by high returns from reorganization measures. In doing so, adequate coverage was ensured through allowances. Workout management will remain one area of focus in 2013.

RBI achieved improvements in 2012 in the early recognition and treatment of troubled loans, thereby preventing a further increase in non-performing loans to a great extent. The improved process efficiency, ongoing steps to improve employee training in this area and continuous exchange of experience among the individual members of the Group are significant cornerstones here.

# Basel II and III – regulatory environment

RBI kept up with the current and the upcoming regulatory developments in 2012. The majority of the expected changes resulted from preparations for the introduction of the EU CRD IV/CRR directive, particularly the legislation with regard to capital requirements, key liquidity figures and deductions for minority interests. The potential impact on RBI of new and amended legislation has been analyzed in detail. The corresponding internal guidelines were adopted where necessary.

In addition to the new Basel III regulation measures already adapted, risk management focused also on the ongoing implementation of the revised Basel II approach in 2012. The Basel II related activities included the implementation of the internal ratings-based (IRB) approach in the retail and non-retail segments of the CEE subsidiaries, further development of internal market risk models as well as additional Group-wide development of the standard approach for operational risk.

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 be continued in 2013.

| Unit | Credit risk Non-Retail | Credit risk Retail | Market risk | Operational risk |
|---|---|---|---|---|
| Raiffeisen Bank International AG, Vienna (Austria) | IRB[1] | n.a. | Internal model[2] | STA[3] |
| RBI Finance (USA) LLC, New York (USA) | IRB | STA[3] | STA | STA |
| Raiffeisenbank a.s., Prague (Czech Republic) | IRB | IRB | 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 |
| Raiffeisenbank Russland d.d., Moscow (Russia) | IRB[4] | STA | STA | STA |
| All other units | STA | STA | STA | STA |

[1] IRB = internal ratings-based approach
[2] Only for risks of open foreign-exchange positions and general interest-rate risk on the trading book
[3] STA = standard approach
[4] Only at consolidated level

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

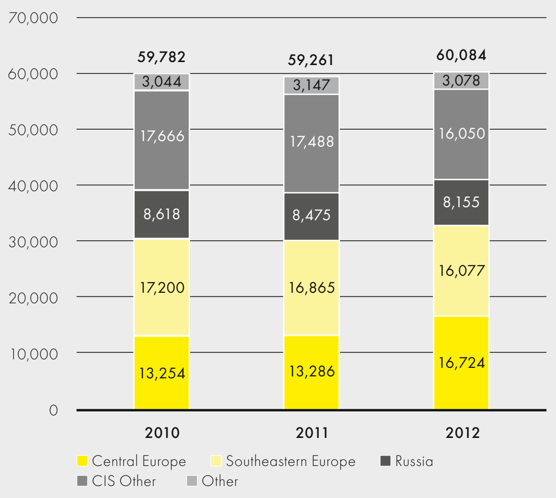
# Human resources

Human Resources (HR) at RBI is responsible for ensuring that personnel resources are deployed throughout the company in a sustainable manner. It operates in an environment of interplay between short- and long-term measures. The year 2012, for example, was characterized both by cost reduction programs, which had to have an immediate effect, and at the same time by development initiatives intended to safeguard the future of the company.

As of 31 December 2012, RBI had 60,084 employees (full-time equivalents), 823 people or 1 per cent more than at the end of 2011. This is based on the first inclusion of Polbank personnel figures; without this effect, a reduction of 5 per cent would have been achieved. Measured on the country's total number of employees, the largest absolute reduction occurred in Ukraine. The average age of employees was relatively low at 36 years, making RBI a young and dynamic bank. Graduates accounted for 68 per cent of employees, indicating a highly skilled workforce. 67 per cent of employees were women.

Development of personnel

Number of staff as of reporting date




## Performance management

RBI's current performance management was adapted in 2012 to the statutory requirements of the BWG. Furthermore, the coordination of target-setting and the budgeting processes were improved from both a timing and content perspective, and performance indicators were revised. In the individual network units, the focus was directed on efficient processing of these requirements and further improvement of the target and development agreements.

