RAIFFEISEN ZENTRALBANK ANNUAL REPORT 2012

EXTRACT:
RAIFFEISEN ZENTRALBANK GROUP MANAGEMENT REPORT
CONSOLIDATED FINANCIAL STATEMENTS
AUDITOR'S REPORT

Overview

RZB Group Monetary values in € million	2012	Change	2011	2010	2009	2008
Income statement						
Net interest income	3,531	(1.5)%	3,585	3,629	3,462	4,010
Net provisioning for impairment losses	(1,031)	(6.2)%	(1,099)	(1,198)	(2,247)	(1,150)
Net fee and commission income	1,521	1.9%	1,493	1,492	1,422	1,768
Net trading income	196	(43.4)%	346	323	418	19
General administrative expenses	(3,353)	4.5%	(3,208)	(3,069)	(2,795)	(3,117)
Profit before tax	905	(20.9)%	1,144	1,292	824	597
Profit after tax	631	(13.4)%	728	1,168	571	432
Consolidated profit	361	(23.5)%	472	714	433	48
Earnings per share	57.36	(20.82)	78.18	121.73	36.46	6.40
Statement of financial position						
Loans and advances to banks	21,430	(4.6)%	22,457	19,753	33,887	29,115
Loans and advances to customers	85,600	1.8%	84,093	78,270	74,855	84,918
Deposits from banks	38,410	(3.7)%	39,873	37,391	49,917	54,148
Deposits from customers	66,439	(1.0)%	67,114	57,936	55,423	59,120
Equity	12,172	5.9%	11,489	11,251	10,308	8,587[1]
Total assets	145,955	(2.8)%	150,087	136,497	147,938	156,921
Key ratios						
Return on equity before tax	8.5%	(2.0) PP	10.5%	12.5%	8.8%	7.3%
Return on equity after tax	5.7%	(1.0) PP	6.7%	11.3%	6.1%	5.3%
Consolidated return on equity	6.5%	(1.4) PP	7.8%	13.0%	6.3%	0.9%
Cost/income ratio	64.4%	5.2 PP	59.2%	55.8%	51.9%	52.8%
Return on assets before tax	0.62%	(0.2) PP	0.78%	0.88%	0.54%	0.40%
Provisioning ratio (average loans and advances to customers)	1.20%	(0.1) PP	1.35%	1.54%	2.81%	1.46%
Bank-specific information[2]						
Risk-weighted assets (credit risk)	72,198	(11.3)%	81,416	79,996	74,990	89,040
Total own funds	12,667	(0.4)%	12,725	12,532	12,308	10,801
Total own funds requirement	6,965	(12.7)%	7,982	7,966	7,516	8,505
Excess cover ratio	81.9%	22.5 PP	59.4%	57.3%	63.8%	27.0%
Core tier 1 ratio, total	10.9%	1.8 PP	9.1%	8.5%	8.5%	6.3%
Tier 1 ratio, credit risk	13.8%	1.6 PP	12.2%	11.6%	11.8%	8.4%
Own funds ratio	14.5%	1.8 PP	12.8%	12.6%	13.1%	10.2%
Resources						
Number of employees as of reporting date	60,694	1.4%	59,836	60,356	59,800	66,651
Business outlets	3,115	6.1%	2,937	2,970	3,038	3,251

1 Retroactive reclassification of participation capital as equtiy.
2 Calculations since 2008 were carried out applying Basel II.

Content

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. While Germany and Austria 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. 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.

Given 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 the 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 2013.

The countries of Southeastern Europe (SEE), which had achieved GDP growth of 1.7 per cent in 2011, exhibited an economic slowdown 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 2012. 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.

Subdued trends in Austria

The economy in Austria has performed 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, 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. Although inflation at 2.6 per cent remained above long-term trends during 2012, it was still considerably below the level of 2011 (3.6 per cent).

Sovereign debt crisis becomes a euro crisis

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

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**

In March 2012, there was a debt cut 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 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. With 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.

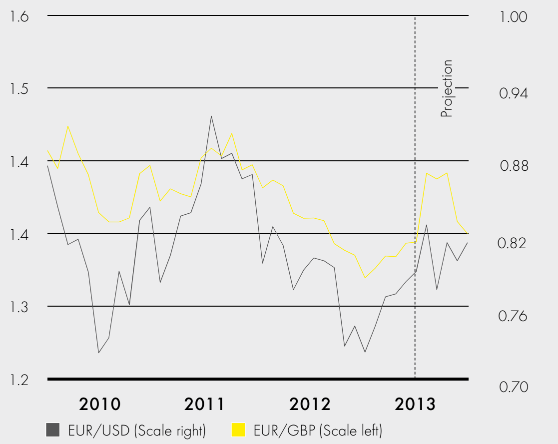
When financing conditions deteriorated even further for Italy and Spain in the summer of 2012, the European Central Bank (ECB) seized the initiative. The ECB announced its willingness to intervene in the secondary markets for sovereign bonds in order to lower interest rates. This commitment was made under the condition of economic reforms and of an austerity program for public finances, both subject to monitoring by external authorities. Once the prospect of ECB 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

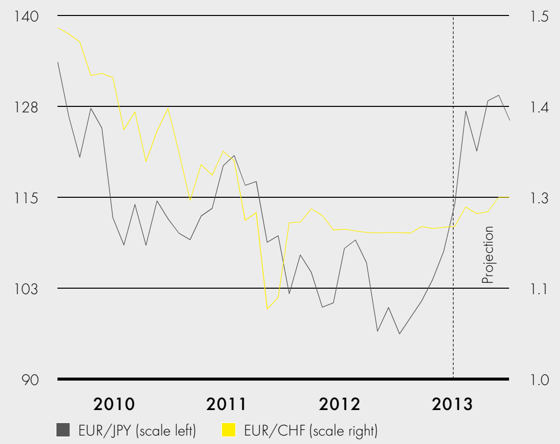
After fluctuating in a limited range of 15 cents between €/USD 1.20 and €/USD 1.35 during 2012, the euro to US dollar exchange rate ended 2012 at €/USD 1.32 and therefore lay at the starting point of the year in January 2012. As in prior years, the driver of currency trends was the euro sovereign debt 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.

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 for a short time

Development of exchange rates USD and GBP per EUR

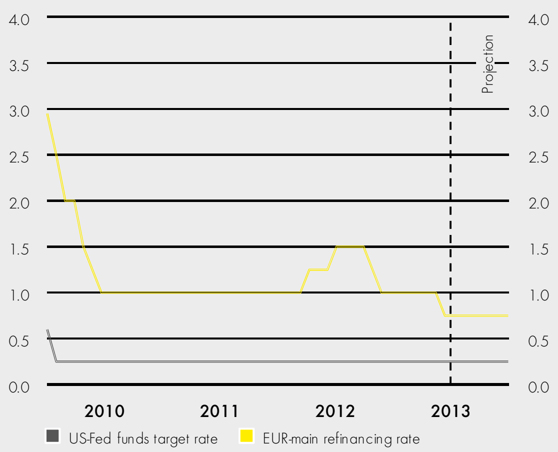


Development of exchange rates JPY and CHF per EUR



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

Development of the prime rate



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 €/HUF exchange rate rose to a value of more than 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.

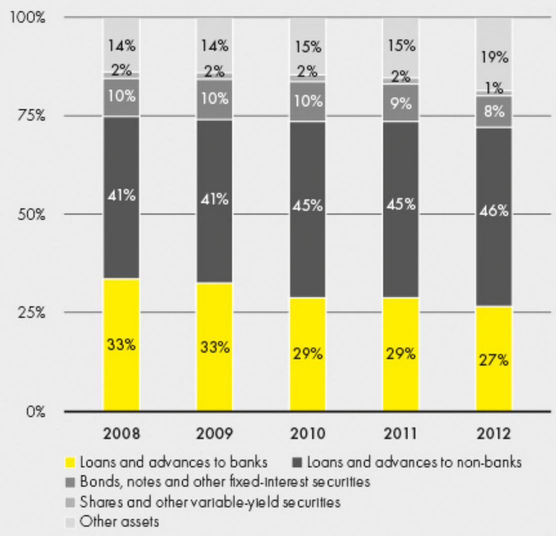
Banking sector performance

Austria

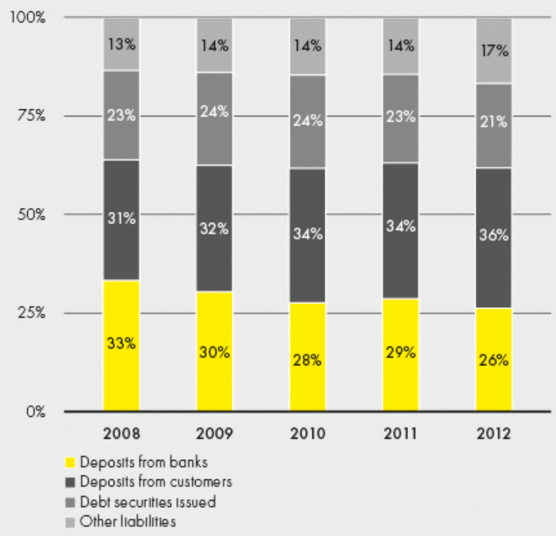
Business volumes down slightly

Aggregate business volumes for the Austrian banks slipped 2.9 per cent to € 964 billion in 2012. Loans and advances to non-banks still made up the bulk of reported assets in the Austrian banking sector, at 45.5 per cent. The volume of deposits from non-banks rose 1.1 per cent and also gained ground as a proportion of total liabilities – up 1.4 percentage points to 35.7 per cent, the largest element on the asset side. The second-largest element was loans and advances to banks (26.6 per cent), while deposits from banks accounted for 26.2 per cent of total liabilities.

Change in Austrian bank sector assets (unconsolidated)



Change in Austrian bank sector liabilities (unconsolidated)



Earnings

The Austrian banks are expected to post an unconsolidated operating result of € 6.8 billion for 2012, down almost 11 per cent versus the previous year. This reflects the drop in operating income (minus 2.3 per cent) combined with higher operating expenses (up 3.5 per cent).

Net interest income began to decline in 2012, after several years of positive growth, declining 8.4 percent to 2009 levels. Net interest income remains a significant factor since it still accounts for 46.5 per cent of operating income.

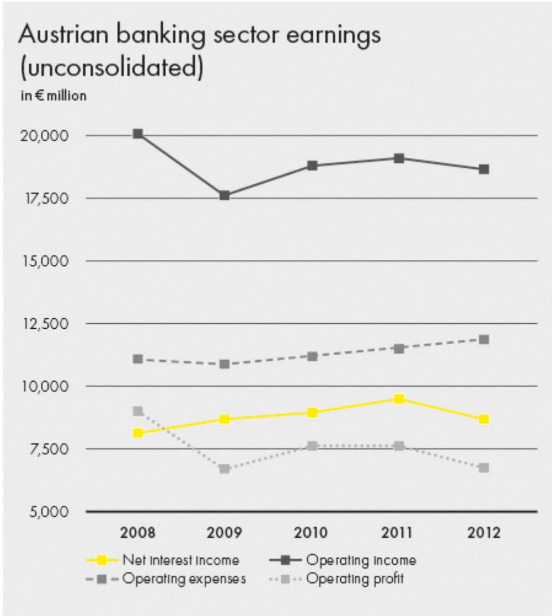
Net profit has not yet been finalized, but the Austrian banks are predicting a strong figure of around € 3.2 billion, which is in line with the figure in 2010 (2011: € 0.8 billion). With the exception of Volksbanken AG, the individual sectors recorded healthy performances. Raiffeisen Banking Group remains the heavyweight, accounting for around half of total unconsolidated net profit in the sector. The Austrian banks anticipate a significant reduction in loan loss provisions to € 2.5 billion for 2012 (2011: close to € 7 billion).

Partial nationalization of Volksbank AG (ÖVAG)

The most significant event in the Austrian banking market was the partial nationalization of the Austrian Volksbanken AG (ÖVAG). In February 2012, the Republic of Austria and the ÖVAG shareholders agreed to restructure the bank. Under the restructuring deal, Raiffeisen Zentralbank's 5.7 per cent indirect shareholding will be diluted in the course of the capital reduction and subsequent capital increase. Raiffeisen Zentralbank currently holds 0.9 per cent of ÖVAG shares and intends to make a full exit.

RZB's contribution to the restructuring program also included an undertaking to inject € 500 million in liquidity plus € 100 million in equity, primarily through asset transfers. However, the negotiating deadline elapsed without any agreement on the final details: the negotiations will continue.

The Republic of Austria has announced an increase in the new bank tax (stability measure) to cover the costs of restructuring the ÖVAG and other nationalized banks and contribute to reducing the budget deficit. State funding for housing savings schemes and pension products has also been halved.



Continued banking sector growth in CEE countries

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 and 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 precrisis 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 given the challenging environment. This reflects the high loan portfolios as compared with deposits and economic potential, leading 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 or even declined due to an ongoing expansionary monetary policy in Western Europe and to a 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. 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 Raiffeisen Zentralbank are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU. Raiffeisen Zentralbank also prepares separate financial statements in accordance with the Austrian Banking Act (BGW) in conjunction with the Austrian Commercial Code (UGB), which provide the formal basis of assessment for calculating dividend distributions and taxes. For more information on the disclosures required by the BWG and UGB, please see the relevant sections of this Group management report, including the notes section.

The majority of Raiffeisen Zentralbank is indirectly held by Raiffeisen Landesbanken Holding GmbH (RLBHOLD), which makes it part of RLBHOLD Group. In RLBHOLD, the core shareholders – i.e. the Raiffeisen Landesbanks – hold the majority of their shares on a pooled basis. RLBHOLD held a stake of around 78.5 per cent at the end of 2012; the remaining shares were owned predominantly by other shareholders. As of December 31, 2012, Raiffeisen Zentralbank's scope of consolidation comprised 341 Group units, including 23 banks and a number of financial institutions and bank-related service providers. At the end of April 2012, RZB 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 has an influence on the comparability of various items in the balance sheet 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 the initiatives to achieve the requirements of the European Banking Authority (EBA), RZB realized profit before tax of € 905 million in the year under review. However, this represents a decline of 21 per cent or € 239 million compared with the previous year's figure.

Pre-tax profit was impacted by a considerably lower operating result (decline of 16 per cent or € 354 million after adjusting for goodwill impairments) and net valuation income resulting from the easing on the financial markets. Non-recurring effects from the sale of high-quality bonds (disposal gain of € 163 million) and the repurchase of hybrid bonds (€ 113 million) narrowed the decline by € 276 million.

Operating income

Operating income – excluding goodwill impairments – declined by 4 per cent or € 209 million to € 5,207 million, due to net interest income and net trading income.

Net trading income fell by € 150 million to € 196 million. This decline was attributable to net income from interest-based transactions and net income from capital guarantees. In the case of net income from capital guarantees, a legally required change in the valuation model had resulted in a valuation gain in the previous year. High-inflation accounting caused valuation losses in Belarus.

Net interest income decreased by € 54 million to € 3,531 million. Sales of bonds resulted in considerably lower interest income from securities. In addition, high liquidity and higher retail deposits led to a significant decline in net interest income. In Russia, net interest income trended favorably: An increase of € 159 million was achieved through growing customer business and higher income from the derivatives business. The integration of Polbank significantly improved net interest income, too. The contribution from associates accounted for using the equity method improved by € 129 million, largely due to the positive performance of Uniqa Versicherungen AG.

General administrative expenses

General administrative expenses rose by 5 per cent or € 145 million year-on-year to € 3,353 million. This was almost exclusively attributable to the consolidation and integration of Polbank, which accounted for a total of € 137 million, while other expenses remained unchanged. The cost/income ratio (excluding goodwill impairments) rose by 5.1 percentage points to 64.4 per cent.

Compared with the previous year, staff expenses increased by 4 per cent or € 65 million to € 1,663 million. The average number of employees increased by 940 people to 61,539, primarily due to the inclusion of Polbank, which had 3,065 employees at the time of initial consolidation. Other administrative expenses increased year-on-year by 4 per cent or € 52 million to € 1.265 million, which was primarily attributable to higher IT expenses (up € 36 million) and office space expenses (up € 22 million). The number of business outlets increased by 178 compared with the end of the previous year, rising to 3,115. Polbank accounted for 327 of these outlets.

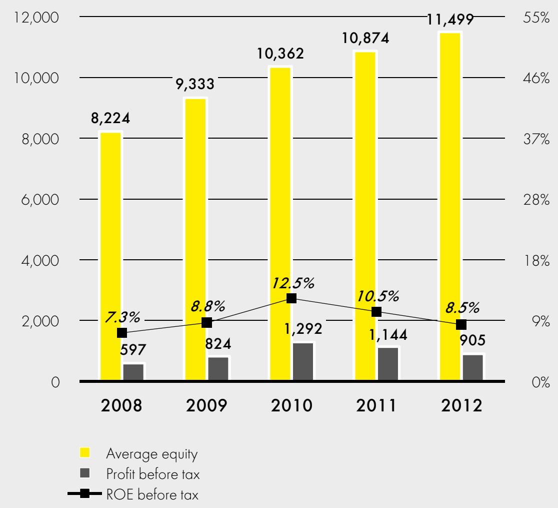
Net provisioning for impairment losses

Net provisioning for impairment losses declined by € 69 million to € 1,031 million. This decrease was attributable to higher reversals of portfolio-based provisions and lower net allocations to individual loan loss provisions. The prevailing difficult economic environment – especially in the second half of the year – led to considerably higher net provisioning, particularly in the fourth quarter.

In Hungary, provisioning decreased year-on-year to € 241 million (2011: € 478 million). Net provisioning for impairment losses in Poland increased by € 69 million to € 127 million. There was also a higher need for provisioning primarily related to corporate customers at RBI AG, in Slovakia and Romania. The net provisioning ratio rose to 1.20 per cent. The portfolio of non-performing loans increased by € 1,.088 million to € 8,304 million, of which € 508 million is related to the inclusion of Polbank.

Development of profit and return on equity

In € million



Net income from derivatives and liabilities

Following € 408 million in the previous year, net income from derivatives and liabilities dropped during the reporting period to minus € 132 million. A valuation loss of € 312 million was recorded on liabilities recognized at fair value, following a valuation gain of € 184 million in 2011. The valuations contained in this total for credit spreads of own liabilities led to a loss of € 145 million in the reporting year, following a valuation gain of € 249 million in the previous year. Net income of € 113 million resulted from the partial repurchase of hybrid bonds. Net income from the valuation of derivatives entered into to hedge interest rate risk decreased to minus € 92 million.

Net income from financial investments

Net income from financial investments improved year-on-year from minus € 183 million to € 240 million, representing an increase of € 423 million. The sale of government bonds from the available-for-sale securities portfolio at Group headquarters – an initiative required by the EBA – resulted in net sales proceeds of € 163 million.

The valuation of the fair-value portfolio of securities resulted in a gain of € 72 million (2011: a loss of € 126 million), which was predominantly attributable to valuation gains on bonds at RBI AG and municipal bonds in Hungary. Sales from this securities category led to positive net income of € 82 million (2011: minus € 11 million).

Goodwill impairment

In 2012, an impairment charge totaling € 38 million (2011: € 188 million) was recorded. The outlook for the Ukraine and the higher discount rate used for valuations resulted in a goodwill write-down at Raiffeisen Bank Aval of € 29 million (2011: € 183 million). The goodwill of Raiffeisen Bank Aval has therefore been completely written off as of the end of the year. In addition, there were other smaller goodwill impairments at various different corporate units totaling € 9 million.

Consolidated profit

Consolidated profit after tax totaled € 631 million for 2012, which represents a decline of 13% or € 98 million. At 30.3 per cent, the tax rate was 6.0 percentage points below the previous year's rate. Profit attributable to non-controlling interests increased from € 13 million to € 269 million. The change is primarily attributable to the acquisition of non-controlling interests in Austria, Slovenia, and Bosnia and Herzegovina.

After deducting profit attributable to non-controlling interests, consolidated profit was € 361 million – a decline of € 111 million year-on-year. During the reporting year, an average of 6.3 million shares was outstanding. Earnings per share in 2012 therefore amounted to € 57.36. The Management Board will propose to the Annual General Meeting that a dividend of € 36 per share be distributed for the 2012 financial year. This would result in a total payout of € 244 million.

Equity

Equity increased by 6 per cent or € 683 million to € 12,172 million. During the year under review, RZB's capital structure was adjusted, with participation capital of € 592 million redeemed and replaced via a capital increase of the same amount. An additional € 250 million was subscribed as part of the capital increase.

Total comprehensive income was € 920 million, of which € 631 million was consolidated profit after tax. Equity was reduced by dividend distributions totaling € 447 million for the 2011 financial year. Of this amount, € 165 million was attributable to shareholders of RZB, € 20 million to the participation capital and € 262 million to non-controlling interests. The acquisition of non-controlling interests reduced equity by a total of € 77 million. This effect resulted primarily from the purchase of non-controlling interests of 49 per cent in Raiffeisen-Leasing G.m.b.H., Vienna, 30 per cent in Raiffeisen Bank Zrt., Budapest, 12 per cent in Raiffeisen Bank d.d., Marburg, and 3 per cent in Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo.

Tier 1 capital ratio

Regulatory own funds, which have been calculated based on international accounting standards since April 2012, amounted to €12,667 million as of 31 December 2012 (2011: minus € 57 million); the comparative figures were based on UGB/BWG. Tier 1 capital was positively impacted by the transition to the calculation methodology of international accounting standards, while acquisitions of non-controlling interests, the repurchase of hybrid tier-1 capital and the consolidation of Polbank lowered tier 1 capital. Short-term additional own funds (tier 3) increased because of maturing tier 2 issues.

The initiatives introduced to achieve EBA requirements led to a € 1,017 million reduction in the required amount of equity to € 6,965 million. The decline was caused primarily by the own funds requirements for credit risk (minus € 737 million) and position risk in bonds, equities and commodities (minus € 247 million).

The tier 1 ratio (total risk) increased by 1.5 percentage points to 11.4 per cent. The core tier 1 ratio improved by 1.8 percentage points to 10.9 per cent.

Statement of financial position

Total assets decreased year-on-year by 3 per cent or € 4.1 billion to € 146.0 billion. Currency effects had only a marginal effect on this decrease. The consolidation of Polbank resulted in an increase in total assets of € 6.2 billion.

On the assets side, loans and advances to customers rose by € 1.5 billion, while the interbank business declined by € 1.0 billion. The securities portfolio was reduced by around € 3.2 billion, largely as a result of the disposal of available-for-sale securities. On the liabilities side, the decline was mostly attributable to deposits from banks, as a result of lower short-term investments and securitized liabilities due to repayments.

Loans and advances to customers increased by 2 per cent because of the consolidation of Polbank. Despite the consolidation of Polbank, which brought in retail deposits of around € 3.5 billion, deposits from customers decreased by a total of 1 per cent, due to the decline in deposits from corporate customers (particularly in the repo business). As a result, the loan/deposit ratio increased by 4 percentage points to 129 per cent.

Income statement

In € million	1/1-31/12/2012	1/1-31/12/2011	Change absolute	Change in %
Net interest income	3,531	3,585	(54)	(1.5)%
Net fee and commission income	1,521	1,493	28	1.9%
Net trading income	196	346	(150)	(43.4)%
Other net operating income[1]	(41)	(8)	(33)	438.9%
Operating income	**5,207**	**5,416**	**(209)**	**(3.9)%**
Staff expenses	(1,663)	(1,599)	(65)	4.0%
Other administrative expenses	(1,265)	(1,214)	(52)	4.2%
Depreciation	(425)	(396)	(29)	7.4%
General administrative expenses	**(3,353)**	**(3,208)**	**(145)**	**4.5%**
Operating result	**1,854**	**2,208**	**(354)**	**(16.0)%**
Net provisioning for impairment losses	(1,031)	(1,099)	69	(6.2)%
Other results[2]	82	35	46	131.9%
Profit before tax	**905**	**1,144**	**(239)**	**(20.9)%**
Income taxes	(274)	(415)	142	(34.1)%
Profit after tax	**631**	**728**	**(98)**	**(13.4)%**
Profit attributable to non-controlling interests	(269)	(256)	(13)	5.3%
Consolidated profit	**361**	**472**	**(111)**	**(23.5)%**

1 Excluding impairment of goodwill
2 Including impairment of goodwill

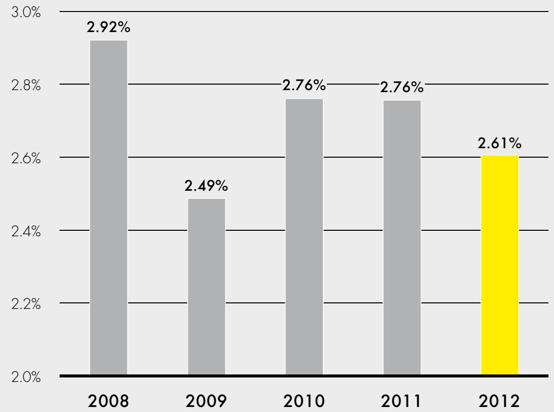
Net interest income

Net interest income declined by 2 per cent or € 54 million to € 3,531 million in 2012. Net interest income was therefore 68 per cent of operating income. The net interest margin (calculated on interest-bearing assets) narrowed by 15 basis points to 2.61 per cent. At the same time, the average interest-bearing assets rose by 4.2 per cent with a simultaneous decline in net interest income.

There was a particularly significant drop in net interest income from loans and advances to banks, which decreased by € 117 million to € 267 million due to the partial reduction in excess liquidity. Net interest income from securities was partially impacted by sales of securities at RBI AG, falling € 159 million to € 624 million. The dip in net interest income was also attributable to lower interest income due to reduced lending and higher refinancing costs.

Net interest income in Russia performed well, rising € 159 million due to increased lending combined with an improved net interest margin. Higher interest income from derivatives contributed to the improvement, too. Furthermore, net interest income was positively impacted by the Polbank integration. Net income from associates made a contribution of € 42 million, following a negative contribution of € 87 million in the previous year. The increase was primarily attributable to the stake in UNIQA Versicherungen AG.

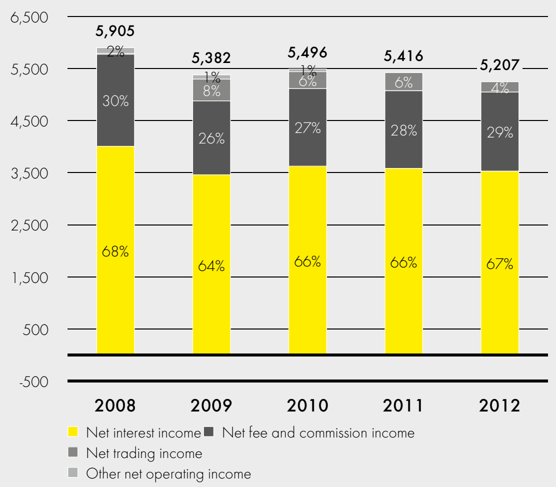
Development of the net interest margin (average interest-bearing assets)



In Central Europe, the net interest margin fell by 50 basis points to 2.85 per cent due to the overall difficult market environment. It fell in Hungary by 44 basis points to 3.42 per cent. Southeastern European countries posted a decline in the net interest margin of 20 basis points to 4.21 per cent. Bulgaria was impacted the most; its interest income decreased year-on-year due to revised expectations about cash flows from impaired loans.

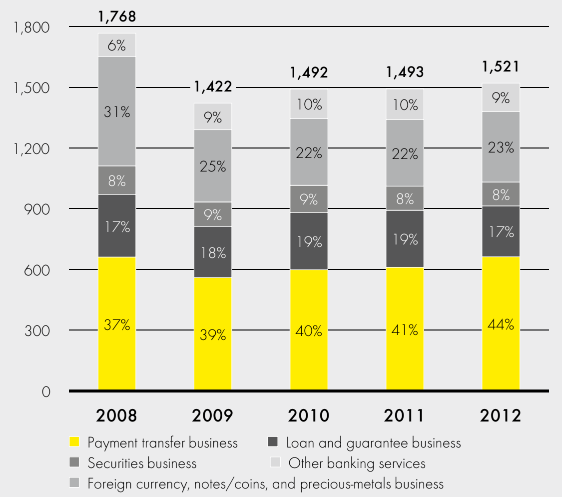
Development of operating income

In € million



Development of net fee and commission income

In € million



Net fee and commission income

Net fee and commission income increased year-on-year by € 28 million, accounting for 29 per cent of operating income. In particular, net income from the payment transfer business as well as from the foreign currency, notes/coins and precious metals business was higher. In contrast, net income from the loan and guarantee business, as well as net income from other banking services, was lower year-on-year.

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

At € 19 million, net income from the foreign currency, notes/coins and precious metals business had the second largest increase in a year-on-year comparison. The primary reasons for this were improvements in the results from Russia, totaling € 8 million, and in Belarus, at € 7 million, due to improvements in revenue and margins.

The trend in net income from the loan and guarantee business was the opposite, declining by € 30 million to € 251 million. This performance is attributable primarily to lower lending fees (minus € 43 million) in Romania and a change in methodology that involved a reclassification between net fee and commission income and net interest income. Net income decreased in Hungary by € 7 million due to declines in volume. Russia generated an increase of € 16 million because of new business.

Net income from the management of investment and pension funds decreased by € 4 million to € 23 million, impacted primarily by lower business activity in Croatia.

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

Net trading income

Net trading income fell by 43 per cent or € 150 million to € 196 million. While currency-based transactions (increase of € 102 million) and the equity and index-based transactions (increase of € 4 million) positively contributed to income, interest-based transactions (decline of € 138 million), the credit derivatives business (decline of € 15 million), and other business (decline of € 103 million) all pushed down the figure.

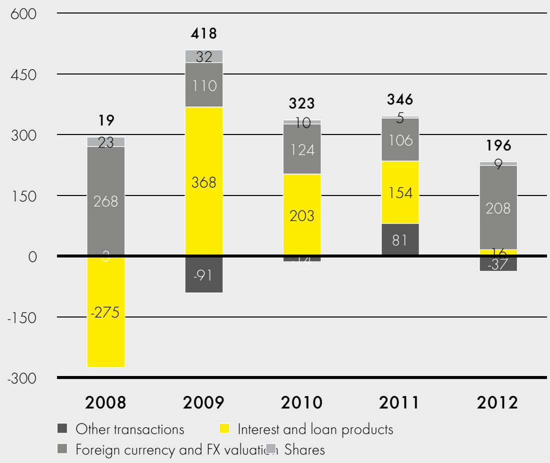
Net income from interest-based transactions plunged by 90 per cent or € 138 million to € 16 million. Lower net income in Russia resulting from valuation losses on derivatives was partly responsible for this drop. Net valuation income from interest swaps was lower due to a change in the assessment of the likelihood of default for counterparty risk.

Net income from currency-based transactions surged by 96 per cent or € 102 million to € 208 million. Russia's contribution to net income from derivatives increased, while Hungary posted valuation losses because of a higher number of derivatives used for hedging purposes. The application of IAS 29 in connection with high-inflation accounting in Belarus had a significant impact, increasing net income by € 64 million year-on-year. RBI AG posted an increase in currency-based transaction volumes, which were negatively influenced by currency volatility, however.

Net income from other business relates mainly to capital guarantees given by RBI AG. It decreased from € 79 million to minus € 25 million. In the previous year, the adjustment of the valuation method to reflect changes to legal requirements resulted in net income of € 81 million.

Net trading income by products

In € million



Other net operating income

Other net operating income excluding goodwill impairments fell from minus € 8 million in 2011 to minus € 41 million. This was largely due to higher bank levies in Austria and Hungary, as well as to the imposition of a bank levy for the first time in Slovakia. In total, bank levies of € 167 million were payable. This represents a rise of € 66 million compared with 2011. Net income from allocations and reversals of other provisions improved by € 2 million to minus € 9 million. This improvement was primarily attributable to the reversal of provisions for legal disputes in Austria and Russia in the amount of € 31 million, for which provisions of € 29 million were recognized for equity interests. Net income from non-banking activities and additional leasing services increased by € 50 million during the reporting year.

General administrative expenses

General administrative expenses rose by 5 per cent, up € 145 million to € 3.353 billion. The cost/income ratio was 64.4 per cent (2011: 59.2 per cent).

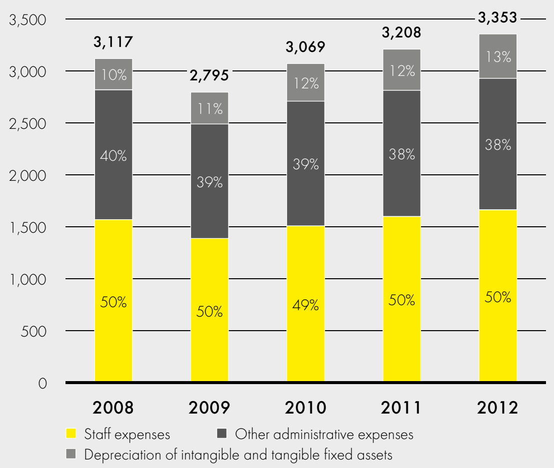
Staff expenses

Staff expenses, which constituted the largest item in administrative expenses at 50 per cent, rose by 4 per cent or € 65 million year-on-year, reaching € 1.663 billion. This increase was mainly the result of the consolidation of Polbank and salary adjustments in Russia. a decline in staff expenses due to lower costs and headcount reductions in Hungary, the Czech Republic and Romania.

The average number of staff employed by the Group (full-time equivalents) rose 2 per cent or 940 persons to 61,539. There were increases in Poland due to the consolidation of Polbank (plus 2,929) and Slovakia (plus 47). The largest reductions occurred in the Ukraine (minus 753), Russia (minus 448), Romania (minus 323) and Hungary (minus 282).

General administrative expenses by category

In € million



Other administrative expenses

Other administrative expenses rose by 4 per cent or € 52 million to € 1,265 million. The largest increases were in IT expenses (plus 16 per cent), deposit protection (plus 10 per cent), and office space expenses (plus 7 per cent). In contrast, advertising, PR and promotional expenses (minus 10 per cent), security expenses (minus 8 per cent) and communication expenses (minus 4 per cent) all decreased.

The increase in IT expenses was primarily the result of the consolidation of Polbank and the outsourcing of IT services at RBI AG. Poland and RBI AG were likewise the main reasons for the higher office space expenses; here they increased mainly because of relocations. The number of business outlets increased by 178 locations compared with the end of 2011 to 3,115. While there was an increase of 300 business outlets in Poland due to the consolidation of Polbank, the largest declines occurred in the Ukraine (minus 84), Romania (minus 24) and Hungary (minus 9).

Depreciation of tangible and intangible fixed assets

Depreciation on tangible and intangible assets rose by 7 per cent or € 29 million year-on-year to € 425 million (2011: € 396 million). The largest increase was in depreciation of intangible assets, which rose € 36 million to € 181 million. Most of this increase is attributable to the impairment of software developments in the Ukraine and Czech Republic. In addition, the consolidation of Polbank and increases in Romania, Croatia and the Ukraine due to system expansions were important factors, too. Depreciation of tangible assets declined by € 9 million to € 204 million. This decrease is mainly attributable to an impairment charge to property in Russia in 2011.

In the reporting year, investment in the Group totaled € 565 million. Of this amount, 51 per cent (€ 287 million) was on Group tangible assets. Investments in intangible assets, mainly in relation to software systems, accounted for 32 per cent of investment. Assets of the operating leasing business accounted for the remainder.

Net provisioning for impairment losses

While most of RBI's markets experienced an economic recovery in 2011, there was renewed deterioration in economic conditions in the second half of the reporting year. This was also clearly reflected in an increase in non-performing loans.

At € 1,031 million, net provisioning for impairment losses was down 6 per cent or € 69 million year-on-year. Net allocations to individual loan loss provisions declined by € 9 million to € 1,204 million. Net reversals of portfolio-based loan loss provisions increased by € 59 million to € 164 million. Net provisioning for impairment losses also includes income from the sale of impaired loans totaling € 9 million.

Trends in net provisioning for impairment losses varied in the individual countries: There was a significant year-on-year decline in Hungary because 2011 had been negatively impacted by the high impairment need due to government mandated loan conversions. Net provisioning declined to € 241 million, following € 478 million in 2011. In Russia, loan loss provisions were released thanks to improvements in the quality of the loan portfolio. In contrast, net provisioning for impairment losses in Poland increased by € 69 million to € 127 million; this increase was related to both large corporate customers and retail customers (through the consolidation of Polbank). Significantly higher net provisions were also recorded for corporate customers at RBI AG, in Slovakia and Romania, as well as in Slovenia for both corporate and retail customers.

The net provisioning rate – i.e. net provisioning for impairment losses versus average loans and advances to customers – declined by 0.15 percentage points to 1.20 per cent.

The portfolio of non-performing loans to customers increased since the start of 2012 by € 1.088 billion to € 8,304 million. The consolidation of Polbank accounted for € 508 million of the upsurge, with currency effects resulting in a further increase of € 95 million. Without these two effects, non-performing loans were therefore € 485 million higher year-on-year.

The largest increases were posted at RBI AG, Hungary and Poland, while there were considerable declines in the Ukraine and Russia. The NPL ratio – i.e. the ratio of non-performing loans to total customer loans – deteriorated to 9.7 per cent, following 8.6 per cent in the prior year. Non-performing loans were covered by provisioning totalling € 5,558 million. This results in an NPL coverage ratio of 66.9 per cent, 0.8 percentage points lower against year-end 2011.

Other results

Net income from derivatives and liabilities

Net income from derivatives and liabilities fell from € 408 million in 2011 to minus € 132 million. The liabilities measured at fair value in profit or loss resulted in a loss of € 312 million, compared with a gain of € 184 million in 2011. This loss consisted of an interest component of minus € 167 million and valuation losses of € 145 million on credit spreads. However, liabilities stood in contrast to positive valuation gains from other derivatives of the same magnitude.

Net income from other derivatives declined by € 139 million to € 55 million. The repurchase of liabilities generated income of € 110 million in the reporting year. This includes the repurchase of hybrid bonds totaling € 113 million.

Net income from financial investments

Net income from financial investments improved year-on-year from minus € 183 million in the previous year to € 240 million. The sale of bonds from the AfS securities portfolio at Group headquarters resulted in net sale proceeds of € 163 million.

Net income from securities at fair value through profit and loss, which totaled minus € 137 million in the prior year, improved to € 154 million in the reporting year. The valuation of securities in the fair-value portfolio led to a gain of € 72 million, whereas a loss of € 126 million was posted in the prior year. There were considerable valuation gains on bonds and municipal bonds at RBI AG and in Hungary, while there were valuation losses on bonds in the Ukraine. Sales of securities from the fair-value portfolio, which were mainly recorded at RBI AG, generated income of € 82 million (2011: minus € 11 million).

Net income from equity interests rose by € 58 million to minus € 78 million (2011: minus € 135 million). Net income from equity interests in the reporting year included valuation losses of € 100 million on equity interests in Austria and disposal gains of € 23 million.

Net income from securities held to maturity declined by € 89 million to € 1 million. The high net income in the prior year was due to gains on the sale of government bonds totaling € 94 million. This sale took place in connection with the increased regulatory capital requirement from the European Banking Authority (EBA).

Impairment of goodwill

Other results in the reporting year included goodwill impairments totaling € 38 million (2011: € 188 million). An impairment charge of € 183 million was recorded in the prior year against goodwill in the Ukraine due to the revised forecasts and an increase in the discount rate that is used for the valuation. In 2012, the remaining goodwill of € 29 million was also written down. A further € 9 million was attributable to goodwill in Bosnia and Herzegovina, Croatia and various smaller corporate units.

Net income from disposal of Group assets

In 2012, net income from the disposal of Group assets was € 12 million. A total of 13 subsidiaries were no longer consolidated, nine of them on the grounds of immateriality. Two subsidiaries were excluded from the consolidated Group following closure and a further two were sold. The companies were primarily active in leasing and investment services.

Income taxes

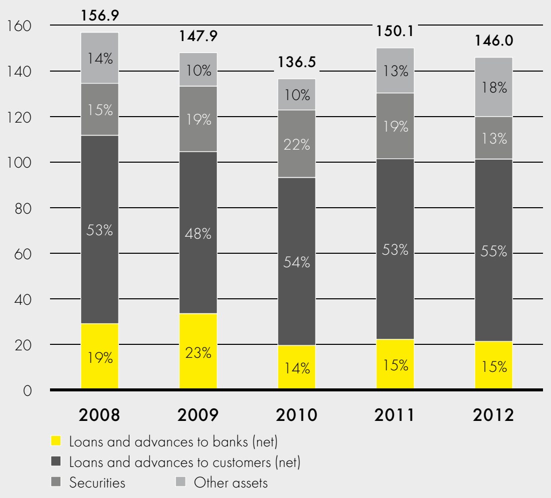
Income taxes in the reporting period totaled € 274 million, following € 415 million in the prior year. The tax rate amounted to 30 per cent (2011: 36 per cent); adjusted for goodwill impairment, it would have been 29 per cent (2011: 31 per cent).

Statement of financial position

Total assets at RZB declined by 3 per cent or € 4.1 billion from the start of the year to € 146.0 billion. This decrease was influenced by the balance sheet adjustment to comply with the requirements of the European Banking Authority (EBA).

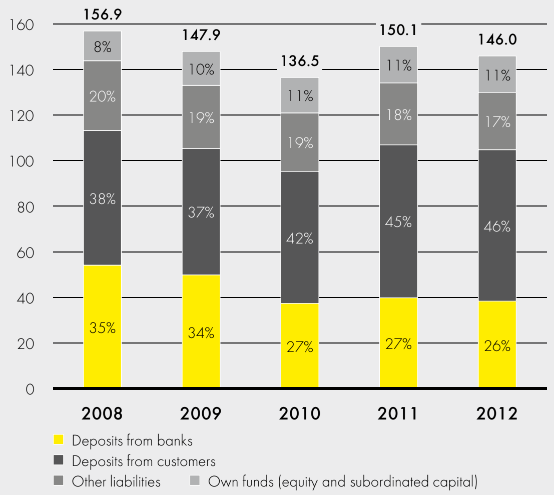
Breakdown of balance sheet assets

In € billion



Breakdown of equity and liabilities on the balance sheet

In € billion



Assets

Loans and advances to customers (before provisioning) rose 2 per cent in the reporting year or € 1.5 billion to € 85.6 billion. Growth of € 5.2 billion was recorded in the retail customer business, primarily in Poland through the consolidation of Polbank and in Russia in the form of new business. Moderate declines were recorded in Central and Eastern Europe, especially in the Ukraine, Croatia and Hungary. The corporate customer business recorded a decline of € 3.8 billion, which was mainly caused by RBI AG (on account of lower new business and sales of receivables), business outlets in Asia and the finance company in New York.

The interbank business decreased by 5 percent or € 1.0 billion to € 21.4 billion. Provisioning for impairment losses was € 0.6 billion higher than at the end of 2011, at € 5.7 billion. Of this, € 5.6 billion was attributable to loans and advances to customers.

Sales of available-for-sale securities and securities in the fair-value portfolio led to a decline in the securities portfolio (including equity investments) of € 2.9 billion to € 18.7 billion. These sales were mainly carried out in RBI AG. Other assets contracted by € 1.1 billion to € 26.0 billion, primarily due to the reduction in the cash reserve.

Equity and liabilities

Deposits from customers edged down by € 0.7 billion compared with the previous year to € 66.4 billion. Deposits from retail customers grew by € 3.9 billion, predominantly in Poland (consolidation of Polbank) and Russia, while deposits from corporate customers, by contrast, fell by € 4.3 billion, primarily due to the repo business in RBI AG. Refinancing volume via banks – mainly commercial banks – fell by € 1.5 billion to € 38.4 billion on account of lower short-term deposits.

Other liabilities fell by € 2.1 billion to € 25.0 billion. Securitized liabilities dropped by € 1.0 billion on balance to € 13.3 billion. Trading liabilities were reduced by € 0.9 billion, predominantly in RBI AG.

Equity

Equity on the statement of financial position

RZB's balance sheet equity rose from the end of 2011 by € 683 million to € 12,172 million.

Consolidated equity, consisting of subscribed capital, capital reserves and retained earnings, increased by € 758 million to € 6,907 million. A total of € 288 million of the profit generated in 2011 was retained, and the capital increase carried out in the reporting period led to growth of € 833 million. Preference shares with a nominal value of € 41 million were converted into ordinary shares. Participation capital of € 592 million was redeemed on 1 June 2012.

Dividend payments reduced Group equity by € 185 million, of which € 165 million was attributable to ordinary shareholders and € 20 million to participation capital.

Other comprehensive income made a contribution on balance of € 208 million. Currency differences and changes in equity not recognized in profit or loss of companies accounted for using the equity method had a positive impact of € 118 million and € 153 million, respectively. Net income from the valuation of assets available-for-sale amounted to minus € 116 million largely due to the sale and subsequent reclassification of the result in the income statement. The related deferred taxes totalled € 30 million, and the impact from applying hyperinflation accounting generated a plus of € 23 million.

Consolidated net profit contributed € 361 million to equity after deduction of non-controlling interests in participation capital.Capital attributable to non-controlling interests rose by € 36 million to € 4,903 million. Profit attributable to non-controlling interests of € 269 million and other comprehensive income of € 82 million made a positive contribution. Other comprehensive income was mainly attributable to positive currency effects of € 50 million, as well as changes in equity not recognized in profit or loss of companies accounted for using the equity method of € 45 million.

Dividends amounting to € 262 million were distributed to minority shareholders. Of this, € 180 million was attributable to the participation capital held in RBI AG. The acquisition of shares in Group companies previously held by Raiffeisenlandesbanks – namely the 49 per cent interest in Raiffeisen-Leasing Gesellschaft m.b.H., Vienna, 30 per cent in Raiffeisen Bank Zrt., Budapest, 12 per cent in Raiffeisen Bank d.d., Marburg, and 3 per cent in Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo – led to a € 70 million decline in the capital attributable to non-controlling interests.

Own funds pursuant to the Austrian Banking Act (BWG)

During the year under review, the eligible capital calculation method was changed from the method specified in Section 29a of the BWG to the IFRS method. The comparative figures based on BWG/UGB were not adjusted.

The credit risk of RZB Banking Group is predominantly calculated according to the internal ratings-based approach (foundation IRB approach) in accordance with Section 22 BWG, which affects nearly all of the non-retail business at RBI AG and its subsidiaries in Croatia, Malta, Romania, Russia, Slovakia, the Czech Republic, Hungary and the USA.

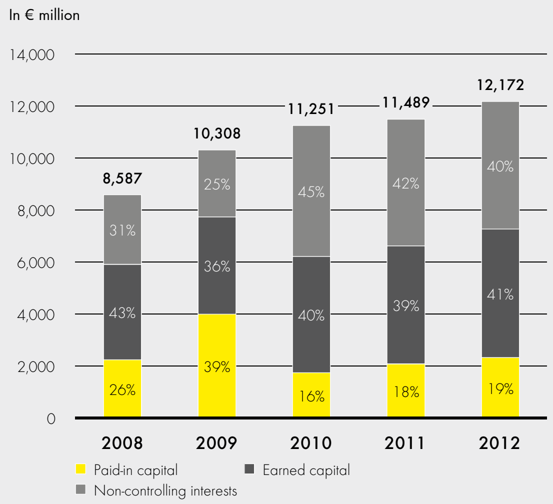
A large part of loans and advances to retail customers in Slovakia, the Czech Republic and Hungary are measured under the advanced IRB approach. Market risk is predominantly measured using the standard approach; RBI AG carries out the calculation in part according to the internal model.

Consolidated own funds in accordance with the BWG amounted to € 12,667 million as of 31 December 2012, which represents a decline of € 57 million in the reporting year.

Core capital increased by € 47 million to € 10,006 million. Although the change in calculation method to international financial reporting standards in the second quarter had a positive impact, core capital was reduced by € 359 million through the repurchase of hybrid tier 1 capital from external investors.

The consolidation of Polbank EFG S.A., Warsaw, led to a € 229 million reduction at the start of May. The acquisition of shares in Group companies previously held by Raiffeisenlandesbanks also had a negative impact of € 70 million.

Breakdown of equity



Profit for the financial year is included in the calculation, but the projected dividend to be paid for the 2012 financial year has been deducted. By contrast, appreciation of the Polish zloty, the Hungarian forint and the Russian rouble in particular against the euro had a positive impact on equity.

Additional own funds were down € 24 million year-on-year at € 3,294 million, consisting of long-term subordinated capital, of which the largest part pertained to RBI AG at € 2,828 million, and the provision excess of IRB positions of € 228 million. Short-term subordinated capital rose by € 202 million to € 302 million as a result of maturing tier 2 issues. The total deductions relating to participations, securitization and insurance companies amounted to € 935 million (2011: € 653 million). The increase in deductions is largely attributable to market-to-market valuations as part of the transition to international financial reporting standards.

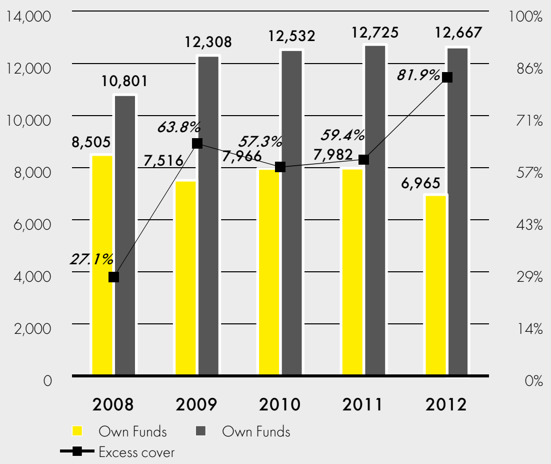
Own funds stood in contrast to a lower own-funds requirement of € 6.965 million, a decrease of € 1,017 million. The own funds requirement for credit risk was € 5,776 million, representing a decline of 11 per cent or € 737 million. € 2.733 million of this were calculated using the standardized approach and € 3,042 million using the IRB approach.

The requirement for the position risk in bonds, equities and commodities fell by € 247 million to € 273 million. This decline occurred in part because of the measures initiated in light of EBA requirements to reduce the bank's non-core business with a focus on market risk positions, and partly because the internal model was updated. This also reduced the own funds requirement for open currency positions, which fell 60 per cent or € 84 million to € 56 million. The requirement for operating risk was € 860 million (2011: € 809 million).

This led to an improvement of 22.5 per cent in the excess cover ratio to 81.9 per cent or € 5,702 million.

Development of own funds and excess cover ratio

In € million



The tier 1 ratio – based on credit risk – was 13.8 per cent. Based on total risk, the tier 1 ratio was 10.9 per cent, with a core tier 1 ratio of 11.4 per cent. The own funds ratio totalled 14.5 per cent.

Successful implementation of EBA requirements

To strengthen the financial system, the EBA decided in the autumn of 2011 to implement stricter capital requirements for about 70 system-relevant banks in the EU. As part of this initiative, a hard core capital ratio (core tier 1 as per the EBA definition) of 9 per cent was defined as a target value; this value had to be reached by 30 June 2012.

In accordance with EBA calculations, this resulted in an additional capital requirement of around € 2.1 billion for RZB. This amount was well exceeded following the implementation of numerous internal measures by the Bank itself and without seeking government support. Upon meeting the requirements, the figure for RZB was 10.0 per cent, and as high as 10.6 per cent including net profit.

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

The internal control and risk management system as part of the Group accounting process

Balanced and comprehensive financial reporting is a priority for RZB and its governing bodies. At the same time, these reports of course must comply with all the 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 the 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 applied to the consolidated financial statements are the International Financial Reporting Standards (IFRS) in the form in which they have been taken over in the EU. RZB has been applying IFRS since 2000, initially on a voluntary basis.

Control environment

An internal control system has been in place for many years at RZB, including 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 and divisional instructions.
- Process descriptions for the preparation, quality control, approval, publishing, 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 Group Audit and by local auditors.

The consolidated financial statements are prepared on the basis of service level agreements in the RBI Group Financial Reporting department, which reports to the Chief Financial Officer. The relevant responsibilities are defined Group-wide in 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, equity 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 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 the RBI Group Financial Reporting department in accordance with central guidelines. The local management is responsible for ensuring compliance with mandatory internal control measures, such as the separation of functions and the principle of dual control.

Consolidation

The transfer of financial statement data, which are examined by an independent auditor, are usually entered directly in the Cognos Controller consolidation system by the end of January each year. The granting of limited access rights safeguards the security of the IT system.

The plausibility of the financial statement data submitted by the Group units is initially checked by the relevant key account manager within the RBI Group Financial Reporting department. Controls at the Group level encompass the analysis and any necessary adjustment of the financial statements submitted by the Group units. These controls take into account the reports submitted by the independent auditor and the results of the closing discussions with representatives of the individual companies, during which both the plausibility of the individual financial statements and individual critical issues of the Group units are discussed.

The subsequent consolidation steps are then performed in the Cognos Controller consolidation system, which include capital consolidation, expense and income consolidation and debt consolidation. Finally, any intra-Group profits are eliminated through bookings at the Group level. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and UGB.

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

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

Information and communication

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

The consolidated results are reported in the form of complete consolidated financial statements in the annual report. These consolidated financial statements are examined by an independent auditor. In addition, the management summary (Group management report) provides verbal comments on the consolidated results in accordance with the statutory requirements.

The Group produces consolidated quarterly reports. The external publication process takes place on a half-yearly basis: i.e. in addition to the consolidated financial statements as of year-end, a semi-annual financial report is drawn up and published in compliance with the provisions of IAS 34. 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 well as preliminary Group figures at regular intervals. The financial budgeting process includes the compilation of a three-year Group budget.

Monitoring

The Management Board and Controlling department are responsible for ongoing internal monitoring, while the departmental heads are responsible for the areas falling under their remit. This ensures that regular controls are performed and plausibility checks are carried out.

Internal Audit is also involved in the monitoring process. Group Audit at Raiffeisen Zentralbank is responsible for the auditing function. All 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 Management Boards of Raiffeisen Zentralbank and RBI AG.

Funding

Banks essentially refinance themselves using their own funds, customer deposits and various capital and interbank market tools. In 2012, the banking environment was heavily influenced by the sovereign debt crisis in the first half of the year, which made refinancing difficult for banks – particularly through the financial markets. The climate increasingly improved throughout the second half of the year.

Stable basis for refinancing

The refinancing of RZB is founded on two pillars: First, there are customer deposits, which at end-2012 accounted for € 66.4 billion or 54 per cent of refinancing. Second, there is wholesale funding, which totaled € 51.7 billion, another 42 per cent. The high share of customer deposits creates a stable refinancing basis, making RBI less vulnerable to upheavals on the financial markets.

In € million	2012	Share	2011	Share
Customer deposits	66,439	54.4%	67,114	53.4%
Medium- and long-term refinancing	23,786	19.5%	24,447	19.5%
Short-term refinancing	27,929	22.9%	29,704	23.6%
Subordinated liabilities	3,885	3.2%	4,418	3.5%
Total	**122,039**	**100.0%**	**125,683**	**100.0%**

Diversified funding sources

In 2012, the additional funding of subsidiary banks in Central and Eastern Europe on the wholesale funding market was further diversified. More than 40 percent of the wholesale financing of subsidiary banks comes from external sources.

Supranational institutions are an important partner for the Group. This funding also supports SME and energy-efficient projects in Eastern Europe. RZB cooperates with these institutions not only in financing but also in other areas: e.g. in risk-sharing programs that optimize risk-weighted assets.

The funding via these institutions is significant because they make a positive contribution to the performance of the loan-to-local stable funding ratio (LLSFR). Long-term ECA-covered financing plays a crucial role in the funding mix of network banks.

Additional sources include structured transactions, such as the securitization transaction for the Polish leasing subsidiary amounting to PLN 500 million, which was arranged by RBI AG and successfully placed with private investors. In June 2012, the first tranche of a securitization of diversified payment rights (DPR) initiated by ZAO Raiffeisenbank Moscow was placed for a total of USD 125 million.

The Austrian Raiffeisen Banking Group, whose central institution is RZB, constitutes an important funding pillar.

Successful benchmark issues

There are two issue programs for medium- to long-term refinancing: the "€ 25 billion Debt Issuance Program" and the "€ 20 billion issue program of Raiffeisen Bank International AG", both led by RBI AG.

Under these programs, bonds can be issued in different currencies and with different structures. The total volume of outstanding bonds under each of these two programs may not exceed € 25 billion and € 20 billion, respectively. At the end of 2012, there was a total of € 12 billion outstanding in the two programs.In view of the volatile market environment, RBI AG implemented its funding plan quickly in 2012, with two thirds of the total funding requirement raised in the second quarter through wholesale funding, placing a senior benchmark bond and several private bonds.

In March, the first benchmark bond was issued as a senior fixed-rate bond with a total volume of € 500 million and a three-year maturity. It was placed at 175 basis points over mid-swaps, with a coupon of 2.875 per cent. The issue was significantly oversubscribed.

Prior to the summer break, RBI AG took advantage of the more cheerful market environment and issued a second benchmark bond of € 750 million. This issue was also oversubscribed. The five-year bond was sold with a coupon of 2.75 per cent, which represents a premium of 165 basis points over mid-swaps.

In addition to the senior bonds, RBI AG also took on subordinated funds. In October, RBI issued the first tier 2 bond of an Austrian bank in Swiss francs. The bond proved to be very popular and was issued at a sum of CHF 250 million, far in excess of the expected volume. The bond has a term of 10 years and a coupon of 4.75 per cent. The coupon corresponds to a premium of 385 basis points over CHF mid-swaps.

Just after the Swiss franc bond, RBI AG made an exchange offer of supplementary capital into subordinated capital (tier 2), which was picked up by around half of the investors. This solid demand was reflected in the secondary market performance. At the end of the year, the yield on the security was nearly one percentage point lower than at the time of the exchange.

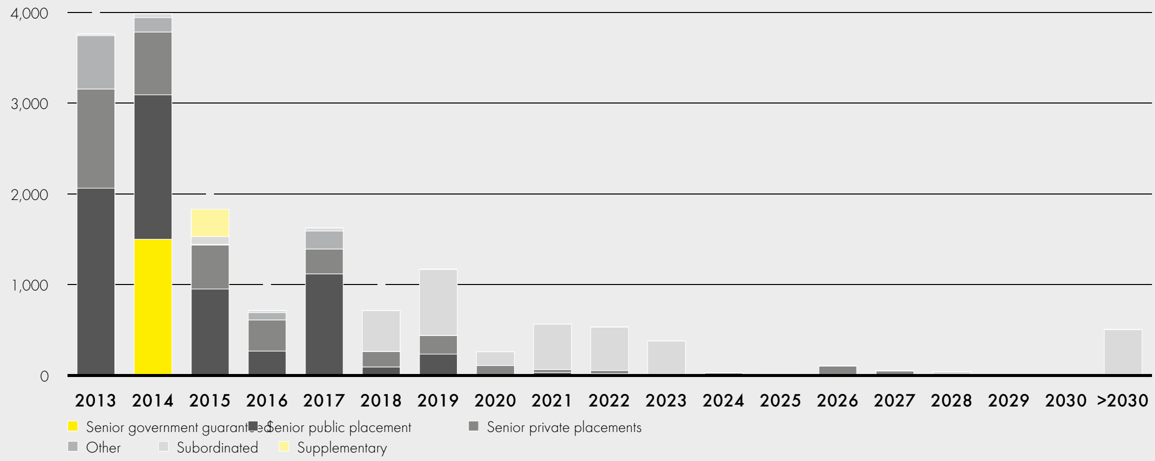
Further refinancing measures

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

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

Maturity profile of the debt securities issued

In € million



Risk management

Active risk management represents a core competence as part of central Group management for Raiffeisen Zentralbank, as the parent bank of RZB. In order to effectively identify, measure and manage risks, the Bank cooperates closely with RBI AG in developing and implementing relevant concepts.

Raiffeisen Zentralbank, as the parent bank, has various service level agreements with risk management units of RBI AG, which handles the operational implementation of risk management processes within the Group with the individual Group subsidiaries. Raiffeisen Zentralbank establishes risk management guidelines and defines business-specific requirements, tools and procedures for all Group businesses.

Local risk management units also work in the various legal Group units. These implement the risk policy in the relevant risk categories and manage the business within the approved risk budget to achieve the aims of the business policy. To this end, they monitor occurring risks with the aid of standardized measuring methods and also report these using set reporting interfaces to the central risk management units. The function stipulated in the Banking Law (BWG) of the central and independent risk control is exercised by the Risk Controlling organizational division. The tasks of this division include compilation of the Group-wide and risk category-wide regulations for Group risk management as well as independent and neutral reporting on the risk profile to the Board of Directors and individual business division managers. The necessary risk capital for the various business units is also determined and the use of the risk capital budget set to evaluate the appropriateness of the capital adequacy is calculated in this domain.

Raiffeisen Zentralbank Risk Controlling uses the risk management of RBI AG to implement the Group-wide risk management strategy and guidelines within the scope of Raiffeisen Bank International.