## Talent management and management development

In the 2012 reporting year, a Group-wide initiative was started to further improve the quality of the bank's talent management system; the objective of this was to optimize the implementation of the talent management system in practice. Following an analysis of talent management processes in the network banks, an international project team consisting of HR experts from the Group head office and the network, together with external specialists, identified best practices, which were then shared with other Group units. When needed, these Group units were also supported with their implementation of the measures derived from these best practices. Building on the results of the analysis, opportunities for employees to switch between divisions and countries within the company will be expanded in 2013.

## Professional development

In accordance with the Group's strategy, the focus of training activities in 2012 was on professional topics such as capital market products, business with affluent retail customers, risk management and collections. Extensive training initiatives on the subject of "lean" organizations support managers and employees with the streamlining of processes and the associated improvements in efficiency. Basic knowledge is provided via eLearning, while practical implementation takes place primarily during visits to Group units where the lean methodology has already been successfully implemented.

Promoting the international exchange of knowledge and experience continues to remain an important concern for RBI. Hence, the "International Young Potentials" program was launched in 2012 for the second time, promoting high potential employees from network banks by providing them with trainee assignments in other network banks. Exchange programs for experienced employees, e.g., from Risk Management or Treasury, were also further expanded.

# Local initiatives

The focus in all network banks during the reporting period was on cost optimization initiatives. Several banks, such as Tatra banka in Slovakia, closely scrutinized the structure of their voluntary fringe benefits and optimized their organization and processes as part of the Lean project. In Raiffeisen Bank Aval in Ukraine, an extensive project was started to restructure the entire network in order to create simpler management structures and reduce the number of full-time equivalents in the regions. Hence, 25 regional centers were combined into 7 macro-centers, enabling the number of regional managers and full-time equivalents to be reduced by 78 and 408, respectively.

A particular challenge for HR was the merger of Raiffeisen Bank Polska with Polbank. Besides combining the cultures of the two banks – with the help of joint workshops – a fair selection process for the future managers of the target organization was implemented. Common HR tools and processes will serve as the basis for good cooperation within the merged bank.

# Developments in human resources

Additional focal points of Group-wide Human Resources activities in 2012 included further development and implementation of HR Group guidelines and policies, promoting communication, as well as cooperation and experience-sharing between HR experts on the subject of best HR practices in the Group.

Regional HR meetings, at which the participating countries determine the respective agendas, also proved to be an effective platform, especially in discussing and developing joint regional HR topics. At the regional meetings for the CIS and Southeastern Europe in Moscow and Belgrade the main focus lay on cost optimization initiatives. Additional focal points included talent management, succession planning, management development, further development of regional assessment centers and a common Group approach toward the subjects of position classification and salary structure.

In addition, the growing number of branches and employees in Southeast Asia and China made it necessary to expand on-site Human Resources activities there.

# Developments in compensation

Since banks are typical services companies, personnel costs represent a major portion of administrative expenses – at RBI Group it was 49 per cent in 2012 – and cost reduction programs impacted salaries, too. Cost reductions were therefore achieved not only by cutting headcount, but also through adjustments to other fringe benefits at several network units. Based on the first-time inclusion of Polbank personnel costs rose 4 per cent year-on-year.

As part of the performance management process, increased attention was paid to granting salary increases or bonuses only to strong performers on the basis of differentiated performance evaluations.

A significant portion of the Human Resources capacity was channeled in 2012 toward implementing the special regulations for compensation systems in the banking sector. The general (for all employees) and special (only for executive management, risk buyers and special employees in control functions) remuneration principles that were developed in 2011 were implemented during the reporting period.

Every year, all companies associated with RBI Credit Institution Group are assessed based on risk criteria in order to determine on this basis to what extent the remuneration rules apply. In addition, the positions subject to the restrictive provisions of the BWG are likewise identified each year for all companies.

# Outlook

## Economic prospects

### Central Europe

2012 brought a decline in economic output in the CE region, mainly caused by the weak trend in the Eurozone, as the main consumer of exports from Central Europe, as well as by the decreasing leeway left to public authorities, for example in Poland and Slovakia, to fight the economic downswing in Western Europe. While the economy contracted in the Czech Republic, Hungary and Slovenia, Poland and Slovakia continued to report positive growth rates in 2012, despite the cooldown. Following this cooldown – particularly noticeable in the second half of 2012 – moderate economic recovery is expected for 2013, especially during the second half of the year. It is, however, probable that in the Czech Republic (forecast: minus 0.2 per cent), Hungary (forecast: minus 0.5 per cent) and Slovenia (forecast: minus 1.0 per cent), GDP will decrease again slightly in 2013, whereas it may continue to exhibit slight growth in Poland (forecast: plus 1.2 per cent) and Slovakia (forecast: plus 0.9 per cent). This will remain largely dependent on export demand from the Eurozone, however.