Capital requirements

The first six months of 2012 were influenced by measures taken to achieve the tough equity capital ratio of 9 per cent determined by the European Banking Authority (EBA). This target was imposed on roughly 70 important European banks in autumn 2011, including RZB.

The implementation of these necessary measures was initiated from 2011 onward. The objective set by the EBA was not only met by the middle of 2012, it was significantly exceeded.

In addition to the guidelines at the European level, the Austrian supervisory authorities also tightened requirements on capital adequacy at banks of systemic importance.

The stress tests anchored in risk management are designed to support capital planning too. In addition to the regulatory stress tests carried out by the supervisory authorities, internal analyses were also conducted in 2012 for further scenarios and potential risk drivers.

Close cooperation with all the risk management divisions and including other experts from the subsidiary banks and controlling made it possible to take a variety of risk factors and their effects on solvency into consideration in the internal stress tests.

Besides the increased capital requirement and rising provisions for credit portfolio impairments in the stress scenario, market risks, operational risks, increased financing costs and numerous other capital and earnings components were incorporated into the integrated approach. The results of the stress tests and their analyses were reported regularly to the Management Board, making it possible to introduce countermeasures quickly for any threatening scenarios.

Liquidity risk

In liquidity risk management, the cash flow modelling for the regularly anticipated case was reworked in 2012 and expanded to include lessons from previous years, which was designed to be able to adapt the resulting outlook for capital commitment and refinancing requirements. This should provide greater transparency with respect to actual costs and risks, but should also provide the appropriate management impetus.

The scheduled implementation of liquidity rules in accordance with Basel III was a further topic relating to liquidity risk in 2012. Although no final version of the legislation yet exists – and this can therefore be interpreted in many varying ways – calculations have already been made for RZB and individual Group units. The implementation of the required data environment and corresponding calculation applications was an important workstream in 2012.

The Liquidity Contingency Committee (LCC) is a body that deals with liquidity management and measures in the event of strained market conditions or crises. Due to the strained market situation, the LCC was convened in the second half of 2011 and met several times during 2012 as well.

Due to the steady improvement in the availability of liquidity on the financial markets and favorable access RZB had to refinancing opportunities, the liquidity buffer that increased in 2011 was lowered again during the reporting year. At the same time, the composition of the constituent assets was optimized too. These measures should also support a sustained increase in the net interest margin alongside maintaining a suitable liquidity buffer.

Simulating net interest income

RZB's net interest income is a significant component in earnings and makes a substantial contribution toward strengthening its capital base and the success of the business model. In order to account for this significance, the risk management of interest flows is carried out in a separate organizational unit alongside liquidity risk. In this context, the influence of various interest rate scenarios on net interest income was simulated.

In close cooperation with the market units, RZB is preparing itself for various developments in the markets so that it can respond rapidly to adverse trends. In 2012, the further development of the available analysis and reporting tools played a central role, as did the harmonization of 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 so-called Monte Carlo simulations with around 5,000 scenarios – to calculate value at risk (VaR) for changes in the risk factors of foreign exchange, interest rate changes, credit spreads for bonds, credit default swaps and equity indices.

To improve modeling of risk factors where the probability of extreme price changes exceeds the probability given by the normal distribution, the model incorporates numerous add-ins, such as adding extreme events to the scenarios, or taking into account current volatility in scenario generation, together with various time horizons in volatility estimation. This model approach offers a suitable basis for implementing the strict Basel III requirements in internal models. The model was additionally expanded around a stressed VaR module that has complied with current regulatory requirements since 31 December 2011. An additional module was added in 2012 to improve the measurement of option risks, which measures and limits the vega risks in the Group with a hybrid simulation approach.

Following the review process by both the Austrian Financial Market Authority (FMA) and OeNB, the model has been used since 30 August 2010 to calculate own funds requirements for foreign currency and general interest rate risk in the trading book for Group headquarters. Daily management includes RZB's trading and bank books based on VaR for a one-day holding period, a 99 per cent confidence interval and sensitivity limits. The market risk position, limit process and presentation of all capital market activities on the income statement are some of the regular items on the agenda for the weekly Market Risk Committee meeting.

To ensure its quality, the model is subject to daily backtesting. The results of these tests have always been within the range of model expectations and have not shown any substantial deviations, even in the last few months. Based on these good results, the internal model is placed in the best regulatory category ("green light").

Management of non-performing loans

The financial year 2012 saw an increase in non-performing loans, especially in CEE (up 15 per cent or € 1.088 billion compared with 2011). The reconstitution of corresponding net provisioning for impairment losses was partly compensated by substantial gains from restructuring measures, however. Furthermore, appropriate hedging was ensured by value adjustments. This will also be one area of focus in 2013.In 2012, process improvements were achieved in RZB with regard to the early recognition of at-risk loans and their treatment. To a great extent, this prevented a further increase in non-performing loans. Important cornerstones here are the increased scope of the portfolios in question and improved efficiency of the processes, further development of reporting and ongoing exchange of experience among the individual members of the Financial Institution Group.

Basel II and III – regulatory environment

RZB was also intensively focused on the forthcoming regulatory developments in 2012. Most of the expected changes arise from preparations for introducing EU Directive CRD IV/CRR, especially the guidelines on capital requirements, liquidity indicators and non-controlling interests. The potential influence of the new and modified statutory regulations on RZB was analyzed in detail. Where necessary, corresponding internal guidelines were issued.

Besides the preparations already initiated in connection with the new Basel III regulations, risk management in 2012 focused on the ongoing implementation of the revised Basel II approach. The Basel II-related activities include implementing the internal ratings-based (IRB) approach in the retail and non-retail segments of the subsidiaries in CEE, further developing the internal market risk model, and initiating Group-wide further development of the standard approach for operational risk.

The following table shows an overview of the current status of these projects. The implementation of the IRB approach in CEE subsidiaries will be pursued further in 2013. The standard approach is currently used in all key Group units to calculate capital requirements for operational risk under Basel II.

Unit	Credit risk Non-retail	Retail	Market risk	Operational risk
Raiffeisen Zentralbank Österreich AG, Vienna	IRB[1]	n.a.	STA	STA
Raiffeisen Bank International AG, Vienna (Austria)	IRB	n.a.	Internal model[2]	STA
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 Russia 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.

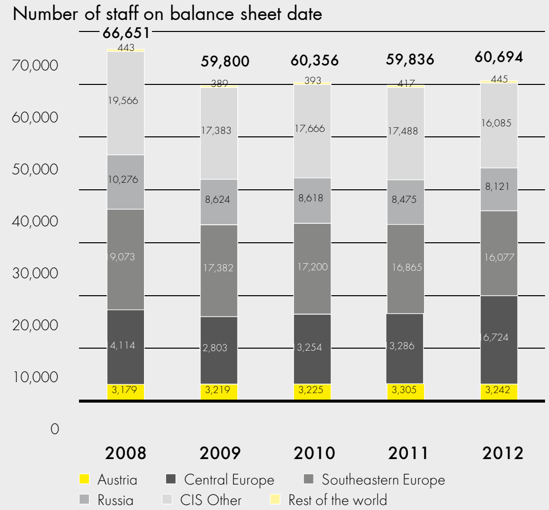
Human Resources

With a staff of 60,694 (full-time equivalents), RZB employed 1.4 percent or 858 more people as of 31 December 2012 compared with the headcount at end-2011, which is attributable primarily to the addition of Polbank for the first time.

The average age of employees continues to be relatively low at 36. The fast growth in past years and intensive recruiting activities reflect this number. Graduates accounted for 68 per cent of employees, indicating a highly skilled workforce. The share of female employees amounted to 67 per cent.

Development of personnel

Number of staff on balance sheet date



Performance management

In 2012, the existing performance management process – i.e. evaluation, development and compensation system – was adjusted again in line with the statutory rules of the Banking Act. These amendments were incorporated in the Group directives on performance management.

Furthermore, the coordination of the target-setting and budgeting processes was improved from both a timing and content perspective, and performance indicators were revised and tightened. In the individual companies, work was carried out on the efficient processing and further quality improvements of the target and development agreements.

Talent management and management development

A Group-wide initiative was started in 2012 to improve the integrated talent management system and optimize the quality of the implementation phase. As part of this framework, a project team with Group HR experts analyzed the implementation of talent management processes together with external specialists in Vienna and in 12 of 15 network banks.

The "good practices" identified were made available to the other Group units and supported with specific implementation measures where necessary. Building on these results, targeted measures will be rolled out in 2013 in the areas of "cross-functional" and "international rotation."

Professional development

In accordance with the Group's strategy, the focus of training activities in 2012 was on professional areas such as capital market products, business with affluent retail customers, risk management and collections. Numerous training initiatives gave management and staff the necessary tools to streamline processes and thereby boost efficiency. Basic knowledge here is provided via eLearning, while practical implementation takes place especially during visits to Group units where the methodology has already been successfully implemented.

Promoting the exchange of knowledge and experience across borders remains an important concern too. Hence, the "International Young Potentials" program was initiated in 2012 for the second time, promoting high-potential employees from network banks by providing them with trainee assignments in other network banks. The professional exchange programs for experienced employees, e.g. from the Risk Management and Treasury divisions, were further expanded too.

Raiffeisen Campus

In March 2011, a project was launched on behalf of the Austrian Raiffeisen Banking Group to set up a Raiffeisen Campus. This was developed with the involvement of all HR directors at regional Raiffeisen banks, Raiffeisen Zentralbank and RBI AG, many related Raiffeisen companies as well as all sector levels and various segments. The aim was to develop training and further education programs as well as HR development concepts that are as uniform as possible for all Raiffeisen companies. Looking forward, this should boost competitiveness and leverage synergies. Since January 2013, the Raiffeisen Campus has been a separate and independent business unit of the Austrian Raiffeisen Association; the existing federal education institution "Raiffeisen Academy" has been integrated into this new Raiffeisen Campus structure.

Raiffeisen Campus should also act as a bridge between the Austrian Raiffeisen banks and the subsidiary banks in CEE. The first specific project in this context was the Top Management Conference organized by Raiffeisen Zentralbank in November 2012, in which more than 50 managers from subsidiary banks and more than 100 managers from regional Raiffeisen banks and primary local Raiffeisen banks took part.

Local initiatives

Cost optimization initiatives were on the agenda at nearly every Raiffeisen company. Many banks subjected their benefit structures to closer inspection or optimized organizations and processes.

One particular challenge for human resources was the change management of the merger process between Raiffeisen Bank Polska S.A., Warsaw and Polbank. The cultural integration of both banks was facilitated by means of special diagnosis instruments and joint workshops.

Furthermore, a fair selection process was established for future managers at the target organization, relying on common HR tools and processes as the basis for good cooperation in the merged bank.

Developments in compensation

Personnel costs traditionally constitute a large part of total costs in services companies. For RZB in 2012, this amounted to half of general administrative expenses. Consequently, cost-cutting programs have also been introduced here. Still, savings were achieved not just by cutting headcount, but also through adjusting other fringe benefits (e.g. lowering or removing company allowances for insurance or pensions) at companies. Salary increases or bonuses were distributed in accordance with statutory options on a case-by-case basis and drawing on differentiated performance evaluations under the performance management system.

The implementation of special regulations for compensation systems in the banking sector was required in 2012. The RZB compensation principles set up in 2011 were therefore followed. This includes general guidelines as well as special rules for specific groups of personnel such as management, risk buyers and special employees in control functions.

Applying these statutory rules Group-wide requires many different process changes and consultations throughout the Group. This applies for companies in EU countries, where different regulations must be taken into account, but first and foremost with subsidiaries in non-EU nations. The new legal requirements do not affect local banks in these countries (e.g. in Russia or Asia).

Events after the balance sheet date

RZB via RBI active in emission business

In the first two months of the year 2013 RBI AG was active as issuer of eleven bonds and scored it an emission volume of € 244 million.

Financial transaction tax

Implementation of a financial transaction tax (FTT) has been specifically pursued since October 2012 by eleven EU member states – including Austria – and is being supported by the European Commission in the framework of so-called "increased cooperation."

In mid-February 2013, agreement was reached to apply tax rates of 0.1 percent to financial instruments and 0.01 percent to derivative contracts. However, exact details of the implementing provisions have not yet been announced. As a result, annual tax revenues of € 30-35 billion will be generated in the eleven countries.

Apprehension looms that both implementation and application as well as the tax itself will pose a significant burden for banks. The fact that the FTT will only be implemented in eleven countries also merits criticism. It could distort competition and deprive individual markets of liquidity.

Bank Intervention and Restructuring Act

In January 2013, work began on the assessment of the Austrian draft of the Bank Intervention and Restructuring Act . The Act makes provisions for prompt intervention by the Austrian Financial Market Authority (FMA) in order to prevent crisis situations at banks.

The draft makes it compulsory in the future for financial institutions to submit restructuring and liquidation plans, with the initial date for submission set for 1 July 2014. From then onward, the plans are to be updated annually. All financial institutions are affected. Exemptions for smaller institutions are possible. The Act is scheduled to become effective on 1 January 2014.

At the same time, European bank insolvency legislation is currently being negotiated at the EU level. A draft is expected by mid-2013. Should the Austrian legislation be implemented before an EU agreement is reached, adaptations can be expected.

Basel III agreement at the political level

In the night of 28 February, 2013, the negotiators of the EU parliament, the council presidency and the European Commission reached a provisional agreement on implementation of Basel III in the European Union. This agreement at the political level still needs to be reformulated in final texts by technical specialists. The effective date of the Basel III package – which consists of two legislative acts, a regulation (CRR) and a directive (CRD IV) – is planned for 1 January 2014. The CRR is effective immediately, while the CRD IV still needs to be implemented in national law by the member states, by contrast.

From the point of view of RZB, important points were taken into account in the agreement that take into account the diversity of the European banking landscape, which, in turn,makes a significant contribution to the stability of the banking system. In particular, these include the deductibility of participating interests in the central institution of decentralized banking sectors and of the shareholdings of cooperative banks.

Outlook

Economic Outlook

Eurozone

Following the continuation of the recession in the fourth quarter of 2012, the initial signs that the economy is stabilizing are starting to emerge in some leading economic indicators in the Eurozone. In particular, there has been considerable improvement in several measures of sentiment, which are historically the first indications of a change in economic momentum.

However, the picture varies widely in individual countries, with Germany and Southern Europe primarily responsible at the moment for the brightening prospects. Hence, the recession in Southern Europe is diminishing and the reduction in economic imbalances is making progress, although it is difficult to assess when export advances and growing investments in the private sector will in fact lead to the start of a recovery.

The expected economic revival in the Eurozone during the first half of 2013 is therefore still narrowly based and depends on exports in particular, since it is likely that domestic demand will remain weak. All in all, an economic recovery in 2013 is therefore not guaranteed. Nevertheless, it does appear possible that the Eurozone will be able to work its way out of recession during the first half of 2013 and that thereafter, a moderate recovery will follow.

Austria is likely to have reached its turnaround point in the fourth quarter of 2012 with a decline in real GDP versus the previous quarter. The most probable scenario for 2013 is an economic recovery – albeit not an overly dynamic upswing. GDP growth in 2013 is expected to come in at 0.5 per cent.

Central Europe

Economic output slowed down in Central Europe during 2012. The slowdown was attributable mainly to the weak trend in the Eurozone, the main consumer of exports from Central Europe, but also – for example, in Poland and Slovakia – to the diminishing options available to the public sector to stem the tide of the economic downswing in Western Europe.

The economy contracted in the Czech Republic, Hungary and Slovenia, whereas Poland and Slovakia continued to report positive growth rates in 2012, despite the cooldown. Following this noticeable slowdown in the second half of 2012, a moderate economic recovery is expected for 2013, which should materialize particularly during the second half of the year. But 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), it is likely that GDP will decrease again slightly in 2013, while in Poland (forecast: plus 1.2 per cent) and Slovakia (forecast: plus 0.9 per cent), the economy is expected to continue growing somewhat. This will remain dependent to a large extent on export demand from the Eurozone.

Southeastern Europe

The economic situation in Southeastern Europe also suffered from the decline in exports caused by the difficulties in the Eurozone. In addition, the prevailing weak investment activity in the region weighed down economic performance. As a result, growth could be very weak in some countries, if it even materializes at all. Consumer spending in the region is also likely to remain at a low level. The main factors in this context are subdued credit growth, lower remittances sent back home from Southeastern Europeans working abroad and the persistently high unemployment rate.

Although exemplary, the austerity measures undertaken by Southeastern European governments have tempered growth, creating political risks at times. However, initial indications already suggest that a slight economic recovery has started to emerge. Hence, forecasts call for GDP growth of 0.9 per cent for the whole region in 2013.

CIS

Following an increase of 3.1 per cent in 2012, experts forecast real GDP growth of about 3 per cent for the current year in Russia. This slight decline is caused by expectations that investment momentum will slow, while growth in the export sector, strongly dominated by commodities, will be limited. In addition, demand from private households – until now the primary pillar of growth – is likely to lose some momentum amid weaker credit growth. But this weakness in growth should be limited to the first half of 2013, before the economy starts to brighten up again in the second half of the year.

The Ukraine, in turn, is struggling not just with a weak economy, but also with high external imbalances. Although its current-account deficit should decline somewhat in 2013, the country's liquidity situation, in combination with a high refinancing need in the public sector, is weighing down economic performance. At the beginning of 2013, the Ukraine began negotiations with the International Monetary Fund (IMF) on a new aid package.

External conditions deteriorated during the second half of 2012 in Belarus, too. Nevertheless, GDP is expected to grow here by 3 per cent in 2013, an increase in economic growth compared with the previous year.

Business outlook

For 2013, we expect to see a slight spurt in loans and advances to customers. Given the interest projections, we assume that the net interest margin will remain at the same level recorded in the previous year. From a customer standpoint, we plan to maintain our Corporate Customers division as the backbone of our business in the RBI subgroup and to expand the proportion of subgroup business accounted for by our Retail Customers division in the medium term.

In light of the economic prospects, the situation remains tense in several of our markets. Consequently, we expect loan loss provisions in 2013 to remain at the level of the previous year.

In 2013, we will once again pay close attention to costs. Overall, we assume that costs will remain stable – or possibly rise slightly – particularly due to the first full-year consolidation of the recently acquired 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. At the same time, an RBI capital increase also continues to be a possible option depending on market developments.

Consolidated financial statements

Statement of comprehensive income

Income statement

€ 000	Notes	2012	2011	Change
Interest income		6,562,222	6,691,842	(1.9)%
Current income from associates		42,051	(86,590)	–
Interest expenses		(3,073,505)	(3,020,389)	1.8%
Net interest income	[2]	3,530,767	3,584,863	(1.5)%
Net provisioning for impairment losses	[3]	(1,030,683)	(1,099,305)	(6.2)%
Net interest income after provisioning		2,500,084	2,485,558	0.6%
Fee and commission income		1,874,573	1,799,552	4.2%
Fee and commission expense		(353,405)	(306,693)	15.2%
Net fee and commission income	[4]	1,521,168	1,492,860	1.9%
Net trading income	[5]	195,671	345,718	(43.4)%
Income from derivatives and liabilities	[6]	(131,894)	408,229	–
Net income from financial investments	[7]	239,902	(182,793)	–
General administrative expenses	[8]	(3,353,375)	(3,208,011)	4.5%
Other net operating income	[9]	(79,171)	(194,945)	(59.4)%
Net income from disposal of group assets	[10]	12,144	(2,817)	–
Profit before tax		904,530	1,143,798	(20.9)%
Income taxes	[11]	(273,641)	(415,333)	(34.1)%
Profit after tax		630,888	728,465	(13.4)%
Profit attributable to non-controlling interests		(269,463)	(256,005)	5.3%
Consolidated profit		361,425	472,459	(23.5)%

Transition to total comprehensive income

	Total		Group equity		Non-controlling interests	
€ 000	2012	2011	2012	2011	2012	2011
Profit after tax	**630,888**	**728,465**	**361,425**	**472,459**	**269,463**	**256,005**
Exchange differences	168,077	(350,072)	118,312	(237,563)	49,765	(112,509)
hereof unrealized net gains (losses) of the period	168,077	(350,072)	118,312	(237,563)	49,765	(112,509)
Capital hedge	225	31,321	177	24,593	48	6,728
Hyperinflation	33,995	95,152	23,420	65,553	10,575	29,599
Net gains (losses) on derivatives hedging fluctuating cash flows	(1,245)	(45,951)	(977)	(36,080)	(267)	(9,871)
hereof unrealized net gains (losses) of the period	(1,245)	(46,904)	(977)	(36,829)	(267)	(10,075)
hereof net gains (losses) reclassified to income statement	0	953	0	748	0	205
Changes in equity of companies valued at equity	198,285	(44,741)	153,069	(40,512)	45,216	(4,229)
Net gains (losses) on financial assets available-for-sale	(147,375)	150,824	(115,718)	118,426	(31,657)	32,398
hereof unrealized net gains (losses) of the period	15,670	116,245	12,304	91,275	3,366	24,970
hereof net gains (losses) reclassified to income statement	(163,045)	34,579	(128,022)	27,151	(35,023)	7,428
Deferred taxes on income and expenses directly recognized in equity	37,620	(44,556)	29,539	(34,985)	8,081	(9,571)
hereof unrealized net gains (losses) of the period	(3,142)	(35,911)	(2,467)	(28,197)	(675)	(7,714)
hereof net gains (losses) reclassified to income statement	40,761	(8,645)	32,005	(6,788)	8,756	(1,857)
Other comprehensive income	**289,584**	**(208,022)**	**207,822**	**(140,567)**	**81,761**	**(67,455)**
Total comprehensive income	**920,472**	**520,443**	**569,247**	**331,892**	**351,224**	**188,551**

Other comprehensive income

Capital hedge comprises hedges for investments in economically independent sub-units.

The item fair value reserve (available-for-sale financial assets) contains net valuations of financial investments.

In 2011 due to changed intentions regarding a part of the held-to-maturity portfolio, a volume of € 3,165,000 thousand of held-to-maturity securities was reclassified as available-for-sale. This reclassification caused an increase in other comprehensive income of € 116,917 thousand (after taxes) in 2011. In 2012, this portfolio was sold and € 122,273 thousand (after taxes) was reclassified to income statement.

Exchange differences as well as changes in equity of companies valued at equity without recognition in income statement resulted in a positive effect of € 118,312 thousand respectively € 153,069 thousand.

In 2012, € 33,995 thousand (2011: € 95,152 thousand) was recognized directly in other comprehensive income through the application of IAS 29 (hyperinflation accounting) in Belarus.Due to a change in hedging strategy cash flow hedging of RBI AG was ended in 2011 and replaced by fair value portfolio hedges.

Retained earnings

€ 000	Exchange differences	Capital hedge	Cash flow hedge	Fair value reserve (afs financial assets)	Hyper-inflation	Deferred taxes
As of 1/1/2011	**(868,217)**	**32,484**	**27,846**	**34,048**	**0**	**332,338**
Unrealized net gains (losses) of the period	(237,563)	24,593	(36,829)	91,275	65,553	(34,985)
Net gains (losses) reclassified to income statement	0	0	748	27,151	0	0
As of 31/12/2011	**(1,105,780)**	**57,077**	**(8,234)**	**152,474**	**65,553**	**297,353**
Unrealized net gains (losses) of the period	118,312	177	(977)	12,304	23,420	(2,467)
Net gains (losses) reclassified to income statement			0	(128,022)		32,005
As of 31/12/2012	**(987,468)**	**57,254**	**(9,211)**	**36,756**	**88,973**	**326,891**

Earnings per share

In €	Notes	2012	2011	Change
Earnings per share	[12]	57.36	78.18	(20.82)

Earnings per share are obtained by dividing adjusted consolidated profit less dividend for the participation capital and preference shares by the average number of ordinary shares outstanding. In the fiscal year 2012, the number of common shares outstanding was 6,301,033 (2011: 5,539,885).

There were no conversion rights or options outstanding, so there was no dilution of earnings per share.

Interim results

€ 000	H1/2011	H2/2011	H1/2012	H2/2012
Net interest income	1,811,498	1,773,365	1,752,705	1,778,063
Net provisioning for impairment losses	(411,333)	(687,972)	(407,365)	(623,319)
Net interest income after provisioning	**1,400,165**	**1,085,393**	**1,345,340**	**1,154,744**
Net fee and commission income	737,494	755,366	723,244	797,924
Net trading income	257,144	88,574	200,582	(4,912)
Income from derivatives and liabilities	42,713	365,516	(22,823)	(109,070)
Net income from financial investments	11,961	(194,754)	253,317	(13,415)
General administrative expenses	(1,553,795)	(1,654,216)	(1,554,933)	(1,798,441)
Other net operating income	(16,021)	(178,923)	(11,883)	(67,287)
Net income from disposal of group assets	(2,587)	(231)	(1,476)	13,620
Profit before tax	**877,074**	**266,725**	**931,367**	**(26,838)**
Income taxes	(200,127)	(215,206)	(197,905)	(75,737)
Profit after tax	**676,946**	**51,519**	**733,463**	**(102,574)**
Profit attributable to non-controlling interests	(188,951)	(67,054)	(236,817)	(32,647)
Consolidated profit	**487,995**	**(15,536)**	**496,646**	**(135,221)**

€ 000	H1/2009	H2/2009	H1/2010	H2/2010
Net interest income	1,792,006	1,669,600	1,790,100	1,838,551
Net provisioning for impairment losses	(1,267,033)	(979,606)	(608,300)	(589,430)
Net interest income after provisioning	**524,973**	**689,993**	**1,181,800**	**1,249,121**
Net fee and commission income	688,732	733,033	715,000	776,894
Net trading income	266,302	152,193	181,100	141,549
Income from derivatives and liabilities	141,906	30,535	(135,000)	46,959
Net income from financial investments	161,499	148,308	52,700	92,660
General administrative expenses	(1,390,741)	(1,403,901)	(1,467,800)	(1,601,345)
Other net operating income	69,656	10,630	13,800	38,639
Net income from disposal of group assets	1,009	43	4,900	1,151
Profit before tax	**463,337**	**360,833**	**546,600**	**745,528**
Income taxes	(222,046)	(31,500)	(59,200)	(64,684)
Profit after tax	**241,290**	**329,333**	**487,400**	**680,844**
Profit attributable to non-controlling interests	(72,988)	(64,264)	(85,700)	(368,880)
Consolidated profit	**168,302**	**265,070**	**401,600**	**312,064**

Statement of financial position

Assets € 000	Notes	31/12/2012	31/12/2011	Change
Cash reserve	[14,35]	12,157,356	12,951,118	(6.1)%
Loans and advances to banks	[15,35,36]	21,430,482	22,457,416	(4.6)%
Loans and advances to customers	[16,35,36]	85,599,701	84,093,000	1.8%
Impairment losses on loans and advances	[17,35]	(5,715,230)	(5,110,458)	11.8%
Trading assets	[18,35,36]	9,773,805	10,589,154	(7.7)%
Derivatives	[19,35,36]	1,404,223	1,404,137	0.0%
Financial investments	[20,35,36]	13,967,579	17,146,116	(18.5)%
Investments in associates	[21,35,36]	1,719,743	1,159,090	48.4%
Intangible fixed assets	[22,24,35]	1,326,768	1,072,750	23.7%
Tangible fixed assets	[23,24,35]	1,966,517	1,850,528	6.3%
Other assets	[25,35,36]	2,324,056	2,474,216	(6.1)%
Total assets		**145,955,000**	**150,087,066**	**(2.8)%**

Equity and liabilities € 000	Notes	31/12/2012	31/12/2011	Change
Deposits from banks	[26,35,36]	38,409,769	39,873,123	(3.7)%
Deposits from customers	[27,35,36]	66,439,464	67,114,176	(1.0)%
Debt securities issued	[28,35,36]	13,304,407	14,277,881	(6.8)%
Provisions for liabilities and charges	[29,35,36]	848,077	893,040	(5.0)%
Trading liabilities	[30,35,36]	8,823,404	9,713,365	(9.2)%
Derivatives	[31,35,36]	489,083	804,746	(39.2)%
Other liabilities	[32,35,36]	1,583,831	1,504,372	5.3%
Subordinated capital	[33,35,36]	3,885,246	4,417,610	(12.1)%
Equity	[34,35]	12,171,718	11,488,752	5.9%
Consolidated equity		6,906,905	6,149,106	12.3%
Consolidated profit		361,425	472,459	(23.5)%
Non-controlling interests		4,903,388	4,867,187	0.7%
Total equity and liabilities		**145,955,000**	**150,087,066**	**(2.8)%**

Statement of changes in equity

€ 000	Subscribed capital	Participation capital	Capital reserves	Retained earnings	Consolidated profit	Non-controlling interests	Total
Equity as of 1/1/2011	**443,714**	**250,000**	**1,050,634**	**3,757,276**	**713,664**	**5,035,731**	**11,251,019**
Capital increases/shifting	0	341,843	0	0	0	179,710	521,553
Transferred to retained earnings	0	0	0	533,750	(533,750)	0	0
Dividend payments	0	0	0	0	(179,914)	(282,381)	(462,295)
Total comprehensive income	0	0	0	(140,567)	472,459	188,551	520,443
Other changes	0	0	0	(87,544)	0	(254,424)	(341,968)
Equity as of 31/12/2011	**443,714**	**591,843**	**1,050,634**	**4,062,915**	**472,459**	**4,867,187**	**11,488,752**
Capital increases/shifting	48,753	(591,843)	784,142	0	0	17,124	258,175
Transferred to retained earnings	0	0	0	287,893	(287,893)	0	0
Dividend payments	0	0	0	0	(184,567)	(262,311)	(446,878)
Total comprehensive income	0	0	0	207,822	361,425	351,224	920,472
Other changes	0	0	0	21,033	0	(69,836)	(48,803)
Equity as of 31/12/2012	**492,467**	**0**	**1,834,776**	**4,579,662**	**361,425**	**4,903,388**	**12,171,718**

Further details about the above mentioned changes are reported under note (34) equity.

Other changes in equity are mainly due to purchases of non-controlling interests, namely a share of 49 per cent in Raiffeisen-Leasing G.m.b.H, Vienna, a share of 30 per cent in Raiffeisen Bank Zrt., Budapest, a share of 12 per cent in Raiffeisen Bank d.d., Maribor as well as a share of 3 per cent in Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo.

Statement of cash flows

€ 000	2012	2011
Profit after tax	**630,888**	**728,465**
Non-cash positions in profit and transition to net cash from operating activities:		
Write-downs/write-ups of tangible fixed assets and financial investments	555,634	713,997
Net provisioning for liabilities and charges and impairment losses	1,164,217	1,362,558
Gains (losses) from disposals of tangible fixed assets and financial investments	(19,307)	(113,683)
Other adjustments (net)	94,264	(871,298)
Subtotal	**2,425,696**	**1,820,039**
Changes in assets and liabilities arising from operating activities after corrections for non-cash positions:		
Loans and advances to banks and customers	4,404,069	(8,062,035)
Trading assets/trading liabilities (net)	(210,996)	1,588,569
Other assets/other liabilities (net)	818,679	(3,570,236)
Deposits from banks and customers	(5,281,129)	11,184,949
Debt securities issued	(1,449,928)	(2,035,852)
Net cash from operating activities	**706,391**	**925,434**
Proceeds from sale of:		
Financial investments	2,432,436	8,219,276
Tangible and intangible fixed assets	161,160	121,864
Proceeds from disposal of group assets	822	762
Payments for purchase of:		
Financial investments	(2,123,069)	(2,424,258)
Tangible and intangible fixed assets	(564,991)	(593,120)
Payments for acquisition of subsidiaries	(818,540)	0
Net cash from investing activities	**(912,182)**	**5,324,524**
Capital increases	258,175	521,553
Inflows/outflows of subordinated capital	(349,155)	163,330
Dividend payments	(446,878)	(462,295)
Change in non-controlling interests	(447,629)	0
Net cash from financing activities	**(985,487)**	**222,588**

€ 000	2012	2011
Cash and cash equivalents at the end of previous period	**12,951,118**	**6,734,734**
Cash from the acquisition of subsidiaries	339,640	925,434
Net cash from operating activities	706,391	5,324,524
Net cash from investing activities	(912,182)	5,324,524
Net cash from financing activities	(985,487)	222,588
Effect of exchange rate changes	57,878	(256,163)
Cash and cash equivalents at the end of period	**12,157,356**	**12,951,118**

Payments for taxes, interest and dividends	2012	2011
Interest received	6,425,946	6,764,463
Dividends received	6,411	62,240
Interest paid	(2,869,156)	(2,991,491)
Income taxes paid	(123,449)	(190,854)

The statement of cash flows shows the structure and changes in cash and cash equivalents during the financial year and is broken down into three sections:

- net cash from operating activities
- net cash from investing activities
- net cash from financing activities

Net cash from operating activities comprises inflows and outflows from loans and advances to banks and customers, from deposits from banks and customers as well as debt securities issued. Inflows and outflows from trading assets and liabilities, from derivatives, as well as from other assets and other liabilities are also shown in operating activities. The interest, dividend and tax payments from operating activities are separately stated.

Net cash from investing activities shows inflows and outflows from financial investments, tangible and intangible assets, proceeds from disposal of group assets, and payments for acquisition of subsidiaries.

Net cash from financing activities consists of inflows and outflows of equity and subordinated capital. This covers capital increases, dividend payments, and changes in subordinated capital.

Cash and cash equivalents include the cash reserve recognized in the statement of financial position, which consists of cash in hand and balances at central banks due at call. It does not include loans and advances to banks that are due at call, which belong to operating activities.

Segment reporting

Division of the segments

Internal management reporting at RZB is based on the current organizational structure. Segmentation is based on cash-generating units. Accordingly, the RBI management bodies – Management Board and Supervisory Board – make key decisions that determine the resources allocated to any given segment based on its financial strength and profitability. These reporting criteria were accordingly seen as material in accordance with IFRS 8 for the purpose of segmentation.

Since Raiffeisen Zentralbank acts primarily as the lead member of Raiffeisen Banking Group (RBG) and as the holding company for participations, the segments are defined on the basis of the participation structure following the merger of its principal business areas with Raiffeisen International Bank-Holding AG. Besides the majority holding in the Raiffeisen Bank International AG (RBI AG) and its activity as the lead member of Raiffeisen Banking Group, Raiffeisen Zentralbank holds shares in other companies in its participation portfolio.

These three main business areas correspond to the segments as defined. Segmentation is based on the current Group structure. Since the RBI segment is the largest by far, we refer to segment reporting in the RBI consolidated annual report for maximum transparency. The consolidated financial statements of RBI largely reflect the RBI segment in the consolidated financial statements of Raiffeisen Zentralbank.

Raiffeisen Bank International Group (RBI)

This segment comprises the net income of the Raiffeisen Bank International AG group. RBI is by far the largest participation of RZB. As the lead bank in the RZB credit institution group, Raiffeisen Zentralbank has corresponding management and control responsibilities. Together with representatives of its owners, Raiffeisen Zentralbank appoints eight of the ten RBI Supervisory Board members, and the Raiffeisen Zentralbank Chief Risk Officer holds the same position on the RBI Management Board. Besides the direct net income from RBI activities, the segment also covers the costs incurred for services provided by RZB in various areas, such as audit or risk.

Raiffeisen Banking Group (RBG)

This segment consolidates the activities and participations that enable RZB to perform its tasks as the lead bank of Raiffeisen Banking Group. This segment accordingly reports all the net income from the banking business of Raiffeisen Zentralbank within the Raiffeisen sector. In addition, it shows the leasing business of RZB with numerous project companies in Austria and abroad. Income from companies valued and recognized at equity with strategic participation nature is also reported here, and specifically UNIQA Versicherungen AG as well as the business areas operated jointly with the Raiffeisen Landesbanks, such as the building society and funds businesses. Net income from the equity investment portfolio relating to the rest of the Raiffeisen sector is also reported in this segment. Allocated costs of Group-wide services are also attributed to this segment. These include Group services such as Sector Marketing or Sector Services.

Other equity participations

The segment for other equity participations shows net income from participations not connected with the function of Raiffeisen Zentralbank as the lead member of Raiffeisen Banking Group. This Raiffeisen Zentralbank equity participation portfolio contains predominantly non-controlling interests from the non-bank area, with income from companies valued and recognized at equity that do not belong to Raiffeisen Banking Group. The segment for other equity participations also reports the costs and income from internal allocation and netting.

Assessment of segment profit and loss

Segment reporting according to IFRS 8 shows the segment results on the basis of internal management reporting, supplemented by the transfer of segment results to the consolidated financial statements. Management reporting at RZB is based on IFRS. There are accordingly no differences between the accounting policies adopted for segment reporting and the consolidated financial statements.

To keep the presentation of RZB segment performance transparent and informative, the following management and reporting criteria are used to determine the success of a CGU.

- Return on equity before tax measures the profitability of the CGU and is calculated as the ratio of pre-tax profit to average capital employed. It shows the return on the capital employed in the segment. Another measure of profitability used for internal management is the return on risk-adjusted capital (RORAC). This ratio shows the return on risk-weighted equity (economic capital), but is not a criterion recognized by IFRS.

- The cost/income ratio shows the cost efficiency of the segments. It is the ratio of general administrative expenses to the sum of net interest income, net fee and commission income, net trading income and other net operating income.

- Risk-weighted assets are an important indicator of the change in business volume. Risk-weighted assets according to the Austrian Banking Act (BWG, based on Basel II) are an industry-specific addition for segment assets since this number is based on the regulatory minimum equity requirement of 8 per cent.

The basis for segment reporting is the income statement. Income and expenses are allocated to the country where the income is generated. Income comprises net interest income, net fee and commission income, net trading income and other net operating income. The results are also shown for associated companies recognized at equity. The main expense items, which are part of segment results, are carried in the income statement. The segment result is shown up to consolidated net income/loss. Segment assets are shown as total assets and risk-weighted assets. Liabilities include all the items on the liabilities side of the statement of financial position with the exception of equity.

The reconciliation includes primarily the amounts resulting from the elimination of intercompany results and from cross-segment consolidation. The income statement is finally supplemented by the standard industry financial ratios used to evaluate results.

Financial year 2012 € 000	RBI	RBG	Other	Reconciliation	Total
Net interest income	3,475,191	245,563	(7,489)	(182,497)	3,530,767
Net fee and commission income	1,517,151	5,135	79	(1,197)	1,521,168
Net trading income	214,686	(861)	6	(18,161)	195,671
Other net operating income	(115,394)	32,449	36,199	(32,424)	(79,171)
Operating income	**5,091,633**	**282,286**	**28,794**	**(234,278)**	**5,168,435**
General administrative expenses	(3,300,965)	(66,358)	(34,869)	48,817	(3,353,375)
Operating result	**1,790,669**	**215,928**	**(6,075)**	**(185,461)**	**1,815,061**
Net provisioning for impairment losses	(1,008,823)	(21,861)	0	0	(1,030,683)
Other results	203,085	(56,946)	(48,591)	22,605	120,152
Profit/loss before tax	**984,931**	**137,121**	**(54,666)**	**(162,856)**	**904,530**
Income taxes	(271,492)	(9,529)	9,850	(2,471)	(273,641)
Profit/loss after tax	**713,439**	**127,592**	**(44,816)**	**(165,327)**	**630,888**
Profit attributable to non-controlling interests	(310,075)	40,612	0	0	(269,463)
Consolidated profit/loss after deduction of non-controlling interests	**403,364**	**168,204**	**(44,816)**	**(165,327)**	**361,425**
Share of profit before tax	92.3%	12.8%	(5.1)%	–	100.0%
Risk-weighted assets (credit risk)	68,399,016	6,461,327	924,495	(3,586,943)	72,197,895
Total own funds requirement	6,661,300	528,288	73,960	(298,338)	6,965,210
Total assets	136,530,553	16,036,903	4,867,660	(11,480,116)	145,955,000
Risk/revenue ratio	29.0%	8.9%	0.0%	–	29.2%
Cost/income ratio	64.8%	23.5%	121.1%	–	64.4%
Average equity	11,012,009	854,022	113,451	(480,669)	11,498,813
Return on equity before tax	**17.9%**	**32.1%**	**(96.4)%**	**–**	**8.5%**
Business outlets	3,106	8	0	1	3,115

Financial year 2011 € 000	RBI	RBG	Other	Reconciliation	Total
Net interest income	3,653,691	81,602	16,839	(167,269)	3,584,863
Net fee and commission income	1,490,447	2,171	(81)	323	1,492,860
Net trading income	363,261	(1,107)	0	(16,436)	345,718
Other net operating income	(237,130)	34,733	53,551	(46,099)	(194,945)
Operating income	**5,270,268**	**117,400**	**70,308**	**(229,481)**	**5,228,496**
General administrative expenses	(3,140,099)	(80,901)	(34,042)	47,031	(3,208,011)
Operating result	**2,130,169**	**36,499**	**36,266**	**(182,449)**	**2,020,484**
Net provisioning for impairment losses	(1,063,551)	(35,756)	2	0	(1,099,305)
Other results	269,175	(19,710)	(36,237)	9,392	222,619
Profit/loss before tax	**1,335,792**	**(18,967)**	**30**	**(173,058)**	**1,143,798**
Income taxes	(422,817)	3,759	2,737	988	(415,333)
Profit/loss after tax	**912,975**	**(15,208)**	**2,767**	**(172,070)**	**728,465**
Profit attributable to non-controlling interests	(315,418)	59,413	0	0	(256,005)
Profit after deduction of non-controlling interests	**597,557**	**44,205**	**2,767**	**(172,070)**	**472,459**
Share of profit before tax	101.4%	(1.4)%	0.0%	–	100.0%
Risk-weighted assets (credit risk)	77,304,996	7,108,401	918,993	(3,916,102)	81,416,287
Total own funds requirement	7,653,591	581,884	73,519	(326,500)	7,982,494
Total assets	147,268,879	16,976,929	5,000,054	(19,158,796)	150,087,066
Risk/revenue ratio	29.1%	43.8%	0.0%	–	30.7%
Cost/income ratio	59.6%	68.9%	48.4%	–	59.2%
Average equity	10,530,060	773,796	102,952	(532,345)	10,874,463
Return on equity before tax	**12.7%**	**–**	**–**	**–**	**10.5%**
Business outlets	2,928	8	0	1	2,937

Notes

Reporting entity

Raiffeisen Zentralbank Österreich Aktiengesellschaft (RZB AG) is the lead member of Austrian Raiffeisen Banking Group and is registered at the Vienna Commercial Court in the company register under FN 58.882 t. The company address is Am Stadtpark 9, 1030 Vienna

The Raiffeisen Landesbanks have consolidated their holdings in Raiffeisen Zentralbank AG in a separate company, Raiffeisen-Landesbanken-Holding GmbH (RLBHOLD). Through its subsidiary R-Landesbanken-Beteiligung GmbH, this holds roughly 78.5 per cent of RZB AG and is the parent company for the Group as a whole. In accordance with the Austrian rules for disclosure, the consolidated financial statements of RLBHOLD are deposited with the commercial court with which the company is registered and published in "Amtsblatt zur Wiener Zeitung".

Objects

RZB specializes in commercial banking and investment banking in Austria and is one of the country's most important banks for corporate finance and export and trade financing. Other activities are cash and asset management and treasury. As a highly specialized financial engineer, RZB is primarily oriented toward providing services for major domestic and foreign customers, multinational companies and financial service providers. The RZB companies are also active in private banking, capital investment, leasing and real estate, and other bank-related services. Through its subsidiaries, RZB has a close network of branches throughout Central and Eastern Europe (CEE). Supplementing this, it has branches, special companies and representations in the world's leading financial centres, selected Western European locations and key points in Asia.

The consolidated financial statements were signed by the Management Board on 14 March 2013 and subsequently submitted to the Supervisory Board for review and notice.

Principles underlying the consolidated financial statements

Policies

The consolidated financial statements for the financial year 2012 and the comparative figures for the financial year 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as far as they were adopted by the EU on the basis of IAS Regulation (EC) 1606/2002. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC/SIC) that were already applicable have been considered. All standards published by the IASB as International Accounting Standards to be applied to financial statements for 2012 and adopted by the EU, have been applied. The consolidated financial statements satisfy the requirements of Section 245a of the Austrian Commercial Code (UGB) and Section 59a of the Austrian Banking Act (BWG) regarding exempting consolidated financial statements that comply with internationally accepted accounting principles. IAS 20, IAS 31, IAS 41 and IFRS 6 have not been applied as there were no relevant business transactions in the Group.

The consolidated financial statements are based on the reporting packages of all fully consolidated Group members, which are prepared according to IFRS rules and uniform Group standards. With the exception of ten subsidiaries – six subsidiaries with a year-end reporting date on 30 June, one subsidiary with a year-end reporting date of 30 September and three subsidiaries with year-end reporting date of 31 October and which are therefore accounted for with interim financial statements – all fully consolidated companies prepare their annual financial statements as of 31 December. The deviating reporting dates are due to dividend policy reasons and to the seasonality of the business transactions. Figures in these financial statements are stated in € thousand. The following tables may include rounding differences.

The consolidated financial statements are based on the principle of going concern. A financial asset is recognized when it is probable that the future economic benefits will flow to the company and the acquisition or conversion costs or another value can be reliably measured. A financial liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably.

Critical accounting judgments and key sources of estimation uncertainty

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, they are made in accordance with the respective standards. They are based on past experience and other factors such as planning and expectations or forecasts of future events that appear likely from our current perspective. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The critical accounting judgments and key sources of estimation uncertainty are as follows:

Risk provisions for loans and advances

At each reporting date all financial assets not measured at fair value through profit or loss are assessed whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss. Details and development concerning risk provisions are provided in note (44) risks arising from financial instruments in the chapter credit risk.

Fair value of financial instruments

Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. For valuation methods and models, estimates are generally used depending on the complexity of the instrument and the availability of market-based data. The inputs to these models are derived from observable market data where possible. Under certain circumstances valuation adjustments are necessary in order to account for model risk, liquidity risk or credit risk. The description of the valuation techniques is to be found in the chapter financial instruments: Recognition and measurement. In addition, the fair values of derivative financial instruments are shown in note (46) fair value of financial instruments not reported at fair value and the fair value hierarchy is shown in note (47) fair value of financial instruments reported at fair value.

Deferred tax assets

Deferred tax assets are recognized only to the extent that it is probable that sufficient taxable profit will be available against which those unused tax losses, unused tax credits or deductible temporary differences can be utilized. This assessment requires significant management judgments and assumptions. In determining the amount of deferred tax assets, the management uses historical tax capacity and profitability information and, if relevant, forecasted operating results based upon approved business plans, including a review of the eligible carry-forward period.

Deferred taxes are not separately shown in the income statement and in the statement of financial position. Details are provided in the statement of comprehensive income and in notes (11) income taxes, (25) other assets and (29) provisions for liabilities and charges.

Provisions for pensions and similar obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in chapter provisions for pensions and similar obligations. Quantitative data for long term employee provisions are disclosed in note (29) provisions for liabilities and charges.

Impairment of non-financial assets

Certain non-financial assets, including goodwill and other intangible assets, are subject to an annual impairment review. Goodwill and other intangible assets are tested more frequently if events or changes in circumstances, such as an adverse change in business climate, indicate that these assets may be impaired. The determination of the recoverable amount needs judgments and assumptions made by the management. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers these estimates to be critical. Details concerning the impairment review of non-financial assets are disclosed in the chapter business combinations. Additionally, the carrying amounts of the goodwill are presented in note (22) intangible fixed assets.

Application of new and revised standards

IFRS 7 (Financial instruments: transfers of financial assets; entered into force on July 1st, 2011)

For the first time in the current reporting period RZB applies the amendments to IFRS 7 which increase the disclosure requirements for transactions involving transfers of financial assets. The amendments provide greater transparency of the risk exposures of such transactions. The respective information on the transfer of financial assets was made with regard to the application of the revised IFRS 7 in note (40) transfer of financial assets. In accordance with the transitional provisions of IFRS 7, RZB does not present comparative information in the notes.

IAS 12 (Income taxes: recovery of underlying assets; entered into force on January 1st, 2012)

For the first time in the current reporting period RZB applies the amendments relating to income taxes on recovered underlying assets. Accordingly, it is assumed for the purpose of recognizing deferred taxes that the economic benefits from investment properties, which in accordance with the option in IAS 40, are measured at fair value, will be realized through sale. For this treatment not to apply the assumption must be rebutted. The amendments do not have an impact on the consolidated financial statements of 2012 due to the fact that all investment properties are measured at amortized cost according to IAS 40.

IFRS 1 (First-time adoption of IFRS; entered into force on July 1st, 2011)

The amendments relate to an exemption from severe hyperinflation and the elimination of fixed dates of transition. The amendments have no impact on the consolidated financial statements of 2012.

New and revised standards not yet applicable (already endorsed by the EU)

No early adoption was made of the following new and amended standards and interpretations that have been adopted, but whose use is not mandatory.

IAS 1 (Presentation of items of other comprehensive income; entered into force on July 1st, 2012)

The amendments to IAS 1 require presentation, by using subtotals, as to whether the items of other comprehensive income are reclassifiable to income statement or not. Moreover, if other comprehensive income items are presented before tax then the tax related to each of the two categories has to be presented separately. Application of these amendments will have an impact on presentation of the statement of comprehensive income.

IAS 19 (Employee benefits; entered into force on January 1st, 2013)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments to IAS 19 require retrospective application. From the perspective of RZB the initial application of the amendments for the financial year 2013 will not have a significant impact on the consolidated financial statements.

IAS 27 (Separate financial statements; entry into force on January 1st, 2014)

The revised IAS 27 will only be relevant for individual financial statements. The revised version will have no impact on the consolidated financial statements.

IAS 28 (Investments in associates and joint ventures; entry into force on January 1st, 2014)

Joint ventures are added to the scope of the revised IAS 28, due to the fact that under IFRS 11 the equity method is the only way of including joint ventures in the consolidated financial statements. It is expected that the revised version of IAS 28 will have no impact on the consolidated financial statements.

IAS 32 (Offsetting financial assets and liabilities; entry into force on January 1st, 2014)

The amendments clarify existing application issues relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently have a legally enforceable right to set off' and 'simultaneous realization and settlement'. It is expected that the revised version of IAS 32 will have no impact on the consolidated financial statements.

IFRS 1 (Government loans; entry into force on January 1st, 2013)

The amendments to IFRS 1 make it clear that goverment loans are now excluded from the retrospective application of IFRS on transition to IFRS. Changes will have no impact on the consolidated financial statements of RZB.

IFRS 7 (Disclosures: offsetting financial assets and liabilities; entry into force on January 1st, 2014)

The amendments to IFRS 7 require entities to disclose information about rights to offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. It is expected that the revised version of IFRS 7 will have no impact on the consolidated financial statements.

IFRS 10 (Consolidated financial statements; entry into force on January 1st, 2014)

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in standard to deal with complex scenarios. From the perspective of RZB the future application of IFRS 10 will not have a significant impact on the consolidated group.

IFRS 11 (Joint arrangements; entry into force on January 1st, 2014)

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. IFRS 11 deals with how a joint arrangement should be classified. Joint arrangements are classified as a contractual agreement in which two or more parties practice joint management. Joint management can extend to a joint venture or a joint operation. In contrast to IAS 31, in IFRS 11 the accounting for jointly controlled assets is not addressed separately anymore; here the rules for joint ventures are applied. The classification of a joint arrangement as joint operations or joint ventures depends on the rights and obligations of the parties to the agreement. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation. We assume that the future application of IFRS 11 will have no impact on the consolidated financial statements.

IFRS 12 (Disclosures of interests in other entities; entry into force on January 1st, 2014)

IFRS 12 is a disclosure standard regarding statements in the notes and is applicable to entities that have interests in subsidiaries, joint arrangements (joint ventures or joint operations), associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. From the perspective of RZB the amendments which are effective on 1 January 2014 will influence the notes in the consolidated financial statements with regard to the additional disclosures in accordance with IFRS 12.

IFRS 13 (Fair value measurement; entered into force on January 1st, 2013)

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only, under IFRS 7, will be extended by IFRS 13 to cover all assets and liabilities within its scope. We assume that application of IFRS 13 will have an impact on the presentation of financial assets and financial liabilities of the Group.

IFRIC 20 (Stripping costs in the production phase of a surface mine; entered into force on January 1st, 2013)

IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognized as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to or as an enhancement of an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. These amendments will have no impact on the consolidated financial statements.

New and revised IFRSs not yet applicable (not yet endorsed by the EU)

Annual Improvements to IFRSs 2009-2011 Cycle (entered into force on January 1st, 2013)

The Annual Improvements include a variety of amendments to different IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. These amendments will have no impact on the consolidated financial statements.

IFRS 9 (Financial instruments; entry into force on January 1st, 2015)

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. Key requirements of IFRS 9 are:

All recognized financial assets are to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income recognized in profit or loss. With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the entity, is presented in other comprehensive income unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. RBI anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Mandatory effective date of IFRS 9 and transition disclosures (Amendments to IFRS 9 and IFRS 7; entry into force on January 1st, 2015)

These amendments move the mandatory effective date of IFRS 9 to reporting periods beginning on or after 1 January 2015. In addition, exceptions are granted with respect to the adjustment of prior periods and the corresponding IFRS 7 disclosures.

Amendments to IFRS 10, IFRS 11 and IAS 27 – Investment entities (entry into force on January 1st, 2014)

These amendments provide an exception to the consolidation requirements of subsidiaries in IFRS 10 Consolidated Financial Statements. This applies if the parent company meets the definition of an investment company (for example, certain mutual funds). These entities measure their investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement.

Amendments to IFRS 10, IFRS 11 and IFRS 12 - Transition guidance (entry into force on January 1st, 2014)

With these amendments the transition guidance in IFRS 10, IFRS 11 and IFRS 12 are clarified and provide additional relief in all three standards. Adapted comparative information is only required for the previous comparable period. In addition, in connection with the information in the notes to non-consolidated companies structured there is no obligation to provide comparative information for periods that precede the application of IFRS 12.

Consolidation methods

All material subsidiaries in which RZB AG directly or indirectly holds either more than 50 per cent of the voting rights or otherwise has control over the financial and operating policies are fully consolidated. In principle these subsidiaries are firstly integrated in the consolidated group on the date when RZB AG obtains control of the company and are excluded when it no longer has control of the company. The Group reviews the adequacy of previously made decisions on which companies to consolidate at least every quarter. Accordingly, any organizational changes are immediately taken into account. These include changes in ownership and changes due to existing or newly signed contractual obligations by a unit of the Group. Subsidiaries with deviating reporting dates are accounted for with their interim financial statements. The results from subsidiaries acquired or disposed of during the year are recorded in the consolidated income statement, either from the actual date of acquisition or up to the actual date of disposal.

Special purpose entities (SPE) which are controlled by the Group from an economic perspective are integrated according to SIC 12. To determine whether a special purpose entity is controlled from an economic perspective, a number of factors are to be taken into consideration. These include an investigation into whether the activities carried out by the SPE in favour of the Group are in accordance with its specific business needs so that it can take advantage of the activities of the SPE, whether the Group has the decision-making powers to achieve the majority of the benefits from the SPE, whether in fact the Group receives the majority of the benefits of the activities of the SPE, or whether the Group retains the majority of the assets associated with the residual or ownership risks in order to benefit from its activities.

In the case that further shares are acquired under existing control or shares are sold without loss of control, such transactions are recognized directly in equity during the course of continuing consolidation.

Intra-group business combinations (transactions under common control) are accounted for by carrying over book values.

Non-controlling interests are shown in the consolidated statement of financial position as part of equity, but separately from Raiffeisen Zentralbank shareholders' equity. The profit attributable to non-controlling interests is shown separately in the consolidated income statement.

Material interests in associated companies – where the Group exerts a significant influence on financial and operating policies of these companies – are valued at equity and reported under the item investments in associates. Profit or losses occurring in companies valued at equity are shown net in current income from associates. The same rules apply to companies valued at equity (offsetting acquisition costs against proportional fair net asset value) as apply to fully consolidated companies. On principle, IFRS financial statements of associated companies are used. Changes in equity of companies valued at equity are shown in the consolidated accounts in other comprehensive income.

Shareholdings in subsidiaries not included in the consolidated financial statements because of their minor significance and shareholdings in companies that have not been valued at equity are shown under the item financial investments and are measured at acquisition cost.

In the scope of debt consolidation, intra-group balances between parent company and subsidiaries and intra-group balances between subsidiaries are eliminated in the consolidated accounts. Remaining temporary differences are recognized under other assets/other liabilities.

Intra-group income and expenses are eliminated and temporary differences resulting from bank business transactions are shown partly in net interest income and partly in net trading income. Other differences are shown in the item other net operating income.

Intra-group results are eliminated when they had a material effect on the items of the income statement. Bank business transactions between Group members are usually executed in arm's length transaction.

Business combinations

In the course of capital consolidation, all identifiable assets, liabilities and contingent liabilities of the subsidiary are measured at their fair values on the acquisition date according to IFRS 3. The acquisition costs are offset with the proportional net assets. The resulting positive differences are capitalized as goodwill. The goodwill is tested annually for impairment. Negative differences arising within initial consolidation will be recognized immediately in profit.

Impairment test for goodwill

On each reporting date, goodwill is examined with a view to their future economic utility on the basis of cash generating units. A cash generating unit is defined by the management and represents the smallest identifiable group of assets of a company that generates cash inflows from operations. Within RZB, all segments according to segment reporting are determined as cash generating units and within the segments, the legal entities form the cash generating unit for impairment testing of goodwill. The carrying value of the cash generating unit (including any allocated goodwill) is compared with its recoverable value. The recoverable value represents the higher of an item's value in use and the fair value less cost to sell. It is based on the expected profits of the units. They are discounted at an interest rate reflecting the risk involved. The estimation of future earnings requires judgment of the past and actual performance, of the expected development in the respective markets and of the overall macro-economic environment.

The estimation of the future development of the cash generating units starts with macroeconomic facts (gross domestic product, inflation expectations) and considers specific market conditions and the business policy. The data is then used to capture the terminal value on a going concern concept. Discounting of the earnings relevant for the measurement (expected dividends) is made on different country-specific equity capital cost rates, which are based on the capital asset pricing model. The individual components (risk-free interest rate, inflation difference, market risk premium, country-specific risks and beta factors) are defined by using external information sources. It was used to calculate the recoverable amount of a planning horizon of ten years assumed to represent the medium-term developments in the CEE region better. The planning period is divided into two phases, whereby phase I covers the first ten years, phase II covers the period over ten years.

The material goodwill resulted from the following cash generating units: Raiffeisen Bank Aval JSC, Kiev (AVAL), Raiffeisen Bank Polska S.A., Warsaw (RBPL), ZAO Raiffeisenbank, Moscow (RBRU), Raiffeisen Bank Sh.a., Tirane (RBAL) and Raiffeisenbank a.s, Prague (RBCZ).

Cash generating units **In € million**	**AVAL**	**RBAL**	**RBCZ**	**RBPL**	**RBRU**
Goodwill (before impairment in 2012)	29	51	41	175	266
Group equity	75.9%	78.9%	59.2%	78.9%	78.9%
Method used to calculate the fair value	FV less cost to sell	FV less cost to sell	FV less cost to sell	FV less cost to sell	FV less cost to sell
Discount rates (after tax)	16.0% -23.7 %	12.5% -16.8 %	9.9% -12.4%	10.4% -12.8 %	13.7% -17.9 %
Growth rates in phase II	6.5%	4.0%	2.5%	3.0%	6.1%
Planning period	10 years	10 years	10 years	10 years	10 years
Impairment	Yes	No	No	No	No

During 2012 impairment of € 38 million were made against goodwill on Group level. The largest impairment (€ 29 million) arose in the Ukrainian Raiffeisen Bank Aval JSC due to the outlook for Ukraine and an increase in the discount rate (credit rating downgrade in Ukraine and an increase in the estimate of the equity risk premium). The discount rate used for the impairment test for goodwill of Raiffeisen Bank Aval JC was between 23.7 per cent and 16.0 per cent (2011: 21.7 per cent and 13.7 per cent).

Sensitivity Analysis

A sensitivity analysis was used to test the robustness of the impairment test for goodwill which was based on the above given assumptions. From a number of options for this analysis, two parameters were selected, namely, the cost of equity and the reduction in earnings. The table below shows to what extent an increase in the cost of equity or a reduction in earnings could be made without the fair value of the cash-generating units sinking below the carrying value (equity plus goodwill):

Maximum sensitivity[1]	**AVAL**	**RBRU**	**RBCZ**	**RBAL**	**UPC**
Discount rates (after tax)	–	5.3 PP	1.5 PP	0.8 PP	2.8 PP
Reduction in earnings	–	(39.0)%	(17.0)%	(9.0)%	(27.0)%

1 Only change in terminal value assumptions.

Impairment test for intangible fixed assets

Group companies use brands to differentiate their services from the competition. According to IFRS 3, brands of acquired companies have been recognized separately under the item intangible fixed assets. Brands have an indeterminable useful life and are therefore not subject to scheduled amortization. Brands have to be tested annually for impairment and additionally whenever indications of impairment arise.