### Southeastern Europe

The economic situation in Southeastern Europe also suffered from the decline in exports caused by the Eurozone's difficulties. Ongoing weak investment activity in the region further weighed on economic performance. As a result, growth could be very low in some countries, or even not occur at all. It is also likely that consumer spending in the region will remain modest due to subdued credit growth, a decline in transfers from Southeastern Europeans working abroad and ongoing high unemployment. Although exemplary, the austerity measures undertaken by Southeastern European governments have inhibited growth and created political risks at times. Nonetheless, first indicators already suggest a slight economic recovery. Hence, forecasts project GDP growth of 0.9 per cent for the overall region in 2013, though economic activity is unlikely to gain momentum before the second half of the year.

### CIS

Following an increase of 3.4 per cent in 2012, experts forecast real GDP growth of about 3 per cent for the current year in Russia. This slight decline results from expectations of slower investment momentum, on the one hand, and limited growth potential in the export sector, which is strongly dominated by commodities, on the other. Furthermore, household demand, so far the main growth driver, is likely to lessen to some degree amid weaker credit growth. This should, however, be limited to the first half of 2013, before the economy will start to brighten up again in the second half of the year. Ukraine, in turn, is struggling not only with a weak economy, but also with high foreign economic imbalances. Although its current account deficit should decline somewhat in 2013, it, in combination with a high refinancing need in the public sector, weighs on the country's external liquidity situation. At the beginning of 2013, Ukraine began negotiations with the International Monetary Fund (IMF) regarding a new aid package. During the second half of 2012, Belarus also recorded a deterioration in external conditions. Nevertheless, GDP is expected to rise here 3.0 per cent in 2013, thereby posting a year-on-year increase in economic growth.

### Eurozone

Following the continued recession in the fourth quarter of 2012, several leading indicators are showing the first signs of a stabilizing economy. Particularly trend indicators, usually the first indicators of a change in economic momentum according to experience, displayed considerable improvement. However, the picture still varies widely in individual countries. Currently Germany and Southern Europe are primarily responsible for the improvement in prospects. Although the recession is slowing in Southern Europe and the reduction in economic imbalances is progressing, it is difficult to assess exactly when improved export performance and increasing private sector investment will in fact lead to recovery. Thus, the expected economic revival in the Eurozone during the first half of 2013 still has a narrow base and depends on exports in particular, since domestic demand will likely remain weak. All in all, an economic recovery in 2013 is not guaranteed. It does appear possible, however, that the Eurozone can work its way out of recession during the first half of 2013 and that a moderate recovery will follow.

### Asia

Following a period of weak economic growth in the first three quarters of 2012, the Chinese economy regained momentum in the fourth quarter. This trend is likely to intensify in the first half of 2013, supported primarily by infrastructure projects initiated in 2012. Due to the global economic recovery, exports should also increase again significantly in the second half of 2013. Overall, experts therefore forecast GDP growth of 8.5 per cent for 2013. Despite low inflation, further monetary easing is unlikely to occur as the government is trying to counteract an increase in real estate prices and growth in shadow banking. From a fiscal policy perspective, however, further tax reforms and reductions, among other initiatives, are pending. The Indian economy should likewise regain momentum in 2013, following a decline in growth in 2012. Significant recovery is to be expected, particularly in the second half of the year. Reduced interest rates and an improved business environment are likely to lead to a considerable surge in investment, on the condition of a positive global environment favoring foreign capital inflows. India is likely to achieve economic growth of 6.7 per cent for the full year.

## Outlook for RBI

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

In 2013, we plan to slightly increase loans and advances to customers. Given the outlook for interest rates, we aim to maintain the net interest margin at the level of the previous year. 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.

In light of the economic prospects, the situation remains tense in several of our markets. In 2013, we therefore expect a similar net provisioning requirement as in the previous year.

In 2013, we will once again pay increased attention to cost development. We expect a flat or slightly increasing cost base, particularly due to the first-time full year consolidation of Polbank.

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.



# Events after the reporting date

There were no events after the reporting date that require disclosure.