The value of the Raiffeisen Bank Aval JC, Kiev brand was determined using the comparable historical cost approach, because neither immediately comparable transactions nor a market with observable prices were available at the time of purchase price allocation. Documentation of brand-related marketing expenses in the previous years was taken as the data base for the historical cost approach.

The value of the Polbank EFG S.A., Warsaw brand was determined using the relief from royalty method, because neither immediately comparable transactions nor a market with observable prices were available at the time of purchase price allocation. The underlying premise of this method is that the subject trademark has a fair value equal to the present value of the royalty income attributable to it.

If customer contracts and associated customer relationships are acquired in a business combination, they must be recognized separately from goodwill, if they are based on contractual or other rights. The acquired companies meet the criteria for a separate recognition of non-contractual customer relationships for existing customers. The customer base is valued using the multi-period excess earnings method based on projected future income and expenses allocable to the respective customer base. The projections are based on planning figures for the corresponding years.

The impairment test of intangible assets of Raiffeisenbank AVAL JSC identified impairment of € 3,432 thousand. This impairment relates to the customer base for the corporate customers segment which was recognized at the date of initial consolidation.

Consolidated group

Number of units	Fully consolidated		Equity method	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
As of beginning of period	**337**	**334**	**14**	**14**
Included for the first time in the financial period	20	17	0	0
Merged in the financial period	(3)	0	0	0
Excluded in the financial period	(13)	(14)	0	0
As of end of period	**341**	**337**	**14**	**14**

Of the 341 entities in the Group, 173 are domiciled in Austria (2011: 170) and 168 abroad (2011: 167). They comprise 23 banks, 187 financial institutions, 27 companies rendering bank-related ancillary services, 16 financial holding companies and 88 other companies. Because of their minor importance in giving a view of the Group's assets, financial and earnings position 325 subsidiaries were not included in the consolidated financial statements (2011: 337). They are recognized at cost under financial investments. The total assets of the companies not included came to less than 1 per cent of the Group's aggregated total assets.

A list of fully consolidated companies, companies valued at equity and other equity participations may be found under note (59) list of fully consolidated companies and under note (60) list of equity participations.

Included units

Name	Share	Included as of	Reason
Banks			
Polbank EFG S.A., Warsaw (PL)	78.9%	1/5	Purchase
Financial institutions			
Adorant Immobilienleasing GmbH & Co. Projekt Heilsbronn und Neuendettelsau KG, Eschborn (DE)	3.4 %	1/4	Materiality
Building Business Center doo Novi Sad, Novi Sad (RS)	78.9%	1/6	Start of operations
OOO RB Obligatsii, Moscow (RU)	78.9%	1/7	Materiality
Raiffeisen Non-Government Pension Fund, Moscow (RU)	78.9%	1/1	Materiality
RBI Leasing GmbH, Vienna (AT)	78.9%	1/2	Start of operations
Roof Russia DPR Finance Company S.A., Luxembourg (LU)	0.0%[1]	1/6	Start of operations
Financial holding companies			
Raiffeisen SEE Region Holding GmbH, Vienna (AT)	78.9%	1/1	Start of operations
RBI LEA Beteiligungs GmbH, Vienna (AT)	78.9%	1/2	Start of operations
RBI LGG Holding GmbH, Vienna (AT)	78.9%	1/2	Start of operations
Companies rendering banking-related ancillary services			
Bulevard Centar BBC Holding d.o.o., Belgrade (RS)	78.9%	1/6	Start of operations
EFG Poldystrybucja Sp. z o.o., Warsaw (PL)	78.9%	1/5	Purchase
Park City real estate Holding d.o.o., Belgrade (RS)	78.9%	1/6	Start of operations
Pointon Investment Limited, Limassol (CY)	78.9%	1/6	Start of operations
Vindalo Properties Limited, Agios Athanasios, Limassol (CY)	78.9%	1/6	Start of operations
Other companies			
Adorant Immobilienleasing GmbH, Eschborn (DE)	57.1 %	1/4	Materiality
Centrotrade Commodities Malaysia Sdn Bhd, Kuala Lumpur (MY)	78.9%	1/8	Start of operations
R Karpo S.R.L., Bucharest (RO)	57.1 %	1/6	Start of operations
RL LUX Holding S.a.r.l., 2320 Luxembourg (LU)	57.1 %	1/6	Start of operations
Windpark Nikitsch GmbH, Vienna (AT)	57.1 %	1/4	Materiality

1 Consolidated based on the economic control according to SIC 12

Business combinations

On 30 April 2012, the formal closing of the acquisition of a 70 per cent stake in Polbank EFG S.A., Warsaw, took place. Polbank was included in the consolidated financial statements for the first time as of 1 May 2012. The provisional cash consideration for the 70 per cent stake amounted to € 460,000 thousand. Immediately after the closing, the seller Eurobank EFG exercised the put option for the 30 per cent stake in Polbank and sold it for at least € 176,350 thousand to RBI. In addition, a value adjustment amounting to € 30,000 thousand in favour of RBI was agreed and the capital increase of Polbank amounting to € 210,300 thousand – carried out by the seller and taken over by RBI at nominal value – was included. The final total consideration transferred depends on the equity in the audited closing balance as of 30 April 2012 of Polbank or Raiffeisen Bank Polska. Amounts above equity guaranteed in the purchase contract are to be paid 1:1.

Polbank operating in the retail business had a network of 327 business outlets and 3,065 employees and served more than 700,000 customers at the time of initial consolidation. At the time of initial consolidation total assets amounted to € 6,191,211 thousand, of which € 4,826,160 thousand represented loans and advances to customers (less impairment losses). Customer deposits totalled € 3,528,143 thousand and equity amounted to € 650,459 thousand.

The following table shows the total consideration paid for Polbank and the acquired assets and liabilities recognized at the acquisition date:

€ 000	30/4/2012
Cash reserve	339.640
Loans and advances to banks	111.600
Loans and advances to customers (less impairment losses)	4.826.160
Financial investments	700.369
Intangible fixed assets	24.298
Polbank brand	47.951
Customer base	16.879
Tangible fixed assets	43.053
Other assets	81.260
Assets	**6.191.211**
Deposits from banks	1.959.447
Deposits from customers	3.528.143
Provisions for liabilities and charges	11.442
Trading liabilities	142
Other liabilities	41.577
Total identifiable net assets	**650.459**
Non-controlling interests	0
Net assets after non-controlling interests	**650.459**
Total consideration transferred[1]	816.650
Goodwill[2]	**166.191**

1 The total consideration transferred is based on a guaranteed equity of Polbank or Raiffeisen Bank Polska. The final total consideration transferred is depending on audited equity in the closing balance of Polbank or Raiffeisen Bank Polska. Amounts above equity guaranteed are to be paid 1:1.
2 The goodwill is shown before consideration of deferred taxes as a result of business combinations according to IAS 12.19 in conjunction with IAS 12.26(c) and IAS 12.66, in the amount of € 7,979 thousand.

€ 000	30/4/2012
Cost of aquisition	816,650
Liquid funds	339,640
Cash flow for the acquisition	**477,010**

In the course of the preliminary purchase price allocation in accordance with IFRS 3, the existing customer base of Polbank has been identified as separate intangible fixed assets. The cost of the existing customer base amounted to € 16,879 thousand as of 1 May 2012; the amortization period has been set with ten years. Additionally, in the course of the purchase price allocation, the existing brand of Polbank has been identified as separate intangible fixed assets. The cost of the brand amounted to € 47,951 thousand as of 1 May 2012.

Goodwill arose from the acquisition of Polbank because the cost of the business combination includes a control premium. In addition, the consideration paid includes amounts in relation to the benefit of expected synergies, for example cross selling, reduction of general administrative expenses and assets not recognized such as know-how of the workforce, etc.

The loss after tax of Polbank in the income statement from 1 May to 31 December 2012 amounted to € 66,379 thousand. Operating income totaled € 89,781 thousand for the same period.

Mergers

In the financial year, three mergers took place: Centrotrade Investment AG, Zug, was merged as of 30 September 2012 into Centrotrade Chemicals AG, Zug. Raiffeisen Equipment Leasing Kft., Budapest, was merged as of 30 November 2012 into Raiffeisen Bank Zrt., Budapest. Polbank EFG S.A., Warsaw, was merged as of 31 December 2012 into Raiffeisen Bank Polska S.A., Warsaw.

Excluded units

Name	Share	Excluded as of	Reason
Financial institutions			
Cristal Palace Property s.r.o., Prague (CZ)	65.2 %	1/3	Immaterial
Dione Property s.r.o., Prague (CZ)	65.2 %	1/3	Immaterial
Raines Property, s.r.o., Prague (CZ)	65.2 %	1/3	Immaterial
R Diana Immobilien Linie S.R.L., Bucharest, (RO)	57.3 %	31/5	Sale
RL-Assets Sp.z.o.o., Warsaw (PL)	57.1 %	31/1	End of operations
RLRE Lyra Property s.r.o., Prague (CZ)	65.2 %	1/3	Immaterial
Companies rendering banking-related ancillary services			
LLC "Realty-Invest", Moscow (RU)	39.5 %	1/1	End of operations
Raiffeisen Ingatlan Vagyonkezelö Kft., Budapest (HU)	74.0 %	31/12	Immaterial
Other companies			
Raiffeisen Tower Ltd., Budapest (HU)	61.4 %	31/12	Immaterial
Residence Park Trebes, s.r.o., Prague (CZ)	65.2 %	1/1	Immaterial
RL-Aramis Holding GmbH, Vienna (AT)	57.1 %	31/3	Immaterial
SCT Krautland Ltd., Budapest (HU)	52.4 %	30/9	Sale
Somlói út Kft., Budapest (HU)	59.9 %	31/12	Immaterial

The following table shows the result from disposal of group assets:

€ 000	Krautland	RT	Others	Total
Assets	10,316	9,370	19,967	39,653
Liabilities	16,471	15,481	19,195	51,147
Total identifiable net assets	**(6,155)**	**(6,112)**	**772**	**(11,494)**
Non-controlling interests	0	1,039	0	1,039
Net assets after non-controlling interests	**(6,155)**	**(5,073)**	**772**	**(10,455)**
Goodwill	79	0	222	301
Selling price	0	0	1,989	1,989
Net income from disposal of group assets	**6,076**	**5,073**	**995**	**12,144**

Krautland: SCT Krautland Ltd., Budapest (HU)
RT: Raiffeisen Tower Ltd., Budapest (HU)

The effect on liquidity of the disposal of Group assets was € 822 thousand (2011: € 762 thousand).

Foreign currency translation

Financial statements of fully consolidated companies prepared in foreign currencies were translated into euros employing the modified current rate method in accordance with IAS 21. Equity was translated at its historical exchange rates while all other assets, liabilities and the notes were translated at the prevailing foreign exchange rates as of the reporting date. Differences arising from the translation of equity (historical exchange rates) were offset against retained earnings.

The items of the income statement were translated at the average exchange rates during the year calculated on the basis of month-end rates. Differences arising between the exchange rate as of the reporting date and the average exchange rate applied in the income statement were offset against equity.

In the case of four subsidiaries not headquartered in the euro-area, the US-Dollar was the reporting currency for measurement purposes given the economic substance of the underlying transactions and because both the transactions and the refinancing were undertaken in US-Dollars.

The following exchange rates were used for currency translation:

Rates in units per €	2012		2011	
	Stichtag 31/12	Durchschnitt 1/1 to 31/12	Stichtag 31/12	Durchschnitt 1/1 to 31/12
Albanian lek (ALL)	139.590	139.298	138.930	140.498
Belarusian rouble (BYR)	11,340.000	10,766.923	10,800.000	7,056.431
Bosnian marka (BAM)	1.956	1.956	1.956	1.956
Bulgarian lev (BGN)	1.956	1.956	1.956	1.956
Croatian kuna (HRK)	7.558	7.527	7.537	7.444
Czech koruna (CZK)	25.151	25.189	25.787	24.635
Great Britain Pound (GBP)	0.816	0.814	0.835	0.870
Hungarian forint (HUF)	292.300	290.242	314.580	280.460
Kazakh tenge (KZT)	199.220	192.773	191.720	204.444
Lithuanian Litas (LTL)	3.453	3.453	3.453	3.453
Malaysian Ringgit (MYR)	4.035	3.989	4.106	4.257
Moldovan leu (MDL)	15.997	15.594	15.074	16.421
Polish zloty (PLN)	4.074	4.190	4.458	4.125
Romanian leu (RON)	4.445	4.447	4.323	4.242
Russian rouble (RUB)	40.330	40.235	41.765	41.022
Serbian dinar (RSD)	113.718	112.880	104.641	102.306
Singapore Dollar (SGD)	1.611	1.614	1.682	1.751
Swedish Krona (SEK)	8.582	8.701	8.912	9.004
Swiss Franc (CHF)	1.207	1.205	1.216	1.233
Turkish Lira (TRY)	2.355	2.325	2.443	2.333
Ukrainian hryvna (UAH)	10.537	10.307	10.298	11.092
US-Dollar (USD)	1.319	1.293	1.294	1.395

Accounting in highly inflationary economies - IAS 29

Since 1 January 2011, Belarus has been classified in accordance with IAS 29 (Financial reporting in hyperinflationary economies) as a highly inflationary economy. Thus, the local activities of RZB are no longer recognized on the basis of historical acquisition and production costs, but have been adjusted for the effects of inflation. For this purpose the local inflation index has been used.

Development of the inflation rate in Belarus	in per cent
2011	108.7
January 2012	109.7
February 2012	107.4
March 2012	106.5
April 2012	101.1
May 2012	80.5
June 2012	69.2
July 2012	65.7
August 2012	55.6
September 2012	38.8
October 2012	30.6
November 2012	22.9
Dezember 2012	21.8

The application of the relevant provisions in IAS 29 in connection with IFRIC 7 (Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies) impacts the financial statements of RZB on 31 December 2012, as well as the financial statements of subsequent periods.

The individual financial statements of the RBI subsidiary in Belarus are adjusted before translation into the group currency and before consolidation, so that all assets and liabilities are stated with the same level of purchasing power. Amounts in the statement of financial position which are not stated in the valid measuring unit as of the reporting date, are adjusted according to a general price index. All non-monetary items in the statement of financial position carried at cost or cost less depreciation are adjusted by changes in index between the transaction date and the reporting date. Monetary items are not adjusted. All components of equity are adjusted at the time of inflow according to a general price index. The gain or loss on the net monetary position is shown in the income statement under item net trading income, subitem currency-based transactions.

Recognition and measurement principles

Financial instruments: Recognition and measurement (IAS 39)

According to IAS 39, all financial assets, financial liabilities and derivative financial instruments are to be recognized in the statement of financial position. A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Measurement of financial instruments is effected according to the measurement categories to which they belong. They are defined as follows:

1) Financial assets or liabilities at fair value through profit and loss
   a. Trading assets/liabilities
   b. Designated financial instruments at fair value
2) Financial assets held-to-maturity
3) Loans and advances
4) Financial assets available-for-sale
5) Financial liabilities

1. Financial assets or liabilities at fair value through profit and loss

a. Trading assets/liabilities

Trading assets/liabilities are acquired or incurred principally for the purpose of generating profit from short-term fluctuations in market prices. Securities (including short selling of securities) and derivative financial instruments held-for-trading are recognized at their fair values. If securities are listed, the fair value is based on stock exchange prices. Where such prices are not available, internal prices based on present value calculations for originated financial instruments and futures or option pricing models for options are applied. Present value calculations are based on an interest curve which consists of money market rates, future rates and swap rates and does not include risk premium. As option price formulas Black-Scholes 1972, Black 1976 or Garman-Kohlhagen are applied depending on the kind of option. The measurement for complex options is based on a binomial tree model and Monte-Carlo simulations.

Derivative financial instruments held-for-trading are shown under the item trading assets or trading liabilities. Positive fair values including accrued interest (dirty price) are shown under trading assets. Negative fair values are recorded under trading liabilities. Positive and negative fair values are not netted. Changes in dirty prices are recognized in net trading income. Derivatives that are used neither for trading purposes nor for hedging purposes are recorded under the derivatives. Furthermore, any liabilities from the short-selling of securities are shown in trading liabilities.

The valuation methodology for capital-guaranteed products is in accordance with the legal framework. The capital-guaranteed products (guarantee funds and pension plans) are shown as sold put options on the respective funds to be guaranteed. The valuation is based on a Monte-Carlo simulation. RZB has provided capital guarantee obligations as part of the government-funded state-sponsored pension plans according to Section 108h (1) item 3 EStG. The bank guarantees that the retirement annuity, available for the payment amount, is not less than the sum of the amounts paid by the taxpayer plus credits for such taxable premiums within the meaning of Section 108g EStG.

b. Designated financial instruments at fair value

This category comprises mainly all those financial assets that are irrevocably designated as financial instrument at fair value (so-called fair value option) upon initial recognition in the statement of financial position independent of the intention to trade. An entity may use this designation only when doing so results in more relevant information for the user of the financial statements. This is the case for those financial assets which belong to a portfolio which is managed and its performance evaluated on a fair value basis.

These instruments are bonds, notes and other fixed-interest securities as well as shares and other variable-yield securities. These financial instruments are valued at fair value under IAS 39. In the statement of financial position, they are shown under the item financial investments, current income is shown under net interest income, valuation results and proceeds from disposals are shown in net income from financial investments.

On the other hand, financial liabilities are designated as financial instruments at fair value to avoid valuation discrepancies with related derivatives. The fair value of financial obligations under the fair value option contains all market risk factors, including those related to the credit risk of the issuers.

As opposed to 2011, the use of observable maket prices was used exclusively for the valuation of liabilities of subordinated emissions measured at fair value in the financial year. Thus, in contrast to the previous year in which the inactivity in the markets led to the application of valuations, a change in the method of valuation was carried out in the fourth quarter of 2012. The financial liabilities are mostly structured bonds. The fair value of these financial liabilities is calculated by discounting the contractual cash flows with a credit-risk-adjusted yield curve, which reflects the level at which the Group could issue similar financial instruments at the reporting date. The market risk parameters are evaluated according to similar financial instruments that are held as financial assets. Valuation results for liabilities that are designated as a financial instrument at fair value are recognized in income from derivative financial instruments.

2. Financial assets held-to-maturity

Non-derivative financial assets (securities with fixed or determinable payments and fixed maturities) purchased with the intention and ability to hold them to maturity are reported in the item financial investments. They are recognized at amortized cost and differences are amortized over the term to maturity and recognized in the income statement under net interest income. If impairment occurs it is taken account of when determining the amortized cost and shown in net income from financial investments. Coupon payments are also recognized under net interest income. A sale of these financial instruments is only allowed in cases explicitly stated in IAS 39.

3. Loans and advances

Non-derivative financial assets with fixed or determinable payment for which there is no active market are allocated to this category. They are measured at amortized cost. If impairment occurs it is taken account of when determining the amortized cost. If there is a difference between the amount paid and face value – and this has interest character – the effective interest method is used and the amount is accrued as profit or loss. Profits from the sale of impaired loans are recognized in the income statement in the item net provisioning for impairment losses. Moreover, debt instruments are also stated here if there is no active market for them. Derecognition of financial assets within the framework of securitizations is – after checking if the securitized special purpose entity has to be integrated into the consolidated accounts – done on a risk and rewards or control test according to IAS 39 after identifying loss of control over the contractual rights arising from the financial asset.

4. Financial assets available-for-sale

The category of financial assets available-for-sale contains equity participations and those financial instruments that did not qualify for any of the other three categories. They are stated at fair value, if a fair value is reliably measurable. Valuation differences are shown in other comprehensive income and only recognized in the income statement under net income from financial investments if there is an objective indication of impairment. For equity instruments impairment exists, among other things, if the fair value is either significantly or for a prolonged period of time below cost.

In the Group, equity instruments classified as available-for-sale are written-off when the fair value over the last six months before the reporting date was consistently more than 20 per cent below carrying value, or in the last twelve months, on average, more than 10 per cent below carrying value. In addition to these quantitative indications (trigger events), qualitative indications from IAS 39.59 are considered. It is not permitted to include the appreciation in value in the income statement for equity instruments classified as available for sale, but rather this should be recognized in other comprehensive income under the item fair value reserve (available-for-sale financial assets). This means that only impairments or disposals are to be shown in the income statement.

Unquoted equity instruments, for which reliable fair values cannot be assessed regularly, are valued at cost of acquisition less impairment losses and it is not possible to show an appreciation in value.

This kind of financial instrument is reported under the item financial investments.

5. Financial liabilities

Liabilities are predominantly recognized at amortized cost. Discounted debt securities and similar obligations are measured at their present value. Financial liabilities measured at fair value are shown in the category liabilities at fair value through profit and loss.

Reclassification

In accordance with IAS 39.50, non-derivative financial instruments classified as trading assets and available-for-sale financial instruments can be reclassified as financial assets held-to-maturity and loans and advances in exceptional circumstances. The effects resulting from such reclassifications are shown in the notes under (20) financial investments.

Fair value

The fair value is the amount for which an asset could be exchanged and liability settled between knowledgeable, willing parties in an arm's length transaction.

Quotation on an active market (level I)

If market prices are available, the fair value is reflected best by the market price. This category contains equity instruments traded on the stock exchange, debt instruments traded on the interbank market, and derivatives traded on the stock exchange.

Measurement techniques based on observable market data (level II)

When current bid and asking prices for financial instruments are unavailable, the prices of similar financial instruments provide evidence of the current fair value or are determined by accepted measurement methods enclosing observable prices or parameters (in particular present value calculation or option price model). These methods concern the majority of the OTC-derivates and non-quoted debt instruments.

To determine the fair value a credit value adjustment (CVA) is necessary to reflect the counterparty risk associated with OTC derivative transactions, especially of those contractual partners with whom hedging via the credit support annexes has not yet been conducted. This amount represents the estimated fair value of a security which could be used to hedge against the credit risk of the counterparties to RBI-OTC derivative portfolios. The CVA will depend on the expected future exposure, on the probability of default of the contractual partner and recovery rates. In the CVA collateral, netting agreements, termination options and other contractual factors are taken into account. The net valuation due to the changed credit risk of the counterparty is shown in note (5) net trading income, interest-based transactions.

Measurement techniques not based on observable market data (level III)

If no observable stock exchange prices or prices are available, the fair value will be measured by adequate measurement models. The utilization of these models requires assumptions and estimates of the management. The scope of assumptions and estimates depends on the price transparency of the financial instrument, the market and the complexity of the instrument.

Categories of financial instruments according to IFRS 7

As the nature of the financial instruments is already shown by the classification of the items of the statement of financial position, the formation of categories is built in line with these items, which include financial instruments. Categories of financial instruments on the asset side are primarily cash reserve, loans and advances to banks, loans and advances to customers, trading assets, derivative financial instruments, derivatives for hedge accounting, and financial investments (among this category are separately financial assets not traded on an active market and which are shown at cost of acquisition). Categories of financial instruments on the liability side are most notably trading liabilities, derivative financial instruments, derivatives for hedge accounting, deposits from banks, deposits from customers, debt securities issued and subordinated capital.

Classes	Measurement			Category according
	Fair Value	Amortized Cost	Others	to IAS 39[1]
Asset classes				
Cash reserve			Nominal value	n/a
Trading assets	X			TA
Derivatives	X			TA
Loans and advances to banks		X		LAR
Loans and advances to customers		X		LAR
of which finance lease business		X		n/a
Financial investments	X			AFVTPL
Financial investments	X			AfS
Financial investments		X		HTM
of which not traded on an active market			At Cost	AfS
Positive fair values of derivatives for hedge accounting (IAS 39)	X			n/a
Liability classes				
Trading liabilities	X			TL
Derivatives	X			TL
Deposits from banks		X		FL
Deposits from customers		X		FL
Subordinated capital		X		FL
Debt securities issued		X		FL
Debt securities issued	X			AFVTPL
Negative fair values of derivatives for hedge accounting (IAS 39)	X			n/a

1 AfS Available-for-sale
AFVTPL At fair value through profit and loss
FL Financial liabilities
HTM Held-to-maturity
LAR Loans and advances
TA Held-for-trading
TL Held-for-trading

Derivatives

The Group uses derivates including swaps, standardized forward contracts, futures, credit derivatives, options and similar contracts. Within the operating activity, the Group carries out different transactions with derivative financial instruments for trading and hedging purposes. The Group applies derivatives in order to meet the requirements of the clients concerning their risk management, to manage and secure risks and to generate profit in proprietary trading. Derivatives are initially recognized at the time of the transaction at fair value and subsequently revalued to fair value. The resulting valuation gain or loss is recognized immediately in net income from derivatives, unless the derivative is designated as a hedging instrument for hedge accounting purposes and the hedge is effective. Here the timing of the recognition will depend on the type of hedging relationship.

Derivatives, which are used for hedging against market risk (excluding trading assets/liabilities) for a non-homogeneous portfolio, do not meet the conditions for IAS 39 hedge accounting. These are recognized as follows: the dirty price is booked under derivatives in the statement of financial position (positive fair values on the asset side and negative fair values on the liability side). The change in value of these derivatives, on the basis of the clean price, is shown in net income from derivatives and interest is shown in net interest income.

Credit derivatives, the value of which is dependent on future specified credit (non-)events are shown under derivatives (positive fair values on the asset side and negative fair values on the liability side). Changes in valuation are recognized under net income from derivatives.

Hedge Accounting

If derivatives are held for the purpose of risk management and if the respective transactions meet specific criteria, the Group uses hedge accounting. The Group designates certain hedging instruments as fair value hedges, cash flow hedges or capital hedges. Most of these are derivatives. At the beginning of the hedging relationship, the relationship between underlying and hedging instrument, including the risk management objectives, is documented. Furthermore, it is necessary to regularly document from the beginning and during the hedging relationship that the fair value or cash flow hedge is effective to a large degree

a. Fair value hedge

Hedge Accounting according to IAS 39 applies for those derivatives that are used to hedge the fair values of financial assets and liabilities. The credit business is especially subject to such fair value risks if it deals with fixed-interest loans. Interest-rate swaps that satisfy the prerequisites for hedge accounting are contracted to hedge against the interest-rate risks arising from individual loans or refinancing. Thus, hedges are formally documented, continuously assessed, and rated to be highly effective. In other words, throughout the term of a hedge, it can be assumed that changes in the fair value of a hedged item will be nearly completely offset by a change in the fair value of the hedging instrument and that the actual outcome will lie within a band of 80 to 125 per cent.

Derivative instruments held to hedge the fair values of individual items in the statement of financial position (except trading assets/liabilities) are recognized at their fair values (dirty prices) under derivatives (on the assets side: positive dirty prices; on the liabilities side: negative dirty prices). Changes in the carrying amounts of hedged items (assets or liabilities) are allocated directly to the corresponding items of the statement of financial position and reported separately in the notes.

Both the effect of changes in the carrying values of positions requiring hedging and the effects of changes in the clean prices of the derivative instruments are recorded under net income from derivatives (net income from hedge accounting).

Within the management of interest rate risks, the hedging of interest rate risk is also made on the portfolio level. Individual transactions or groups of transactions with similar risk structures are hedged, divided into maturities according to the expected repayment and interest rate adjustment date in a portfolio. Portfolios can be assets only, liabilities only or both. For hedge accounting, the change in the value of the hedged asset or liability is shown as a separate item in other assets/liabilities. The hedged amount of the hedged items is determined in the consolidated financial statements excluding sight or savings deposits (the rules of the EU carve-out are thereby not applied).

b. Cash flow hedge

Cash flow hedge accounting according to IAS 39 applies for those derivatives that are used to hedge against the risk of fluctuating future cash flows. Variable-interest liabilities, as well as expected transactions such as expected borrowing or investment, are especially subject to such cash flow risks. Interest rate swaps used to hedge against the risk of fluctuating cash flows arising from specific variable interest-rate items, are recognized as follows: The hedging instrument is recognized at fair value, changes in its clean price are recorded as separate item in other comprehensive income. The ineffective portion is recognized in profit or loss in the position derivative financial instruments and liabilities.

c. Hedge of a net investment in a foreign operation (capital hedge)

In the Group, foreign exchange hedges of investments in economically independent sub-units (IAS 39.102) are made in order to reduce differences arising from the foreign currency translation of equity. Currency swaps are mainly used as hedging instruments. Where the hedge is effective the resulting gains or losses from foreign currency translation are recognized and shown separately in other comprehensive income. Any ineffective part of this hedge relation is recognized in net trading income. The related interest components are shown in net interest income. There are no deferred taxes calculated for the income from capital hedge due to the applied exception regulations according to IAS 12.39.

Offsetting

In the case of identity of borrower and lender, offsetting of loans and liabilities with matching maturities and currencies occurs only if a legal right, by contract or otherwise, exists and offsetting is in line with the actually expected course of the business.

Cash reserve

The cash reserve includes cash in hand and balances at central banks that are due on call. They are shown with their nominal value.

Impairment losses on loans and advances

At each reporting date an assessment is made as to whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, when:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset until the reporting date (a loss event);
- that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets and
- the amount can be reliably estimated.

Credit risk is accounted for by making individual impairment provisions and portfolio-based impairment provisions. The latter comprise impairment provisions for portfolios of loans with identical risk profiles that are compiled under certain conditions. In the retail segment, provisions are built according to product portfolio and past due days and partly taking historical default rates into account. Individual and portfolio-based impairment provisions are not netted against corresponding receivables but are stated separately in the statement of financial position.

For credit risks related to loans and advances to customers and banks, provisions are made in the amount of expected loss according to homogeneous Group-wide standards. Risk of loss is deemed to exist if the discounted projected repayment amounts and interest payments are below the carrying value of the loans, taking collateral into account. Portfolio-based impairments are calculated according to valuation models that estimate expected future cash flows for the loans in the respective loan portfolio based on loss experience history. This is carried out regularly by considering economic conditions. For non-retail portfolios without a documented loss history of their own, peer group benchmark figures serve as a comparative base.

The entirety of the provision for impairment losses arising from loans reported in the statement of financial position (individual loan loss provisions and portfolio-based loan loss provisions) is shown as a separate item on the assets side, below loans and advances to banks and customers. The provision for impairment losses arising from transactions outside the statement of financial position is recorded under provisions for liabilities and charges.

Derecognition of financial assets and liabilities

Derecognition of financial assets

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset expire or when the Group has transferred the rights or if the Group has the obligation in case that certain criteria occur to transfer the cash flows to one or more receivers. A transferred asset is also derecognized if all material risks and rewards of ownership of the assets are transferred.

Securitization transactions

The Group securitizes several financial assets from transactions with private customers and business customers by selling them to a special purpose entity that issues securities to investors. The assets transferred are derecognized fully or partly. Rights to securitized financial assets can be retained in the form of junior or subordinated tranches, interest claims or other remaining claims (retained rights).

Derecognition of financial liabilities

The Group derecognizes a financial liability if the obligations of the Group have been paid, expired or revoked. The net income or expense from the repurchase of liabilities is shown under note (6) net income from derivatives and liabilities.

Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the Group sells assets to a third party and agrees at the same time to repurchase these assets at an agreed price and time. The assets remain on the statement of financial position of the Group and are measured like the item in the statement of financial position where they are shown. Cash inflows arising from a sale and repurchase transaction are recognized in the statement of financial position as deposits from banks or deposits from customers depending on the counterparty.

Under reverse repurchase agreements, assets are acquired with the obligation to sell them in the future. Cash outflows arising from reverse repurchase agreements are recorded in the statement of financial position under loans and advances to banks or loans and advances to customers.

Interest expense from sale and repurchase agreements and interest income from reverse sale and repurchase agreements are accrued in a straight line over their term to maturity and are shown under net interest income.

Securities lending

Securities lending transactions are shown in the same way as genuine sale and repurchase agreements. This means loaned securities continue to remain in the securities portfolio and are valued according to IAS 39. Borrowed securities are not recognized and not valued. Cash collateral provided for securities lending transactions are shown as a claim and collateral received are shown as a liability.

Leasing

Leases are classified according to their contractual structure as follows:

Finance leases

When nearly all the risks and rewards of a leased asset are transferred to the lessee, the Group as lessor recognizes a loan to banks or customers. The loan amount is the amount of the net investment. The proceeds from the finance lease are distributed at a constant periodic rate of the outstanding net investment in the leases. Under a finance lease the lessee holds assets that are shown under the relevant tangible fixed asset item, which corresponds to a lease liability.

Operating leases

An operating lease occurs when the risks and rewards of ownership remain with the lessor. The leased assets are allocated to the Group under tangible fixed assets and depreciated in accordance with the principles applicable to the type of fixed assets. Rental income from the corresponding lease object is amortized on a straight-line basis over the term of the leasing contract and reported in other net operating income. Expenses for operating leases are generally amortized on a straight-line basis over the term of leasing contract and reported as administrative expenses.

Equity participations

Shareholdings in subsidiaries not included in the consolidated financial statements because of their minor significance and shareholdings in companies that are not valued at equity are shown under financial investments and are measured at amortized cost if no shares prices are available.

Other shareholdings are categorized as financial assets available-for-sale upon initial recognition. Changes in value are therefore recognized in other comprehensive income. Impairment is shown in net income from financial investments.

Intangible fixed assets

Under this item, internally developed and acquired software, brand rights, acquired customer bases and especially goodwill are stated. Intangible fixed assets acquired in a business combination are reported separately from goodwill and measured at fair value. Goodwill and other intangible fixed assets (e.g. brand rights) without definite useful lives are tested for impairment at each reporting date and also during the year whenever trigger events occur. Whenever events or changes in circumstances indicate that the expected benefit no longer exists, impairment must be made pursuant to IAS 36.

Acquired intangible fixed assets (software, customer base) with determinable useful lives are capitalized at acquisition cost and amortized over their estimated useful lives.

Internally developed intangible fixed assets comprise exclusively of software. Software is capitalized if it is probable that the future economic benefits attributable to the asset will accrue to the enterprise and the cost of the asset can be measured reliably. Expenses for research are recognized as an expense when they are incurred. The useful life of software is between four and six years and may be longer for major software projects. The useful life of the acquired customer base was set at 20 years in the retail segment of Raiffeisen Bank Aval JSC. For the acquired customer base of Polbank EFG S.A. a useful life of ten years resulted from the purchase price allocation.

Tangible fixed assets

Tangible fixed assets are measured at cost of acquisition or conversion less scheduled depreciation. The straight-line method is used for depreciation and is based on the following useful life figures:

Useful life	Years
Buildings	25 – 50
Office furniture and equipment	5 – 10
Hardware	3 – 5

Land is not subject to scheduled depreciation.

Expected useful lives, residual values and depreciation methods are reviewed annually and any necessary future change of estimates are taken into account. If a permanent impairment is to be expected, extraordinary write-downs are carried out. In the event that the reason for the write-down no longer applies, a write-up will take place up to the amount of the amortized cost of the asset.

The resulting gain or loss from the sale of any asset is determined as the difference between the proceeds and the carrying value of the asset and is recognized in other net operating income. When assets are retired, the remaining carrying amount is also recognized there.

Investment property

This means property that is held to earn rental income and/or for capital appreciation. Investment property is reported at amortized cost using the cost model permitted by IAS 40 and is shown under tangible fixed assets because of minor importance. Income resulting from investment property is shown in other net operating income.

Inventory

Inventories are measured at the lower of cost or net realizable value. Write-downs are made if the acquisition cost is above the net realizable value as of the reporting date or if limited usage or longer storage periods have impaired the value of the inventory.

Non-current assets held for sale and discontinued operations

Non-current assets and discontinued operations are classified as held for sale when the related carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is only considered met if the sale is highly probable and the asset (or discontinued operation) is immediately available for sale and furthermore that the management has committed itself to a sale. Moreover, the sale transaction must be completed within twelve months.

Non-current assets and discontinued operations classified as held for sale are valued at the lower amount of their original carrying value or fair value less costs to sell and are reported under other assets.

Provisions for liabilities and charges

Provisions are recognized when the Group has a present obligation from a past event, where it is likely that it will be obliged to settle, and a reliable estimate of the amount is possible. The level of provisions is the best possible estimate of expected outflow of economic benefits at the reporting date while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate. Long-term provisions are recognized at their present value.

Provisions for pensions and similar obligations

All defined benefit plans relating to so-called social capital (provisions for pensions, provisions for severance payments and provisions for anniversary bonuses) are measured using the Projected Unit Credit Method in accordance with IAS 19 – Employee Benefits.

The actuarial calculation of pension obligations for active employees is based on the following assumptions:

Per cent	2012	2011
Interest rate	3.5	4.5
Effective salary increase for active employees	2.5	3.0
Individual career trend for active employees	0.5	–
Expected increase in retirement benefits	2.0	2.0
Expected return on plan assets	4.25	4.5

Calculations are based on an assumed retirement accession age of 65 years for men and 62 years for women and are subject to transitional statutory regulations and special arrangements in individual contracts.

Actuarial gains or losses calculated for pension obligations are recognized immediately in the income statement. No use was made of the corridor method according to IAS 19.92.

The actuarial computation of severance payments and anniversary bonuses is based on the following assumptions:

Per cent	2012	2011
Interest rate	3.5	4.5
Average increase in salary	2.5	3.0
Individual career trend	0.5	–

The biometrical basis for the calculation of provisions for pensions, severance payments and anniversary bonuses of Austrian companies is provided by AVÖ 2008-P-Rechnungsgrundlagen für die Pensionsversicherung (Computational Framework for Pension Insurance) – Pagler & Pagler, using the variant for salaried employees. In other countries, comparable actuarial parameters are used for calculation.

Defined contribution plans

Under defined contribution plans, the company pays fixed contributions into a separate entity (a fund). These payments are recognized as staff expenses in the income statement.

Employee compensation plans

Variable Remuneration – special remuneration policies

In RZB variable compensation is based on bonus pools on the bank or profit center level. Every variable pay system has fixed minimum and maximum levels and thus defines maximum payout values.

As of the fiscal year 2011, the general and specific principles, as represented in the general HR part, for the allocation, the claim and the payment of variable remuneration (including the payment of the deferred portion of the bonus) for board members of RZB AG and certain Group units and identified staff (risk personnel) are applied:

- 60 per cent of the annual bonus will be paid out on a proportional basis as 50 per cent cash immediately (up-front), and 50 per cent through a phantom share plan (see details below), which will pay out after a holding period (retention period) of one year. An exception to this are the banks in Bulgaria, with 40 percent up-front portion and a retention period of two years, and the Czech Republic with a holding period of 1.5 years.
- 40 per cent of the annual bonus will be deferred over a period of three (in Austria, five) years. Payment will be made on a proportional basis, 50 per cent cash and 50 per cent based on the phantom share plan.

The allocation, the claim and the payment of the variable remuneration (including the payment of a portion of the deferred bonus) depend on the following criteria:

- earning a net profit,
- the achievement of the legally required core tier 1 ratio of RZB,
- in Group units on the local level additionally achieving the legally required local minimum core tier 1 ratio excluding buffers, and
- the performance of the business area and the affected person.

The obligation from number 11 of the annex to Section 39b of the Austrian Banking Act under which a proportion of at least 50 per cent of variable compensation for risk personnel should take the form of shares or equivalent non-cash payment instruments, is covered in RZB by a stock phantom plan. Proportionally 50 per cent of the Up-front and deferred bonus section will be divided by the average closing price of RBI's shares on the Vienna Stock Exchange for that year serving as the basis for calculating the bonus. Thereby, a certain amount of phantom shares will be determined. This amount will be fixed for the entire duration of the deferral period. After the expiration of the respective retention period, the amount of specified phantom shares will be multiplied by RBI's share price for the previous fiscal year. The resulting cash amount will be paid when the next available monthly salary is paid.

These rules are valid unless any applicable local laws prescribe a different procedure.

Further details of the employee compensation plans are described in the management report.

Share-based compensation

Except for the year 2010 the Management Board, with approval by the Supervisory Board, of RBI AG has approved the existence of a share incentive program (SIP) which offers performance-based allotments of shares to eligible employees at home and abroad for a given period. Eligible employees are current board members and selected executives of RBI AG, as well as executives of its affiliated bank subsidiaries and other affiliated companies.

The number of ordinary shares of RBI AG which will ultimately be transferred depends on the achievement of two performance criteria: the targeted return on equity (ROE) and the performance of the share of the RBI AG compared to the total shareholder return of the shares of companies in DJ €O STOXX Banks index after a five-year holding period.

Expenses related to the share incentive program are recognized in staff expenses in accordance with IFRS 2 (share-based payment), charged to equity and shown in note (34) equity.

Subordinated capital

This item comprises subordinated capital and supplementary capital. Liabilities documented or undocumented are subordinated if, in the event of liquidation or bankruptcy, they can only be met after the claims of the other – not subordinated – creditors have been satisfied. Supplementary capital contains all paid-in own funds which are provided by a third-party and are available for the company for at least eight years, for which interest is paid only from the profit and which can be repaid in the case of solvency only after all other debtors are satisfied.

Net interest income

Interest and interest-like income mainly includes interest income on loans and advances to banks and customers and from fixed-interest securities. In addition, current income from shares and other variable-yield securities (especially dividends), income from equity participations and from investments valued at equity, and similar income calculated as interest are also reported under net interest income. Dividend income is recognized if the entitlement of the owner for payment exists. Interest expenses and interest-like expenses mainly include interest paid on deposits from banks and customers and on debt securities issued and subordinated capital. Interest income and interest expenses are accrued in the reporting period.

Net fee and commission income

Net fee and commission income mainly includes income and expenses arising from payment transfer business, foreign exchange business and credit business. Fee and commission income and expenses are accrued in the reporting period.

Net trading income

Net trading income comprises the trading margins resulting from the foreign exchange business, results due to foreign exchange revaluations and all realized and unrealized gains and losses from financial assets and liabilities at fair value. In addition, it includes all interest and dividend income attributable to trading activities and related refinancing costs.

General administrative expenses

General administrative expenses include staff and other administrative expenses as well as amortization/depreciation and impairment losses for tangible and intangible fixed assets.

Income taxes

Current taxes are calculated on the basis of taxable income of the current year. The taxable income deviates from the profit of the statement of comprehensive income due to expenses and income which are taxable or tax-deductible in the following years or which are never taxable or tax-deductible. The liability of the Group for current taxes is recognized on the basis of the actual tax rate or the future tax rate which is enacted by the end of the reporting period.

Deferred taxes are recognized and calculated in accordance with IAS 12 applying the liability method. Deferred taxes are based on all temporary differences that result from comparing the carrying amounts of assets and liabilities in the IFRS accounts with the tax bases of assets and liabilities, and which will reverse in the future. Deferred taxes are calculated by using tax rates applicable in the countries concerned. A deferred tax asset should also be recognized on tax loss carry-forwards if it is probable that sufficient taxable profit will be achieved against which the tax loss carry-forwards can be utilized within the same entity. On each reporting date, the carrying amount of the deferred tax assets is reviewed and impaired if it is no longer probable that sufficient taxable income is available in order to partly or fully realize the tax assets. Deferred tax assets and deferred tax liabilities within the same entity are netted. Income tax credits and income tax obligations are recorded separately under the item other assets or tax provisions.

Current and deferred taxes are recognized as profit or loss. In case that they are linked to items which are recognized in other comprehensive income, current and deferred taxes are also directly recognized in other comprehensive income.

Other comprehensive income

Other comprehensive income comprises all income and expenses directly recognized in equity according to IFRS standards. Other comprehensive income contains currency differences resulting from the translation of equity held in foreign currency, changes resulting from the hedging of net investments in a foreign entity (capital hedge), the effective part of a cash flow hedge, changes resulting from valuation of available-for-sale financial assets as well as deferred taxes on the mentioned items.

Fiduciary business

Transactions arising from the holding and placing of assets on behalf of third parties are not shown in the statement of financial position. Fees arising from these transactions are shown under net fee and commission income.

Financial guarantees

According to IAS 39, a financial guarantee is a contract under which the guarantor is obliged to make payments that compensate the party to whom the guarantee is issued for a loss arising in the event that a particular debtor does not fulfill payment obligations on time as stipulated in the original terms of the debt instrument. At the date of recognition of a financial guarantee, the initial fair value corresponds under market conditions to the premium at the date of signature of the contract. For subsequent valuations the credit commitment has to be presented as provision according to IAS 37.

Contingent liabilities and commitments

The Group has contingent liabilities from guarantees, credit guarantees, letters of credit and loan commitments recognized at face value. Guarantees are used in situations in which the Group guarantees payment to the creditor to fulfill the obligation of a third party. Irrevocable credit lines must be reported when a credit risk may occur. These include commitments to provide loans, to purchase securities or to provide guarantees and acceptances. Loan loss provisions for contingent liabilities and irrevocable loan commitments are reported under provisions for liabilities and charges.

Own shares

Own shares of RBI AG at the reporting date are deducted directly from equity. Gains and losses on own shares have no impact on the income statement.

Statement of cash flows

The cash flow statement reports the change in the cash and cash equivalents of the company through the net cash from operating activities, investing and financing activities. Cash flows for investing activities mainly include proceeds from the sale, or payments for the acquisition of financial investments and tangible fixed assets. The net cash from financing activities shows all cash flows from equity capital, subordinated capital, and participation capital. All other cash flows are – according to international practices for financial institutions – assigned to operating activities.

Segment reporting

Notes on segment reporting are to be found in the chapter segment reports.

Notes to the nature and extent of risks

Information about risks arising from financial instruments is disclosed in the explanatory notes. The risk report in particular contains detailed information on the issue of credit risk, country risk, concentration risk, market risk and liquidity risk.

Capital management

Information on capital management, regulatory own funds and risk-weighted assets are disclosed under note (53) capital management and regulatory own funds according to the Austrian Banking Act.

Notes to the income statement

(1) Income statement according to measurement categories

€ 000	2012	2011
Net gains (losses) on financial assets and liabilities held-for-trading	**510,363**	**753,816**
Financial assets and liabilities at fair value through profit or loss	**246,228**	**378,660**
Interest income	404,513	331,852
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	(158,285)	46,808
Financial assets available-for-sale	**107,644**	**(68,373)**
Interest income	22,152	67,354
Net realized gains (losses) on financial assets available-for-sale	185,897	14,092
Impairment on financial assets available-for-sale	(100,404)	(149,818)
Loans and advances	**4,519,218**	**4,455,115**
Interest income	5,549,908	5,554,362
Net realized gains (losses) on financial assets not measured at fair value through profit and loss	8,894	8,147
Impairment on financial assets not measured at fair value through profit and loss	(1,039,584)	(1,107,395)
Financial assets held-to-maturity	**226,212**	**532,430**
Interest income	225,324	442,806
Net realized gains (losses) on financial assets not measured at fair value through profit and loss	1,062	91,793
Impairment on financial assets not measured at fair value through profit and loss	(174)	(2,169)
Financial liabilities	**(2,961,564)**	**(3,010,384)**
Interest expenses	(3,071,364)	(3,010,384)
Income from repurchase of liabilities	109,801	0
Derivatives (hedging)	**8,392**	**23,729**
Net interest income	(190)	(6,104)
Net gains (losses) from hedge accounting	8,582	29,834
Net revaluations from exchange differences	**105,219**	**78,309**
Other operating income/expenses	**(1,857,183)**	**(1,999,504)**
Profit before tax from continuing operations	**904,530**	**1,143,798**

(2) Net interest income

The net interest income position includes interest income and expenses from items of banking business, dividend income, and fees and commissions with interest-like characteristics.

€ 000	2012	2011
Interest and interest-like income, total	**6,562,222**	**6,691,842**
Interest income	6,504,367	6,593,284
from balances at central banks	82,372	80,914
from loans and advances to banks	267,005	384,083
from loans and advances to customers	4,908,919	4,790,612
from financial investments	623,913	783,019
from leasing claims	263,974	269,195
from derivative financial instruments (non-trading), net	358,184	285,463
Current income	28,076	58,993
from shares and other variable-yield securities	5,924	3,554
from shares in affiliated companies	10,269	44,876
from other interests	11,883	10,562
Interest-like income	29,778	39,564
Current income from associates	**42,051**	**(86,590)**
Interest expenses and interest-like expenses, total	**(3,073,505)**	**(3,020,389)**
Interest expenses	(3,029,844)	(2,976,798)
on deposits from central banks	(2,141)	(10,004)
on deposits from banks	(720,146)	(695,047)
on deposits from customers	(1,639,583)	(1,426,151)
on debt securities issued	(454,488)	(614,355)
on subordinated capital	(213,486)	(231,240)
Interest-like expenses	(43,661)	(43,590)
Total	**3,530,767**	**3,584,863**

Interest income includes interest income (unwinding) from impaired loans to customers and impaired loans to banks in the amount of € 205,521 thousand (2011: € 204,960 thousand). Interest income from impaired loans and advances to customers and banks is recognized with the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

(3) Net provisioning for impairment losses

Net provisioning for impairment losses on items reported on and off the statement of financial position is as follows:

€ 000	2012	2011
Individual loan loss provisions	**(1,203,681)**	**(1,212,384)**
Allocation to provisions for impairment losses	(1,687,723)	(1,716,183)
Release of provisions for impairment losses	573,940	561,001
Direct write-downs	(169,617)	(133,188)
Income received on written-down claims	79,720	75,986
Portfolio-based loan loss provisions	**164,103**	**104,932**
Allocation to provisions for impairment losses	(361,008)	(280,577)
Release of provisions for impairment losses	525,111	385,510
Gains from the sales of loans	**8,894**	**8,147**
Total	**(1,030,683)**	**(1,099,305)**

Details on risk provisions are shown under note (17) impairment losses on loans and advances.

(4) Net fee and commission income

€ 000	2012	2011
Payment transfer business	662,788	610,911
Loan and guarantee business	251,344	281,671
Securities business	118,164	118,755
Foreign currency, notes/coins, and precious-metals business	348,512	329,764
Management of investment and pension funds	22,751	26,550
Sale of own and third party products	45,415	41,323
Credit derivatives business	(16)	1,462
Other banking services	72,210	82,423
Total	**1,521,168**	**1,492,860**

(5) Net trading income

The position net trading income includes interest and dividend income, refinancing costs, commissions and any changes in fair value of trading portfolios.

€ 000	2012	2011
Interest-based transactions	15,901	154,207
Currency-based transactions	208,385	106,227
Equity-/index-based transactions	8,839	4,583
Credit derivatives business	(12,748)	2,132
Other transactions	(24,706)	78,569
Total	**195,671**	**345,718**

A change in the estimation of default probability for the counterparty risk led to a decrease of € 30,423 thousand in income from interest-based transactions.

Currency-based transactions contained an effect due to the application of hyperinflation accounting in Belarus in the amount of minus € 20,648 thousand (2011: minus € 84,345 thousand).

(6) Net income from derivatives and liabilities

€ 000	2012	2011
Net income from hedge accounting	8,582	3,373
Net income from credit derivatives	6,863	31,669
Net income from other derivatives	54,674	189,632
Net income from liabilities designated at fair value	(311,813)	183,555
Income from repurchase of liabilities	109,801	0
Total	**(131,894)**	**408,229**

Net income from hedge accounting includes a valuation gain from derivatives of € 246,813 thousand (2011: € 87,529 thousand) and changes in the carrying amount of the fair value hedged items of minus € 238.231 thousand (2011: minus € 84,156 thousand).

Net income from other derivatives includes valuation results from those derivatives, which are held to hedge against market risks (except trading assets/liabilities). They are, however, based on an inhomogeneous portfolio and do not satisfy the requirements for hedge accounting according to IAS 39.

Net income from liabilities designated at fair value comprises a loss from changes in own credit risk amounting to € 144,649 thousand (2011: gain of € 248,491 thousand) and a negative effect from changes in market interest rates.

In the reporting year, an income from the repurchase of liabilities of € 109,801 thousand was generated. This item includes income from the repurchase of hybrid bonds (nominal value of € 357,806 thousand) amounting to € 113,291 thousand less transaction costs.

(7) Net income from financial investments

The position net income from financial investments comprises valuation results and net proceeds from securities of the financial investment portfolio (held-to-maturity), from securities at fair value through profit and loss, and equity participations which include shares in affiliated companies, companies valued at equity, and other companies.

€ 000	2012	2011
Net income from securities held-to-maturity	**888**	**89,623**
Net valuations of securities	(174)	(2,169)
Net proceeds from sales of securities	1,062	91,793
Net income from equity participations	**(77,553)**	**(135,256)**
Net valuations of equity participations	(100,404)	(149,348)
Net proceeds from sales of equity participations	22,852	14,092
Net income from securities at fair value through profit and loss	**153,522**	**(137,160)**
Net valuations of securities	71,764	(126,410)
Net proceeds from sales of securities	81,758	(10,751)
Net income from available-for-sale securities	**163,045**	**0**
Total	**239,902**	**(182,793)**

The sale of bonds from the securities portfolio available-for-sale of RBI AG resulted in net proceeds of € 163,045 thousand.

(8) General administrative expenses

€ 000	2012	2011
Staff expenses	**(1,663,125)**	**(1,598,505)**
Wages and salaries	(1,273,892)	(1,238,976)
Social security costs and staff-related taxes	(301,265)	(291,223)
Other voluntary social expenses	(42,013)	(44,077)
Expenses for pension and other benefits	(38,563)	(17,019)
Expenses on share incentive program (SIP)	(7,393)	(7,210)
Other administrative expenses	**(1,265,190)**	**(1,213,660)**
Office space expenses	(351,803)	(330,142)
IT expenses	(261,096)	(225,314)
Communication expenses	(89,412)	(92,804)
Legal, advisory and consulting expenses	(124,133)	(126,322)
Advertising, PR and promotional expenses	(103,931)	(115,188)
Deposit insurance fees	(93,216)	(85,001)
Office supplies	(29,896)	(31,619)
Car expenses	(22,599)	(21,021)
Security expenses	(46,572)	(50,565)
Traveling expenses	(24,472)	(25,835)
Training expenses for staff	(16,423)	(19,117)
Sundry administrative expenses	(101,638)	(90,731)
Depreciation of intangible and tangible fixed assets	**(425,059)**	**(395,846)**
Tangible fixed assets	(204,062)	(212,750)
Intangible fixed assets	(180,916)	(144,899)
Leased assets (operating lease)	(40,082)	(38,197)
Total	**(3,353,375)**	**(3,208,011)**

Legal, advisory and consulting expenses include audit fees of the Group companies which comprise expenses for the audit of financial statements amounting to € 9,577 thousand (2011: € 9,168 thousand) and tax advisory as well as other additional consulting services provided by the auditors amounting to € 5,070 thousand (2011: € 5,455 thousand).Thereof, € 2,777 thousand (2011: € 2,573 thousand) are accounted for the group auditor for the audit of the consolidated financial statement and € 2,009 thousand (2011: € 2,135 thousand) is accounted for other consulting services. Amortization of intangible fixed assets capitalized in the course of initial consolidation amounted to € 7.352 thousand (2011: € 5,854 thousand). This relates to scheduled amortization of the acquired customer base. The depreciation of tangible and intangible fixed assets includes an impairment of € 39,359 thousand (2011: € 20,040 thousand).

(9) Other net operating income

€ 000	2012	2011
Net income arising from non-banking activities	91,385	57,659
Sales revenues from non-banking activities	871,567	864,604
Expenses arising from non-banking activities	(780,182)	(806,944)
Net income from additional leasing services	6,612	(9,320)
Revenues from additional leasing services	90,469	91,809
Expenses from additional leasing services	(83,857)	(101,129)
Rental income from operating lease (vehicles and equipment)	40,921	44,193
Rental income from investment property incl. operating lease (real estate)	20,846	20,891
Net proceeds from disposal/write-ups of tangible and intangible fixed assets	(4,607)	7,798
Other taxes	(202,254)	(140,763)
hereof special bank levies	(166,881)	(101,251)
Impairment of goodwill	(38,463)	(188,391)
Income from release of negative goodwill	0	299
Net expense from allocation and release of other provisions	(9,495)	(11,551)
Sundry operating income	74,956	87,173
Sundry operating expenses	(59,072)	(62,933)
Total	**(79,171)**	**(194,945)**

The other net operating income includes impairment of goodwill amounting to € 38,463 thousand especially for group units in Ukraine, Bosnia and Herzegovina, Croatia and Hungary. In 2011, impairment of goodwill was € 188,391 thousand for group units in Ukraine, Hungary, Slovenia, Finland, Sweden and Austria. In the reporting period, provisions amounting to € 28,870 thousand were allocated for the restructuring of a company valued at equity.

(10) Net income from disposal of group assets

In the reporting period, nine subsidiaries were excluded from the consolidated group due to materiality reasons. Moreover, two subsidiaries were excluded due to end of operations and another two due to sale. Net income from this disposal of group assets amounted to € 12,144 thousand (2011: minus €(2,817) thousand).

(11) Income taxes

€ 000	2012	2011
Current income taxes	(265,062)	(364,767)
Austria	(16,525)	(48,402)
Foreign	(248,537)	(316,365)
Deferred taxes	(8,579)	(50,566)
Total	**(273,641)**	**(415,333)**

Raiffeisen Zentralbank Österreich Aktiengesellschaft is the parent company of a tax group comprising 19 fully consolidated subsidiaries and 11 subsidiaries which are not fully consolidated. This makes it possible to attribute the negative tax result of group members to the tax result of the parent company.

The following reconciliation shows the relation between profit before tax and the effective tax burden:

€ 000	2012	2011
Profit before tax	**904,530**	**1,143,798**
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 per cent	**(226,132)**	**(285,950)**
Effect of divergent foreign tax rates	60,555	92,334
Tax decrease because of tax-exempted income from equity participations and other income	61,651	173,542
Tax increase because of non-deductible expenses	(103,907)	(135,513)
Other tax deductions and tax increases	(65,808)	(259,746)
Effective tax burden	**(273,641)**	**(415,333)**
Tax rate in per cent	**30.25%**	**36.31%**

Other tax deductions and tax increases include mainly deferred tax assets built on tax loss carry-forwards.

(12) Earnings per share

€ 000	2012	2011
Consolidated profit	361,425	472,459
Less compensation for participation rights	0	(20,000)
Less preference dividend	0	(19,374)
Adapted consolidated profit	**361,425**	**433,086**
Average number of ordinary shares outstanding	6,301,033	5,539,885
Earnings per share in €	**57.36**	**78.18**

There were no conversion or option rights outstanding, so undiluted earnings per share are equal to diluted earnings per share.

Notes to the statement of financial position

(13) Statement of financial position according to measurement categories

Assets according to measurement categories € 000	2012	2011[1]
Cash reserve	**12,157,356**	**12,951,118**
Trading assets	**10,476,365**	**11,566,940**
Positive fair values of derivative financial instruments	7,479,269	8,243,025
Shares and other variable-yield securities	277,250	209,935
Bonds, notes and other fixed-interest securities	2,719,843	3,107,108
Call/time deposits from trading purposes	2	6,872
Financial assets at fair value through profit or loss	**8,383,567**	**7,384,458**
Shares and other variable-yield securities	166,048	261,258
Bonds, notes and other fixed-interest securities	8,217,519	7,123,200
Investments in associates	**1,719,743**	**1,159,090**
Financial assets available-for-sale	**946,467**	**4,379,222**
Investments in other affiliated companies	484,736	426,301
Other interests	211,732	278,530
Bonds, notes and other fixed-interest securities	0	3,422,069
Shares and other variable-yield securities	250,000	252,321
Loans and advances	**103,593,812**	**103,874,780**
Loans and advances to banks	21,430,227	22,455,662
Loans and advances to customers	85,554,759	84,055,361
Other non-derivative financial assets	2,324,056	2,474,216
Impairment losses on loans and advances	(5,715,230)	(5,110,458)
Financial assets held-to-maturity	**4,682,742**	**5,421,828**
Bonds, notes and other fixed-interest securities	4,637,545	5,382,435
Purchased loans	45,197	39,393
Derivatives (hedging)	**701,663**	**426,350**
Positive fair values of derivatives (hedging)	701,663	426,350
Other assets	**3,293,285**	**2,923,278**
Intangible and tangible fixed assets	3,293,285	2,923,278
Total assets	**145,955,000**	**150,087,066**

1 Due to separate presentation of cash reserve the previous year figures were adapted.

Equity and liabilities according to measurement categories € 000	2012	2011[1]
Trading liabilities	**9,192,554**	**10,475,409**
Negative fair values of derivative financial instruments	7,815,366	9,166,413
Call/time deposits from trading purposes	10,045	0
Short-selling of trading assets	622,164	565,628
Certificates issued	744,980	743,369
Financial liabilities	**120,264,959**	**123,841,252**
Deposits from banks	38,409,769	39,873,123
Deposits from customers	66,439,464	67,114,176
Debt securities issued	10,826,773	10,931,970
Subordinated capital	3,005,122	4,417,610
Other non-derivative financial liabilities	1,583,831	1,504,372
Liabilities at fair value through profit and loss	**3,357,758**	**3,345,911**
Debt securities issued	2,477,634	2,466,571
Subordinated capital	880,124	879,340
Derivatives (hedging)	**119,933**	**42,702**
Negative fair values of derivatives (hedging)	119,933	42,702
Provisions for liabilities and charges	**848,077**	**893,040**
Equity	**12,171,718**	**11,488,752**
Total equity and liabilities	**145,955,000**	**150,087,066**

1 Due to separate presentation of subordinated capital the previous year figures were adapted.

(14) Cash reserve

€ 000	2012	2011
Cash in hand	2,284,455	2,054,030
Balances at central banks	9,872,901	10,897,088
Total	**12,157,356**	**12,951,118**

(15) Loans and advances to banks

€ 000	2012	2011
Giro and clearing business	1,758,491	2,292,931
Money market business	17,039,722	16,165,313
Loans to banks	2,066,801	2,938,120
Purchased loans	157,205	120,374
Leasing claims	52,946	52,646
Claims evidenced by paper	355,317	888,032
Total	**21,430,482**	**22,457,416**

Of the purchased loans amounting to € 157,205 thousand, € 156.949 thousand are assigned to the measurement category loans and advances (2011: € 120,374 thousand) and € 255 thousand to held-to-maturity (2011: € 1,754 thousand).

Loans and advances to banks classified regionally (counterparty's seat) are as follows:

€ 000	2012	2011
Austria	9,150,760	9,832,856
Foreign	12,279,722	12,624,561
Total	**21,430,482**	**22,457,416**

(16) Loans and advances to customers

€ 000	2012	2011
Credit business	53,629,092	53,615,425
Money market business	5,078,005	6,102,272
Mortgage loans	21,018,084	17,944,342
Purchased loans	1,104,885	1,271,258
Leasing claims	4,297,470	4,545,514
Claims evidenced by paper	472,165	614,189
Total	**85,599,701**	**84,093,000**

Purchased loans amounting to € 1.059.944 thousand (2011: € 1,233,619 thousand) are assigned to the measurement category loans and advances. Purchased loans classified as held-to-maturity totalled € 44,941 thousand (2011: € 37,639 thousand).

Loans and advances to customers break down into asset classes according to Basel II definition as follows:

€ 000	2012	2011
Sovereigns	1,481,801	1,461,445
Corporate customers – large corporates	53,730,321	57,092,850
Corporate customers – mid market	3,529,060	3,952,539
Retail customers – private individuals	23,506,851	19,022,397
Retail customers – small and medium-sized entities	3,050,547	2,356,913
Other	301,121	206,857
Total	**85,599,701**	**84,093,000**

Loans and advances to customers classified regionally (counterparty's seat) are as follows:

€ 000	2012	2011
Austria	9,395,984	9,077,282
Foreign	76,203,717	75,015,718
Total	**85,599,701**	**84,093,000**

(17) Impairment losses on loans and advances

Provisions for impairment losses are formed in accordance with uniform Group standards and cover all recognizable credit risks. A table with the development of the impairment losses on loans and advances can be found in the risk report note (44). Provisions for impairment losses are allocated to the following asset classes according to the Basel II definition:

€ 000	2012	2011
Banks	157,719	227,643
Sovereigns	11,336	5,912
Corporate customers – large corporates	2,889,622	2,665,454
Corporate customers – mid market	405,933	437,852
Retail customers – private individuals	1,882,112	1,524,558
Retail customers – small and medium-sized entities	368,508	249,038
Total	**5,715,230**	**5,110,458**

Loans and advances and loan loss provisions according to Basel II asset classes are shown in the following table:

31/12/2012 € 000	Fair value	Carrying amount	Individually impaired assets	Individual loan loss provisions	Portfolio-based provisions	Net carrying amount
Banks	21,287,238	21,430,482	200,037	145,805	11,914	21,272,763
Sovereigns	1,332,769	1,481,801	56,692	11,336	0	1,470,465
Corporate customers – large corporates	51,184,598	54,031,441	4,479,311	2,594,120	295,502	51,141,819
Corporate customers – mid market	3,158,079	3,529,060	621,860	380,363	25,570	3,123,128
Retail customers – private individuals	21,984,799	23,506,851	2,182,116	1,420,916	461,196	21,624,739
Retail customers – small and medium-sized entities	2,771,746	3,050,547	421,115	259,700	108,808	2,682,039
Total	**101,719,228**	**107,030,183**	**7,961,132**	**4,812,240**	**902,990**	**101,314,953**

31/12/2011 € 000	Fair value	Carrying amount	Individually impaired assets	Individual loan loss provisions	Portfolio-based provisions	Net carrying amount
Banks	22,162,345	22,457,416	231,069	208,591	19,052	22,229,773
Sovereigns	1,362,367	1,461,445	11,277	5,912	0	1,455,533
Corporate customers – large corporates	53,265,443	57,299,706	4,120,985	2,291,771	373,682	54,634,253
Corporate customers – mid market	3,551,782	3,952,539	648,691	405,228	32,624	3,514,686
Retail customers – private individuals	18,098,367	19,022,397	2,306,726	1,281,857	242,701	17,497,839
Retail customers – small and medium-sized entities	2,182,804	2,356,913	333,895	217,487	31,551	2,107,874
Total	**100,623,109**	**106,550,417**	**7,652,643**	**4,410,848**	**699,610**	**101,439,958**

Impaired financial assets

31/12/2012 € 000	Individually impaired assets	Individual loan loss provisions	Impairments and collaterals Individually impaired assets after deduction of ILLP	Collaterals for individually impaired assets	Interest on individually impaired assets
Banks	200,037	145,805	54,232	154	160
Sovereigns	56,692	11,336	45,356	0	3,077
Corporate customers – large corporates	4,479,311	2,594,120	1,885,191	1,156,269	110,394
Corporate customers – mid market	621,860	380,363	241,497	219,961	20,280
Retail customers – private individuals	2,182,116	1,420,916	761,200	678,392	63,779
Retail customers – small and medium-sized entities	421,115	259,700	161,416	184,326	7,831
Total	**7,961,132**	**4,812,240**	**3,148,892**	**2,239,102**	**205,521**

ILLP: individual loan loss provisions

31/12/2011 € 000	Individually impaired assets	Individual loan loss provisions	Impairments and collaterals Individually impaired assets after deduction of ILLP	Collaterals for individually impaired assets	Interest on individually impaired assets
Banks	231,069	208,591	22,478	0	1,514
Sovereigns	11,277	5,912	5,365	5,224	118
Corporate customers – large corporates	4,120,985	2,291,771	1,829,214	1,272,792	110,715
Corporate customers – mid market	648,691	405,228	243,463	221,291	24,752
Retail customers – private individuals	2,306,726	1,281,857	1,024,869	800,645	58,958
Retail customers – small and medium-sized entities	333,895	217,487	116,408	80,951	8,902
Total	**7,652,643**	**4,410,848**	**3,241,797**	**2,380,903**	**204,960**

ILLP: individual loan loss provisions

(18) Trading assets

€ 000	2012	2011
Bonds, notes and other fixed-interest securities	**2,719,843**	**3,107,108**
Treasury bills and bills of public authorities eligible for refinancing	1,070,506	889,762
Other securities issued by the public sector	742,960	430,402
Bonds and notes of non-public issuers	906,378	1,786,944
Shares and other variable-yield securities	**277,250**	**209,935**
Shares	255,635	155,296
Mutual funds	7,333	41,818
Other variable-yield securities	14,282	12,821
Positive fair values of derivative financial instruments	**6,776,709**	**7,265,238**
Interest-based transactions	5,963,982	6,366,068
Currency-based transactions	687,458	715,139
Equity-/index-based transactions	106,630	81,985
Credit derivatives business	14,992	89,123
Other transactions	3,647	12,923
Call/time deposits from trading purposes	**2**	**6,872**
Total	**9,773,805**	**10,589,154**

Pledged securities ready to be sold or repledged by transferee are allocated to the appropriate securities category in the table above. Further details are shown under note (40) transferred assets, genuine sale and repurchase agreements.

(19) Derivatives

€ 000	2012	2011
Positive fair values of derivatives in fair value hedges (IAS 39)	**697,885**	**426,350**
Interest-based transactions	697,885	426,350
Positive fair values of derivatives in cash flow hedges (IAS 39)	**3,779**	**0**
Currency-based transactions	3,779	0
Positive fair values of credit derivatives	**1,206**	**74,723**
Positive fair values of other derivatives	**701,354**	**903,064**
Interest-based transactions	547,207	724,265
Currency-based transactions	153,987	178,682
Equity-/index-based transactions	0	117
Other transactions	160	0
Total	**1,404,223**	**1,404,137**

As long as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are measured at their fair values (dirty prices) in their function as hedging instruments. The hedged items in connection with fair value hedges are loans and advances to customers and debt securities issued which are to be hedged against interest rate risks. The changes in carrying amount of the hedged underlying transactions in IAS 39 fair value hedges are included in the respective items of the statement of financial position.

This item also includes the positive fair values of derivative financial instruments that are neither held for trading nor constitute fair value hedging instruments under IAS 39.

The time periods in which the hedged cash flows from assets are expected to occur and affect the statement of comprehensive income are as below:

€ 000	2012	2011
1 year	139	0
More than 1 year, up to 5 years	3,335	0
More than 5 years	273,014	0

In 2011 there were no hedged cash flows from assets.

(20) Financial investments

This position consists of securities available-for-sale, financial assets at fair value through profit or loss, and securities held-to-maturity as well as strategic equity participations held on a long-term basis.

€ 000	2012	2011
Bonds, notes and other fixed-interest securities	**12,855,064**	**15,927,705**
Treasury bills and bills of public authorities eligible for refinancing	6,493,567	7,713,518
Other securities issued by the public sector	3,923,146	3,856,656
Bonds and notes of non-public issuers	2,418,018	4,337,213
Other	20,333	20,318
Shares and other variable-yield securities	**416,048**	**513,580**
Shares	30,959	86,188
Mutual funds	124,911	165,469
Other variable-yield securities	260,179	261,923
Equity participations	**696,468**	**704,831**
Interest in affiliated companies	484,736	426,301
Other interests	211,732	278,530
Total	**13,967,580**	**17,146,116**

Pledged securities ready to be sold or repledged by the transferee are allocated to the appropriate securities category in the table above. Further details are shown under note (40) transferred assets, genuine sale and repurchase agreements.

The book value of securities reclassified as held-to-maturity was € 452,188 thousand at the time of reclassification. Of this, reclassifications in 2008 accounted for € 371,686 thousand and reclassifications in 2011 for € 80,502 thousand. As of 31 December 2012, the book value was € 301,458 thousand and the fair value € 310,419 thousand. In 2012, income from reclassified securities of € 12,074 thousand was recognized (2011: € 13,955 thousand). Without reclassification there would have been a gain of € 13,122 thousand (2011: plus € 4,812 thousand).

The book value of securities reclassified as loans and advances was € 1,559,682 thousand at the time of reclassification in 2008.

Securities that were reclassified from held-to-maturity into the category of financial assets available-for-sale in the previous year were sold in the reporting period (nominal value € 3,165,000 thousand).

Equity participations valued at amortized cost for which fair values could not be measured reliably amounted to € 104,260 thousand (2011: € 198,211 thousand).

For the following subsidiaries there are syndicate contracts between RBI AG and the respective shareholders: Raiffeisenbank a.s., Prague and Raiffeisenbank Austria d.d., Zagreb. These syndicate contracts regulate especially the purchase options between direct and indirect shareholders.

The syndicate contracts expire automatically if control over the company changes – also in the case of a takeover bid. The following agreement has been made with the European Bank for Reconstruction and Development (EBRD) regarding Priorbank, OAO (Belarus): If control over the company changes, EBRD has the option to sell all shares held in Priorbank to the company.

(21) Investments in associates

€ 000	2012	2011
Investments in associates	1,719,743	1,159,090
hereof goodwill	300,742	201,431

Financial information on associated companies is as follows:

€ 000	Total assets	Total revenues	Profit/Loss after tax	Shareholders´ equity
A-Real Estate SpA, Bozen (IT)	102,575	3,227	(15,152)	3,882
A-Leasing SpA, Treviso (IT)	646,737	6,016	(39,512)	80,465
Card Complete Service Bank AG, Vienna (AT)	543,467	68,776	15,515	46,315
LEIPNIK-LUNDENBURGER INVEST Beteiligungs AG, Vienna (AT)[1]	1,384,402	1,089,672	37,063	478,606
NOTARTREUHANDBANK AG, Vienna (AT)	1,312,376	20,712	10,963	26,972
Österreichische Hotel- und Tourismusbank Ges.m.b.H., Vienna (AT)	1,052,910	6,677	1,979	27,915
Österreichische Kontrollbank AG, Vienna (AT)	32,767,934	161,202	82,720	657,785
Raiffeisen Bausparkasse Gesellschaft m.b.H., Vienna (AT)[1]	10,806,071	230,517	59,703	421,080
Raiffeisen Banca pentru Locuinte S.A., Bucharest (RO)	75,195	4,944	130	14,810
Raiffeisen evolution project development GmbH, Vienna (AT)[1]	524,907	141,874	(79,688)	136,523
Raiffeisen Informatik GmbH, Vienna (AT)	707,414	1,592,739	7,542	98,431
Raiffeisen Kapitalanlage-Gesellschaft m.b.H., Vienna (AT)[1]	120,274	75,724	6,640	41,875
Raiffeisen Wohnbaubank Aktiengesellschaft, Vienna (AT)	1,934,453	2,205	701	7,998
UNIQA Versicherungen AG, Vienna (AT)[1,2]	28,567,658	5,348,827	(245,614)	875,876

1 Consolidated financial statements: profit and equity is before deduction of non controlling interests.
2 Consolidated figures 2011, because Uniqa is a listed company and has not yet published consolidated financial statements of 2012. Fair value of the shares held and based on stock exchange price as of 31 December 2012 amounted to € 943,786 thousand (2011: € 803,148 thousand).

The item investments in associates increased by € 601,983 thousand to € 1,761,073 thousand particularly due to shift in shares, valuation changes of available-for-sale securities as well as capital increases of a company valued at equity.

Further information regarding associated companies is stated under note (60) list of equity participations.

(22) Intangible fixed assets

€ 000	2012	2011
Goodwill	559,021	409,758
Software	565,857	530,968
Other intangible fixed assets	201,889	132,024
Total	**1,326,768**	**1,072,750**

The item software comprises acquired software amounting to € 486.203 thousand (2011: € 471,736 thousand) and developed software amounting to € 79,654 thousand (2011: € 59,232 thousand).

The carrying amount of goodwill breaks down on the following cash generating units as follows:

€ 000	2012	2011
ZAO Raiffeisenbank, Moscow	266,325	257,171
Raiffeisen Bank Polska, Warsaw	175,052	0
Raiffeisen Bank Sh.a., Tirane	50,849	52,650
Raiffeisenbank a.s., Prague	40,700	39,697
Raiffeisen Bank Aval JSC, Kiev	0	29,138
Ukrainian Processing Center PJSC, Kiev	15,028	15,377
Other	11,067	15,726
Total	**559,021**	**409,758**

In 2012, impairment of goodwill amounted to € 38.463 thousand which was made for group units in Ukraine, Bosnia and Herzegovina, Croatia and in some smaller group units. Information about the impairment tests can be found in the chapter business combinations.

(23) Tangible assets

€ 000	2012	2011
Land and buildings used by the Group for own purpose	849,649	734,733
Other land and buildings (investment property)	185,518	158,681
Office furniture, equipment and other tangible fixed assets	491,043	514,881
Leased assets (operating lease)	440,306	442,233
Total	**1,966,517**	**1,850,528**

The fair value of investment property totalled € 187,225 thousand (2011: € 160,478 thousand).

(24) Development of fixed assets

€ 000	Cost of acquisition or conversion						
	As of 1/1/2012	Change in consolidated group	Exchange differences	Additions	Disposals	Transfers	As of 31/12/2012
Intangible fixed assets	**2,034,849**	**284,657**	**23,434**	**201,531**	**(68,278)**	**30**	**2,476,223**
Goodwill	650,525	177,109	4,993	0	0	0	832,627
Software	1,183,759	41,175	18,838	183,102	(67,480)	(21)	1,359,373
Other intangible fixed assets	200,565	66,373	(397)	18,429	(798)	51	284,223
Tangible fixed assets	**3,108,349**	**109,010**	**25,144**	**363,460**	**(250,699)**	**(30)**	**3,355,233**
Land and buildings used by the Group for own purpose	1,024,858	38,154	8,413	147,598	(31,821)	(2,602)	1,184,601
Other land and buildings	182,257	1	704	8,181	(1,874)	27,632	216,902
of which land value of developed land	13,982	0	(253)	0	0	0	13,729
Office furniture and equipment as well as other tangible fixed assets	1,355,599	42,781	15,012	131,286	(144,386)	(1,209)	1,399,083
Leased assets (operating lease)	545,634	28,074	1,014	76,395	(72,618)	(23,851)	554,648
Total	**5,143,198**	**393,667**	**48,578**	**564,991**	**(318,977)**	**0**	**5,831,457**

€ 000	Write-ups, amortization, depreciation, impairment			Carrying amount
	Cumulative	hereof write-ups	of which depreciation	31/12/2012
Intangible fixed assets	**(1,149,456)**	**0**	**(219,379)**	**1,326,768**
Goodwill	(273,606)	0	(38,463)	559,021
Software	(793,516)	0	(167,929)	565,857
Other intangible fixed assets	(82,333)	0	(12,987)	201,889
Tangible fixed assets	**(1,388,716)**	**8,467**	**(244,144)**	**1,966,517**
Land and buildings used by the Group for own purpose	(334,951)	0	(47,214)	849,649
Other land and buildings	(31,383)	0	(5,914)	185,518
of which land value of developed land	(6)	0	0	13,723
Office furniture and equipment as well as other tangible fixed assets	(908,040)	8,282	(150,933)	491,043
Leased assets (operating lease)	(114,342)	185	(40,082)	440,306
Total	**(2,538,172)**	**8,467**	**(463,522)**	**3,293,285**

€ 000	Cost of acquisition or conversion						
	As of 1/1/2011	Change in consoli-dated group	Exchange differences	Additions	Disposals	Transfers	As of 31/12/2011
Intangible fixed assets	**1,869,031**	**1,677**	**(32,146)**	**216,267**	**(20,001)**	**21**	**2,034,849**
Goodwill	654,910	3,037	(5,797)	0	(1,624)	0	650,525
Software	1,018,825	60	(30,576)	200,948	(16,450)	10,952	1,183,759
Other intangible fixed assets	195,296	(1,420)	4,227	15,319	(1,927)	(10,931)	200,565
Tangible fixed assets	**2,954,838**	**46,254**	**(37,706)**	**376,853**	**(231,870)**	**(21)**	**3,108,349**
Land and buildings used by the Group for own purpose	953,576	0	(12,732)	105,492	(37,684)	16,206	1,024,858
Other land and buildings	165,047	29,482	1,415	44,710	(2,090)	(56,306)	182,257
of which land value of developed land	14,213	0	146	7	(384)	0	13,982
Office furniture and equipment as well as other tangible fixed assets	1,361,447	808	(15,860)	141,773	(114,282)	(18,287)	1,355,599
Leased assets (operating lease)	474,768	15,964	(10,528)	84,878	(77,814)	58,366	545,634
Total	**4,823,869**	**47,931**	**(69,851)**	**593,120**	**(251,871)**	**0**	**5,143,198**

€ 000	Write-ups, amortization, depreciation, impairment			Carrying amount
	Cumulative	hereof write-ups	of which depreciation	31/12/2011
Intangible fixed assets	**(962,099)**	**780**	**(333,187)**	**1,072,750**
Goodwill	(240,767)	0	(188,288)	409,758
Software	(652,791)	0	(135,458)	530,968
Other intangible fixed assets	(68,541)	780	(9,441)	132,024
Tangible fixed assets	**(1,257,821)**	**20,977**	**(250,947)**	**1,850,528**
Land and buildings used by the Group for own purpose	(290,125)	18,845	(37,750)	734,733
Other land and buildings	(23,576)	0	(16,834)	158,681
of which land value of developed land	(132)	0	(7)	13,851
Office furniture and equipment as well as other tangible fixed assets	(840,718)	1,583	(158,166)	514,881
Leased assets (operating lease)	(103,401)	548	(38,197)	442,233
Total	**(2,219,920)**	**21,757**	**(584,134)**	**2,923,278**

Additions to intangible and tangible assets include individual investments exceeding € 10,000 thousand in Russia, Czech Republic and RBI AG.

(25) Other assets

€ 000	2012	2011
Tax assets	613,497	499,766
Current tax assets	125,144	115,544
Deferred tax assets	488,352	384,222
Receivables arising from non-banking activities	135,766	142,468
Accruals and deferred items	218,887	267,781
Clearing claims from securities and payment transfer business	553,337	457,827
Lease in progress	62,462	96,510
Assets held for sale (IFRS 5)	65,413	26,564
Inventories	139,329	174,374
Valuation fair value hedge portfolio	11,277	6,987
Other assets	524,087	801,940
Total	**2,324,056**	**2,474,216**

Deferred taxes break down as follows:

€ 000	2012	2011
Deferred tax assets	488,352	384,222
Provisions for deferred taxes	(40,734)	(37,149)
Net deferred taxes	**447,618**	**347,073**

The net deferred taxes result from the following items:

€ 000	2012	2011
Loans and advances to customers	141,989	71,701
Impairment losses on loans and advances	190,979	123,428
Tangible and intangible fixed assets	10,486	14,340
Other assets	9,989	26,982
Provisions for liabilities and charges	48,707	58,986
Trading liabilities	15,379	18,111
Other liabilities	83,969	72,552
Tax loss carry-forwards	220,577	248,427
Other items of the statement of financial position	92,382	65,403
Deferred tax assets	**814,456**	**699,930**
Loans and advances to banks	3,126	9,569
Loans and advances to customers	48,688	31,807
Impairment losses on loans and advances	61,598	56,219
Trading assets	20,495	6,360
Financial investments	23,853	29,563
Tangible and intangible fixed assets	99,200	79,210
Other assets	54,024	35,257
Deposits from customers	756	13,527
Provisions for liabilities and charges	81	43
Other liabilities	21,462	11,921
Other items of the statement of financial position	33,557	79,380
Deferred tax liabilities	**366,838**	**352,856**
Net deferred taxes	**447,618**	**347,073**

In the consolidated financial statements, deferred tax assets are recognized for unused tax loss carry-forwards which amounted to € 220,577 thousand (2011: € 248,427 thousand). The tax loss carry-forwards are mainly without any time limit. The Group did not recognize deferred tax assets of € 127,175 thousand (2011: € 98,809 thousand) because from a current point of view there is no prospect of realizing them within a reasonable period of time.

(26) Deposits from banks

€ 000	2012	2011
Giro and clearing business	4,218,738	3,065,683
Money market business	25,801,372	28,017,125
Long-term refinancing	8,389,659	8,790,315
Total	**38,409,769**	**39,873,123**

Deposits from banks classified regionally (counterparty's seat) break down as follows:

€ 000	2012	2011
Austria	21,811,420	22,513,399
Foreign	16,598,349	17,359,724
Total	**38,409,769**	**39,873,123**

(27) Deposits from customers

Deposits from customers break down analogue to Basel II definition as follows:

€ 000	2012	2011
Sovereigns	1,078,614	1,318,407
Corporate customers – large corporates	29,214,258	33,553,923
Corporate customers – mid market	2,495,368	2,438,661
Retail customers – private individuals	29,139,762	25,422,490
Retail customers – small and medium-sized entities	3,893,757	3,722,900
Other	617,705	657,795
Total	**66,439,464**	**67,114,176**

Deposits from customers classified regionally (counterparty's seat) are as follows:

€ 000	2012	2011
Austria	5,717,850	6,463,452
Foreign	60,721,614	60,650,724
Total	**66,439,464**	**67,114,176**

(28) Debt securities issued

€ 000	2012	2011
Bonds and notes issued	12,767,128	12,659,087
Money market instruments issued	368,123	828,722
Other debt securities issued	169,156	790,073
Total	**13,304,407**	**14,277,881**

The following table contains debt securities issued amounting to or exceeding € 200,000 thousand nominal value:

Issuer	ISIN	Type	Currency	Nominal value in € 000	Coupon	Due
RBI AG	XS0412067489	senior government guaranteed	€	1,500,000	3.6%	5/2/2014
RBI AG	XS0584381544	senior public placements	€	1,000,000	3.6%	27/1/2014
RBI AG	XS0597215937	senior public placements	€	1,000,000	1.1%	4/3/2013
RBI AG	XS0803117612	senior public placements	€	750,000	2.8%	10/7/2017
RBI AG	XS0753479525	senior public placements	€	499,200	2.9%	6/3/2015
RBI AG	XS0341159316	senior public placements	€	200,000	1.2%	21/1/2013

(29) Provisions for liabilities and charges

€ 000	As of 1/1 2012	Change in consolidated group	Allocation	Release	Usage	Transfers, exchange differences	As of 31/12 2012
Severance payments	67,795	506	12,841	(1,071)	(6,574)	(114)	73,383
Retirement benefits	74,961	0	8,362	0	(33)	0	83,290
Taxes	223,439	(293)	26,856	(19,294)	(96,130)	(222)	134,357
Current	186,290	(295)	14,736	(12,879)	(94,052)	(177)	93,623
Deferred	37,149	3	12,120	(6,415)	(2,078)	(45)	40,734
Contingent liabilities and commitments	153,324	5,949	97,861	(91,880)	(14,708)	2,910	153,455
Pending legal issues	90,446	4,316	14,039	(30,935)	(24,566)	944	54,244
Overdue vacation	54,824	2,465	9,093	(6,214)	(1,915)	195	58,448
Bonus payments	178,688	3,799	145,717	(20,889)	(112,799)	2,141	196,658
Restructuring	1,653	0	14,895	(1,229)	0	481	15,800
Other	47,911	4,181	72,551	(16,167)	(30,727)	694	78,442
Total	**893,040**	**20,923**	**402,215**	**(187,679)**	**(287,452)**	**7,030**	**848,077**

RZB is involved in pending legal issues, which may occur in the banking business. RZB does not expect that these legal cases will have a material impact on the financial position of the Group.

In the reporting period, provisions for pending legal issues amounted to € 54,244 thousand (2011: € 90,446 thousand). Single cases exceeding € 10,000 thousand occurred in Croatia, Hungary and Ukraine.

In the reporting year, provisions in the amount of € 28,870 thousand were allocated for the restructuring of a company valued at equity.

Provisions for severance payments and similar obligations developed as follows:

€ 000	2012	2011
Defined benefit obligation (DBO) as of 1/1	67,795	70,387
Exchange differences	46	10
Transfer	520	0
Service cost	4,838	4,454
Interest cost	2,023	2,673
Payments	(7,171)	(8,512)
Actuarial gain/loss	5,331	(1,216)
Defined benefit obligation (DBO) as of 31/12 (=provision)	**73,383**	**67,795**

Provisions for retirement benefits developed as follows:

€ 000	2012	2011
Defined benefit obligation (DBO) as of 1/1	111,458	112,875
Transfer	0	(232)
Current service cost	1,617	1,858
Past service costs	(339)	500
Interest cost	4,811	4,685
Benefit payments	(4,827)	(4,846)
Actuarial gain/loss	9,047	(3,381)
Defined benefit obligation (DBO) as of 31/12	**121,765**	**111,458**

Plan assets developed as follows:

€ 000	2012	2011
Plan assets at fair value as of 1/1	36,498	39,403
Transfer	0	(977)
Expected return on plan assets	1,546	1,674
Contributions to plan assets	1,529	1,324
Plan payments	(1,474)	(1,351)
Actuarial gain/loss	377	(3,574)
Plan assets at fair value as of 31/12	**38,475**	**36,498**

The reconciliation of DBO to provision was as follows:

€ 000	2012	2011
Defined benefit obligation (DBO)	121,765	111,458
Plan assets at fair value	38,475	36,498
Provision as of 31/12	**83,290**	**74,961**

The structure of plan assets broke down as follows:

Per cent	2012	2011
Bonds	55%	55%
Equities	33%	26%
Alternative investments	4%	7%
Property	5%	4%
Cash	3%	8%

Actual return on plan assets was as follows:

€ 000	2012	2011
Actual return on plan assets	2,284	(1,260)

(30) Trading liabilities

€ 000	2012	2011
Negative fair values of derivative financial instruments	**7,446,216**	**8,404,369**
Interest-based transactions	5,862,841	6,390,869
Currency-based transactions	730,980	1,365,323
Equity-/index-based transactions	834,976	566,323
Credit derivatives business	12,892	67,530
Other transactions	4,528	14,325
Short-selling of trading assets	**622,164**	**565,628**
Certificates issued	**744,980**	**743,369**
Call/time deposits from trading purposes	**10,045**	**0**
Total	**8,823,404**	**9,713,365**

(31) Derivatives

€ 000	2012	2011
Negative fair values of derivatives in fair value hedges (IAS 39)	**117,030**	**37,315**
Interest-based transactions	117,030	37,315
Negative fair values of derivatives in cash flow hedges (IAS 39)	**2,903**	**5,387**
Interest-based transactions	1,268	5,387
Currency-based transactions	1,635	0
Negative fair values of credit derivatives	**854**	**12,967**
Negative fair values of derivative financial instruments	**368,297**	**749,076**
Interest-based transactions	327,727	666,330
Currency-based transactions	40,416	58,437
Equity-/index-based transactions	5	24,309
Other transactions	148	0
Total	**489,083**	**804,746**

As long as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are measured at their fair values (dirty prices) in their function as hedging instruments. The hedged items in connection with fair value hedges are loans and advances to customers, deposits from banks and debt securities issued, which are taken to hedge against interest rate risk.

The time periods in which the hedged cash flows from liabilities are expected to occur and affect the statement of comprehensive income are as below:

€ 000	2012	2011
1 year	2,017,103	0
More than 1 year, up to 5 years	6,185	12,500
More than 5 years	93,452	0

During 2012, net losses of € 1,245 thousand (2011: € 45,951 thousand) relating to the effective portion of cash flow hedges were recognized in other comprehensive income.

(32) Other liabilities

€ 000	2012	2011
Liabilities from non-banking activities	141,633	162,127
Prepayments and other deferrals	286,113	203,419
Liabilities from dividends	742	520
Clearing claims from securities and payment transfer business	514,941	416,961
Valuation fair value hedge portfolio	47,939	22,432
Other liabilities	592,464	698,913
Total	**1,583,831**	**1,504,372**

(33) Subordinated capital

€ 000	2012	2011
Hybrid tier 1 capital	450,112	819,010
Subordinated liabilities	3,130,911	2,742,483
Supplementary capital	304,224	602,540
Participation certificates	0	253,577
Total	**3,885,246**	**4,417,610**

The following table contains subordinated borrowings that exceed 10 per cent of the subordinated capital:

Issuer	ISIN	Type	Currency	Nominal value in € 000	Coupon[1]	Due
RBI AG	XS0619437147	Subordinated capital	€	500,000	6.625%	18/5/2021
RBI AG	XS0289338609	Subordinated capital	€	500,000	4.500%	5/3/2019

1 Current interest rate, interest clauses are agreed.

In the reporting period, expenses on subordinated capital totalled € 213,486 thousand (2011: € 227,394 thousand).

(34) Equity

€ 000	2012	2011
Consolidated equity	6,906,905	6,149,106
Subscribed capital	492,467	443,714
Participation capital	0	591,843
Capital reserves	1,834,776	1,050,634
Retained earnings	4,579,662	4,062,915
Consolidated profit	361,425	472,459
Non-controlling interests	4,903,388	4,867,187
Total	**12,171,718**	**11,488,752**

The development of equity is shown under chapter statement of changes in equity

Subscribed capital

As of 31 December 2012, the subscribed capital of Raiffeisen Zentralbank Österreich Aktiengesellschaft as defined by the articles of incorporation amounted to € 492,467 thousand. The subscribed capital is divided into 6,776,750 thousand non-par bearer shares.

Authorized capital

By resolution of the Annual General Meeting on 20 June 2007, the Management Board was authorized – with the approval of the Supervisory Board – to increase the capital stock by up to € 101,738 thousand by at the latest 14 August 2012 through the issue against contributions in cash or kind of up to 1,400,000 shares, possibly in several tranches, while preserving the shareholders' right of subscription. In 2008, the Management Board exercised this authority in a resolution of 15 September 2008 with approval by the Supervisory Board on 18 September 2008 to increase the capital stock by € 18,123 thousand through the issue of 249,391 ordinary shares and by € 1,869 thousand through the issue of 25,719 preferred shares.

In the Annual General Meeting on 23 May 2012, the resolution to increase capital within the scope of the authorized capital while preserving the subscription rights was passed parallel to the redemption of participation capital. Within the scope of capital increase, 670,876 new shares were issued which represents an increase in subscribed capital of € 48,753 thousand to € 492,466 thousand. The issuing value amounted to € 852,013 thousand.

Furthermore, in the Annual General Meeting on 23 May 2012, the resolution to close the preference shares pursuant to Section 129 of the Austrian Joint Stock Companies Act (AktG) and convert the preference shares into ordinary bearer shares with restricted transferability was passed. 565,989 non-par preference shares were converted in proportion 1:1 into non-par bearer shares with restricted transferability and with entitlement to dividend from 1 January 2012 on.

Participation capital

Raiffeisen Zentralbank Österreich Aktiengesellschaft issued participation capital within the context of § 23 (4) and (5) BWG to a nominal value of € 250,000 thousand on 11 October 2010. The participation certificates were issued at par. The participation certificates carry entitlement to profit of 8 per cent a year of the value of the participation certificates. For the 2014 and 2015 financial years, the participation dividend increases by 50 basis points a year, rising to 75 basis points for 2016 and 100 basis points for each subsequent financial year. The dividend is capped at 12-month €IBOR plus 1,000 basis points. The capital is available for the life of the business: i.e. the subscribers to the participation capital have no ordinary or extraordinary right of termination.

Raiffeisen Zentralbank Österreich Aktiengesellschaft issued participation capital within the context of § 23 (4) and (5) BWG to a nominal value of € 342 million on 29 December 2011. The participation certificates were issued at par and subscribed by the shareholders of RZB AG. The conditions of the issue are identical with those for participation capital issued in the previous year.

In the Annual General Meeting on 23 May 2012, the resolution to redeem all above mentioned participation capitals against an adequate cash consideration to the beneficiaries of the participation capital. Participation capital can be redeemed if capital in the same or better quality is substituted. This is fulfilled insofar as a capital increase and therewith a substitution of higher quality capital of € 852,013 thousand was ensured.

Dividend proposal

The Management Board will submit a proposal to the Annual General Meeting for distribution of a dividend of € 36.00 per ordinary share from the net income in the 2012 financial year of Raiffeisen Zentralbank Österreich Aktiengesellschaft, which represents a total distribution of € 243,963 thousand.

Non-controlling interests

Raiffeisen Zentralbank Österreich Aktiengesellschaft issued participation capital within the context of § 23 (4) and (5) BWG to a nominal value of € 2,500,000 thousand. The capital is available for the life of the business and cannot be recalled by the participation investor. The first tranche of € 750,000 thousand was paid in on 30 December 2008. The second tranche of € 1,750,000 thousand was paid in on 6 April 2009, and was subscribed in its entirety by the Republic of Austria. The participation certificates were issued at par. The participation certificates carry entitlement to profit of 8 per cent a year of the value of the participation certificates. For the 2014 and 2015 financial years, the participation dividend increases by 50 basis points a year, rising to 75 basis points for 2016 and 100 basis points for each subsequent financial year. The dividend is capped at 12-month €IBOR plus 1,000 basis points. In the course of the merger of the principal business areas of RZB with Raiffeisen International Bank-Holding AG, the participation capital was transferred to RBI AG and shown under equity, non-controlling interests.

Share-based remuneration

The Share Incentive Program (SIP) agreed by RBI AG is illustrated as follows:

In 2012, a further allotment of the share incentive program (SIP – SIP allotment 2009) matured. In accordance with the terms and conditions (published in euro adhoc on 20 June 2009) the number of shares shown in the table below was actually transferred:

Share incentive program (SIP) 2009 Group of persons	Number of due shares	Amount with share price of € 26.16 at the allotment day (2/4/2012)	Number of effective distributed shares
Members of the management board of the company	158,890	4,157,357	85,605
Members of the management boards of bank subsidiaries affiliated with the company	289,874	7,584,553	248,388
Executives of the company and other affiliated companies	99,758	2,610,168	52,483

In order to avoid legal uncertainties and in accordance with the program's terms and conditions, eligible employees in two countries were given a cash settlement instead of an allotment of shares. In Austria, the eligible parties were granted the option of accepting a cash settlement instead of half of the matured shares in order to offset the wage tax payable at the time of transfer. Therefore, the number of actually transferred shares is lower than the number of due shares. The portfolio of own shares was subsequently reduced by the lower number of actually transferred shares.

Under the SIP, a new tranche was previously issued each year – so also in 2012. However, because of the merger of Raiffeisen International with the principal business areas of RZB, no SIP tranche was issued in 2010. This means that on the reporting date contingent shares for two allotments were assigned. As of 31 December 2012, the contingent allotment of shares came to 675,059 shares (of which 227,161 shares were attributable to the 2011 allotment and 447,898 shares to the 2012 allotment). The originally announced number of contingently allotted shares changed due to various personnel changes within Group units and due to the maturation of the SIP allotment 2009. This is shown on an aggregated level in the following table:

Share incentive program (SIP) 2011 (2012) Group of persons	Number of contingently alloted shares as of 31/12/2012	Minimum of allotment of shares	Maximum of allotment of shares
Members of the management board of the company	245,205	73,562	367,808
Members of the management boards of bank subsidiaries affiliated with the company	282,218	84,665	423,327
Executives of the company and other affiliated companies	147,636	44,291	221,454

In the financial year 2012, no shares were bought back for the share incentive program.

(35) Breakdown of remaining terms to maturity

31/12/2012 € 000	Due at call or without maturity	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash reserve	12,157,356	0	0	0	0
Loans and advances to banks	2,403,183	15,962,202	2,153,080	623,090	288,927
Loans and advances to customers	8,198,123	15,036,434	14,326,941	28,167,122	19,871,082
Impairment losses on loans and advances	(5,715,230)	0	0	0	0
Trading assets	321,057	1,281,240	1,221,722	3,235,535	3,714,250
Financial investments	1,084,210	5,665,322	1,492,837	4,637,498	1,087,712
Investments in associates	1,719,743	0	0	0	0
Sundry assets	3,926,076	1,297,457	259,074	955,936	583,021
Total assets	**24,094,518**	**39,242,656**	**19,453,653**	**37,619,181**	**25,544,992**
Deposits from banks	4,679,315	19,912,888	2,799,037	8,156,781	2,861,747
Deposits from customers	32,092,795	17,432,991	10,855,973	3,750,152	2,307,553
Debt securities issued	0	2,188,202	2,071,309	8,559,836	485,059
Trading liabilities	539,401	631,797	676,046	3,305,247	3,670,913
Subordinated capital	0	11,794	30,639	468,191	3,374,621
Sundry liabilities	1,546,343	1,006,433	257,427	58,584	52,204
Subtotal	**38,857,854**	**41,184,106**	**16,690,432**	**24,298,792**	**12,752,097**
Equity	12,171,718	0	0	0	0
Total equity and liabilities	**51,029,573**	**41,184,106**	**16,690,432**	**24,298,792**	**12,752,097**

31/12/2011 € 000	Due at call or without maturity	Up to 3 months	More than 3 months, up to 1 year	More than 1 year, up to 5 years	More than 5 years
Cash reserve	12,951,118	0	0	0	0
Loans and advances to banks	2,699,006	16,145,195	2,141,503	1,143,638	328,075
Loans and advances to customers	7,291,740	15,895,859	14,224,346	29,092,146	17,588,909
Impairment losses on loans and advances	(5,110,458)	0	0	0	0
Trading assets	285,826	585,897	1,103,401	4,415,556	4,198,473
Financial investments	1,166,558	3,495,003	2,569,972	7,170,697	2,743,885
Investments in associates	1,159,090	0	0	0	0
Sundry assets	3,445,928	1,420,977	507,426	867,560	559,739
Total assets	**23,888,808**	**37,542,931**	**20,546,649**	**42,689,597**	**25,419,080**
Deposits from banks	3,000,917	20,912,766	4,171,494	8,799,063	2,988,884
Deposits from customers	27,085,687	22,299,694	11,192,027	4,302,508	2,234,260
Debt securities issued	0	3,296,420	2,444,332	8,238,888	298,242
Trading liabilities	506,363	904,648	628,585	3,683,948	3,989,821
Subordinated capital	0	5,364	9,243	822,521	3,580,482
Sundry liabilities	1,787,230	775,475	125,422	192,271	321,760
Subtotal	**32,380,197**	**48,194,366**	**18,571,103**	**26,039,199**	**13,413,448**
Equity	11,488,752	0	0	0	0
Total equity and liabilities	**43,868,949**	**48,194,366**	**18,571,103**	**26,039,199**	**13,413,448**

(36) Related parties

Companies can carry out business with related parties that may affect the entity's asset, financial and earnings position. The information about related parties refers to the top of the consolidated group of Raiffeisen-Landesbanken-Holding GmbH.

The parent companies are the non-operating holding company Raiffeisen-Landesbanken-Holding GmbH, Vienna, and its subsidiary R-Landesbanken-Beteiligung GmbH, Vienna, which are majority shareholders in Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna.

Companies with significant influence are primarily Raiffeisenlandesbank Niederösterreich-Wien AG, Vienna, as the largest indirect shareholder, and its parent company Raiffeisen-Holding Niederösterreich-Wien registrierte Genossenschaft mit beschränkter Haftung, Vienna. Affiliated companies are the 341 subsidiaries not included in the consolidated financial statements for reasons of materiality.

Disclosures on RZB relations to key management are reported under note (56) relations to key management.

31/12/2012 € 000	Parent companies	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Loans and advances to banks	0	2,587,097	0	450,039	141,704
Loans and advances to customers	0	0	857,229	460,397	427,650
Trading assets	0	33,488	1,988	12,483	2,434
Financial investments	0	0	485,651	2,373	211,732
Investments in associates	0	0	0	1,719,743	0
Other assets including derivatives	9	830	8,552	62,447	25
Deposits from banks	0	4,736,293	0	5,939,429	224,707
Deposits from customers	580	556	221,663	428,742	502,493
Debt securities issued	0	0	0	0	0
Provisions for liabilities and charges	0	0	3,799	0	13,137
Trading liabilities	0	0	24,957	0	68
Other liabilities including derivatives	0	17,282	1,432	61	26
Subordinated capital	0	0	1	0	13
Guarantees given	0	645	52,237	25,554	20,999
Guarantees received	0	103,696	6,100	152,915	54,184

31/12/2011 € 000	Parent companies	Companies with significant influence	Affiliated companies	Companies valued at equity	Other interests
Loans and advances to banks	0	3,851,750	484	234,676	213,901
Loans and advances to customers	0	0	899,498	406,106	520,334
Trading assets	0	330	1,732	16,861	3,229
Financial investments	0	0	427,267	2,477	461,666
Investments in associates	0	0	0	1,159,090	0
Other assets including derivatives	40	0	9,593	177	616
Deposits from banks	0	4,944,816	1,298	6,002,400	157,081
Deposits from customers	942	0	471,385	243,325	637,680
Debt securities issued	0	0	391	0	0
Provisions for liabilities and charges	0	0	64	0	14,647
Trading liabilities	0	0	14,636	37,355	2,178
Other liabilities including derivatives	0	13,026	600	636	126
Subordinated capital	0	29,023	0	0	0
Guarantees given	0	851	21,236	70,789	23,019
Guarantees received	0	129,600	6,100	145,720	2,605

(37) Foreign currency volumes

The consolidated financial statements consist of the following volumes of assets and liabilities denominated in foreign currencies:

€ 000	2012	2011
Assets	67,900,528	63,514,682
Liabilities	56,092,921	53,361,958

(38) Foreign assets/liabilities

Assets and liabilities with counterparties outside Austria are as follows:

€ 000	2012	2011
Assets	109,535,180	108,493,098
Liabilities	82,914,192	86,646,984

(39) Securitization

RZB as originator

Securitization is the packaging of designated portfolios of loans or leasing claims with an appropriate level of credit enhancement and the redistribution of these portfolios to investors. The objective of RZB's securitization transactions is to ease the strain on the Group's regulatory own funds and to use additional refinancing sources.

In the financial year 2012, several new securitization programs started:

- The leasing subsidiary in Poland made a securitization for car leasing contracts of about € 122,730 thousand. The loans and advances were transferred to an external special purpose vehicle which is not under group control in the context of a Compass Asset Backed Commercial Paper (ABCP) program sponsored by WestLB. The first loss piece remaining in the group amounted to 15 per cent, the majority of chances and risks remain at the initiating group unit. Therefore, the loans and advances are shown unchanged in the group reporting so that additional refinancing sources can be mainly used through the securitization.

- A further new transaction – for the regulatory relief – was made in terms of a synthetic securitization of loans and advances to corporate customers, securities and guarantees of the Head office with tranches mainly placed to group internal investors and partly placed to external investors the last in volume of € 47,000 thousand.

- Finally, an external placement of diversified payments rights of ZAO Raiffeisenbank, Moscow amounting to € 132,636 thousand is worth to mention. The maturity of the placed tranche 2012-A ends in May 2017, those of 2012-B and 2012-C end in May 2019.

The true sale transactions (Warehousing) ROOF Bulgaria 2008-1 and ROOF Romania 2008-1 already closed in 2008 were entirely placed to group internal investors in 2012. As of year-end 2012, the non-derecognized loans of ROOF Bulgaria 2008-1 amounted to € 41,231 thousand (2011: € 73,099 thousand), those of ROOF Romania 2008-1 totaled € 55,878 thousand (2011: € 103,899 thousand). So both warehousing structures are going to phase out.

Regarding the true sale transaction ROOF Poland 2008-1 consisting of car leasing contracts, the total volume of the loans amounts as of 31 December 2012 to € 27,741 thousand (2011: € 84,574 thousand). The change in carrying amounts is due to the maturing portfolio (end of 2014) and fluctuating currency exchange rates.

The true sale transaction ROOF Russia 2007-1 finally phased out in 2012 as the carrying amount at year-end 2011 was only € 18,764 thousand and the possibility to replenish already redeemed volumes was no longer perceived.

Within the scope of synthetic securitizations ROOF CEE 2006-1, the non-derecognized loans amounted to € 63,098 thousand at year-end 2012 (2011: € 162,480 thousand). The differences compared to the volumes at the beginning of the transactions are due to meanwhile maturing volumes and to changes in currency exchange rates.

Within the scope of further synthetic securitizations, RBI participated in the socalled JEREMIE programs (Joint European Resources for Micro to Medium Enterprises) in Bulgaria and Romania (ROOF Romania and Bulgaria SME 2011-1). By contract of the respective network banks with the Europäische Investitionsfonds (EIF) the granting of loans to small and medium-sized enterprises is to be supported as they may receive guarantees from EIF under the JEREMIE initiative. The current volume of the portfolio under this JERMIE first loss portfolio guarantees amounts to € 83,049 thousand for the utilized volume of Raiffeisenbank S.A. Bucharest and € 19,571 thousand for Raiffeisenbank (Bulgaria) EAD.

Up to now the following transactions for all, or at least individual tranches have been executed with external contractual partners. The indicated amounts represent the volumes at the closing date:

€ 000	Seller of claims or secured party	Date of contract	End of maturity	Volume	Portfolio	Junior tranche
Synthetic transaction ROOF CEE 2006-1	Raiffeisen Bank Polska S.A., Warsaw (PL) Raiffeisenbank a.s., Prague (CZ)	March 2006	March 2019	450,000	Company loans	1.8%
True sale transaction ROOF Russia 2007-1	ZAO Raiffeisenbank, Moscow (RUS)	May 2007	prematurel y terminated in 2012	297,000	Car loans	1.9%
True sale transaction ROOF Poland 2008-1	Raiffeisen-Leasing Polska S.A., Warsaw (PL)	January 2008	December 2014	290,000	Car leasing contracts	1.3%
Synthetic Transaction (JEREMIE) ROOF Romania SME 2011-1	Raiffeisenbank S.A., Bucharest (RO)	December 2010	December 2023	Guarantees up to € 20.5 million	SME-loans up to € 102.5 million	25.0%
Synthetic Transaction (JEREMIE) ROOF Bulgaria SME 2011-1	Raiffeisenbank (Bulgaria) EAD, Sofia (BG)	December 2010	August 2020	Guarantees up to € 13 million	SME-loans up to € 65 million	25.0%
True Sale Transaction Raiffeisen Leasing Polska Auto Lease Securitisation (WestLB sponsored Compass ABCP Program)	Raiffeisen-Leasing Polska S.A., Warsaw (PL)	February 2012	October 2020	141,068	Car leasing contracts	15.0%
Future Flow Securitization ROOF Russia DPR Finance Company S.A.	ZAO Raiffeisenbank, Moscow (RUS)	June 2012	2017 and 2019	132,636	Right in 'diversified payment rights' (DPR)	n/a
Synthetic transaction ROOF WESTERN €OPE CLO -2012-1	Raiffeisen Bank International AG, Vienna	July 2012	July 2025	996,076	Company loans, securities, guarantees	0.8%

RZB as investor

Besides the above-mentioned refinancing and packaging of designated portfolios of loans or leasing claims, RZB also acts as an investor in ABS-structures. Essentially, this is about investments in Structured Credit Products. During the financial year 2012 market value changes led to a negative valuation result of about € 4 million (2011: minus € 2 million) and to a realized result from sale of € 658 thousand.

Total exposure to structured products (excluding CDS):

€ 000	2012 Outstanding notional amount	2012 Carrying amount	2011 Outstanding notional amount	2011 Carrying amount
Asset-backed securities (ABS)	242,538	242,526	197,661	197,649
Mortgage-backed securities (MBS)	158,376	157,114	255,093	250,939
Collateralized debt obligations (CDO)	70,817	2,793	143,843	26,243
Other	30,019	1,001	29,504	1,004
Total	**501,750**	**403,434**	**626,101**	**475,835**

(40) Transferred assets

Genuine sale and repurchase agreements

€ 000	2012	2011
Genuine repurchase agreements as borrower		
Deposits from banks	1,257,875	1,548,670
Deposits from customers	69,336	3,719,912
Total	**1,327,211**	**5,268,582**

€ 000	2012	2011
Genuine repurchase agreements as lender (reverse repurchase agreement)		
Loans and advances to banks	5,130,231	3,577,362
Loans and advances to customers	2,280,735	1,468,720
Total	**7,410,966**	**5,046,083**

€ 000	2012	2011
Securities sold in genuine sale and repurchase agreement	**1,078,908**	**4,801,503**
hereof sold or repledged	698,843	4,742,840
hereof bonds, notes and other fixed-interest securities	698,843	4,607,688
hereof loans and advances	0	135,152
Securities purchased in a genuine sale and repurchase agreement	**7,491,583**	**4,851,646**
hereof sold or repledged	1,437,763	1,485,715
hereof bonds, notes and other fixed-interest securities	1,394,362	1,453,894
hereof shares and other variable-yield securities	43,401	31,326
hereof loans and advances	0	495

Within the framework of securities lending, borrowed securities amounted to € 2.729.932 thousand (2011: € 1.053.999 thousand) and loaned securities amounted to € 1.855.151 thousand (2011: € 2.528.461 thousand).

Transferred financial assets

Transferred financial assets not entirely derecognized

31/12/2012 € 000	Transferred assets Carrying amount	hereof securitizations	hereof repurchase agreements	Associated Liabilities Carrying amount	hereof securitizations	hereof repurchase agreements
Trading assets	**206,772**	**0**	**206,772**	**174,967**	**0**	**174,967**
Bonds, notes and other fixed-interest securities	206,772	0	206,772	174,967	0	174,967
Financial assets at fair value through profit or loss	**551,695**	**0**	**551,695**	**525,827**	**0**	**525,827**
Bonds, notes and other fixed-interest securities	551,695	0	551,695	525,827	0	525,827
Loans and advances	**362,844**	**157,061**	**205,783**	**309,651**	**109,651**	**200,000**
Bonds, notes and other fixed-interest securities	205,783	0	205,783	200,000	0	200,000
Loans and advances	157,061	157,061	0	109,651	109,651	0
Financial assets held-to-maturity	**176,192**	**0**	**176,192**	**176,973**	**0**	**176,973**
Bonds, notes and other fixed-interest securities	176,192	0	176,192	176,973	0	176,973
Total	**1,297,504**	**157,061**	**1,140,443**	**1,187,418**	**109,651**	**1,077,767**

Transferred financial assets recognized to the extent of the institution's continuing involvement

In the financial year 2012, there were no transferred financial assets recognized to the extent of the institution's continuing involvement.

(41) Assets pledged as collateral

The following liabilities are secured by assets shown in the statement of financial position:

€ 000	2012	2011
Deposits from banks	4,955,878	5,092,553
Deposits from customers	82,537	157,652
Other liabilities	180,159	154,992
Contingent liabilities and commitments	1,309	1,266
Total	**5,219,884**	**5,406,464**

The following assets are provided as collateral for the obligations:

€ 000	2012	2011
Loans and advances to banks	437,377	3,517,290
Loans and advances to customers	2,582,799	1,366,315
Trading assets	424,199	285,047
Financial investments	2,614,553	2,581,263
Total	**6,058,927**	**7,749,915**

(42) Finance leases

€ 000	2012	2011
Gross investment value	**4,975,435**	**5,310,930**
Minimum lease payments	4,469,603	4,830,876
Up to 3 months	522,579	464,949
More than 3 months, up to 1 year	859,944	950,905
More than 1 year, up to 5 years	2,230,740	2,437,759
More than 5 years	856,340	977,263
Non-guaranteed residual value	505,832	480,054
Unearned finance income	**695,162**	**831,881**
Up to 3 months	58,001	61,389
More than 3 months, up to 1 year	139,003	155,543
More than 1 year, up to 5 years	335,039	401,665
More than 5 years	163,120	213,284
Net investment value	**4,280,272**	**4,479,049**

As of 31 December 2012, write-offs on unrecoverable minimum lease payments outstanding totalled € 94.208 thousand (2011: € 90.742 thousand).

Assets under finance leases break down as follows:

€ 000	2012	2011
Vehicles leasing	1,849,908	1,894,569
Real estate leasing	1,656,118	1,749,798
Equipment leasing	774,246	834,682
Total	**4,280,272**	**4,479,049**

(43) Operating leases

Operating leases from view of lessor

Future minimum lease payments under non-cancellable operating leases are as follows:

€ 000	2012	2011
Up to 1 year	48,163	47,184
More than 1 year, up to 5 years	102,067	90,065
More than 5 years	34,328	66,499
Total	**184,558**	**203,748**

Operating leases from view of lessee

Future minimum lease payments under non-cancellable operating leases are as follows:

€ 000	2012	2011
Up to 1 year	102,444	89,812
More than 1 year, up to 5 years	203,201	200,030
More than 5 years	13,682	14,618
Total	**319,327**	**304,460**

Risk report

(44) Risks arising from financial instruments

Active risk management represents a core competence of RZB. In order to recognize, assess and manage risks effectively, the Group has developed a comprehensive program of risk management and controlling. Risk management is an integral part of overall management of the Bank, and in addition to legal and regulatory requirements, it takes into account the nature, scale and complexity of the business activities and the resulting risks. The risk report explains the principles and organization of risk management and presents the current position for all material risks.

Risk management principles

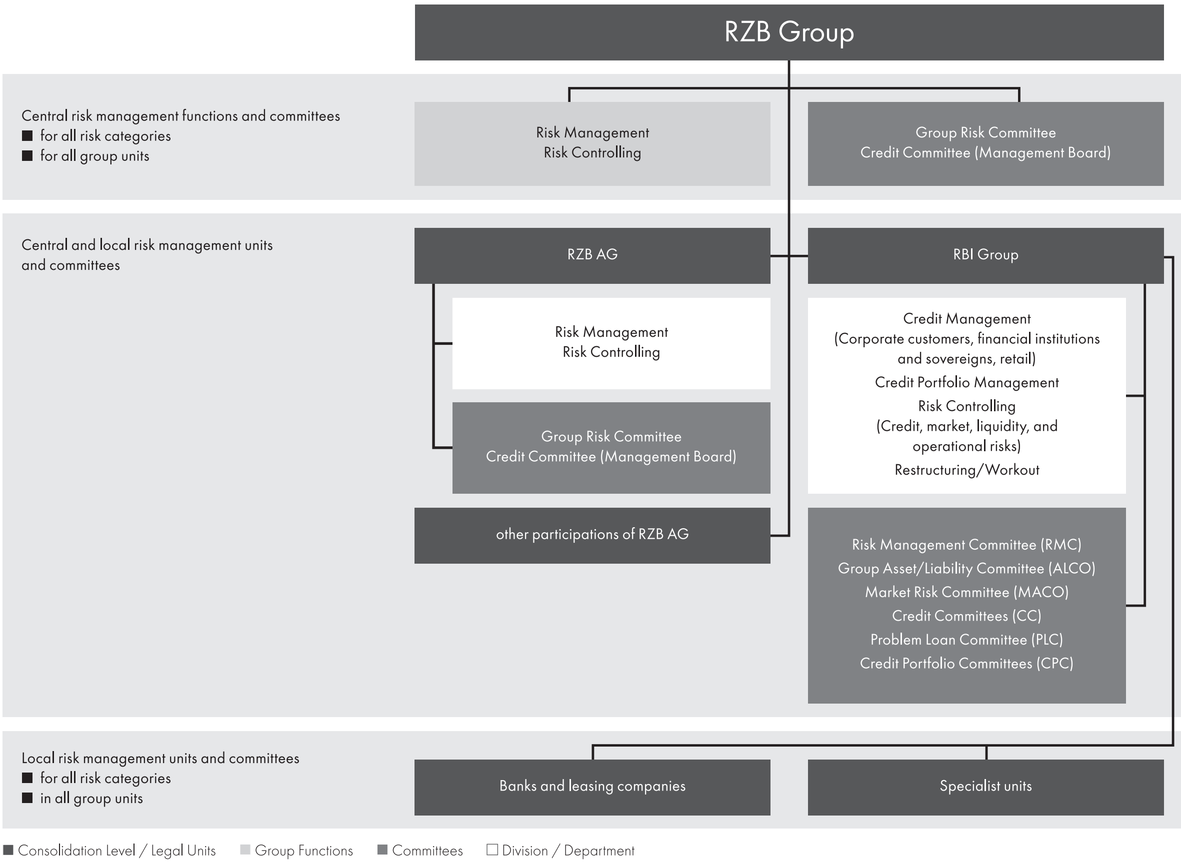
RZB has a system of risk principles and risk measurement and monitoring processes aimed at controlling and managing the material risks in all the Group's banks and specialist companies. The risk policy and principles of risk management are set by RZB's Management Board, and include the following principles:

- Integrated risk management. Credit and sovereign risks, participation, market and liquidity risks and operational risks are managed Group-wide as the main risks. For this purpose, these risks are measured, limited, aggregated and compared with the available risk cover assets.
- Uniform methods. To ensure consistent and coherent risk management, uniform methods are used throughout the Group for risk evaluation and limitation. This approach is efficient for developing risk management methods and forms the basis of uniform Group management in all the RZB countries and segments.
- Ongoing planning. Risk strategies and risk capital are reviewed and authorized during the annual budget and planning process. Particular attention is paid to avoiding risk clusters.
- Independent control. There is a clear division in personnel and function between business management and all risk management and risk controlling activities.
- Ex ante and ex post calculation. Risks are consistently taken into account in product sales and risk-adjusted performance measurement. This ensures that transactions are only concluded when all risk-return considerations are taken into account and incentives to accept greater risk are avoided.

In accordance with these principles, the Group's risk management units formulate detailed risk strategies which transfer these general guidelines into concrete risk goals and specific standards. The overall risk strategy for the Bank as a whole is derived from the Group's business strategy and supplements this by risk-relevant considerations of the planned business structure and strategic development. These aspects include, for example, structural limits and capital ratio targets that must be complied with in budgeting and in business decisions. Other specific goals for the individual risk categories are set in detailed risk strategies. For example, the RZB credit risk strategy defines credit portfolio limits for individual countries and segments and determines authorization limits for individual credit decisions.

Organization of risk management

The Management Board of RZB ensures the proper organization and ongoing development of risk management. It decides which procedures are to be employed for identifying, measuring, and monitoring risks, and makes steering decisions according to the created risk reports and analyses. The Management Board is supported in implementing these tasks by independent risk management units and special committees.



Generally, risk management operates at several levels within the Group. Raiffeisen Zentralbank, as the parent bank, has various service level agreements with RBI AG risk management units, which develops and implements the corresponding concepts with the Group subsidiaries. The central risk management units are responsible for appropriate and suitable implementation of the risk management process across the Group. They establish risk management guidelines and define business-specific requirements, tools and procedures for all Group businesses.

Local risk management units are also present in the various legal Group units. These implement the risk policy in the relevant risk categories and manage the business within the approved risk budget to achieve the aims of the business policy. To this end, they monitor risks occurring with the aid of standardized measuring methods, and also report these using defined reporting interfaces to the central risk management units.

The Group Risk Committee is the highest decision-making body for all risk-relevant issues at RZB. It determines the risk management concepts and steering concepts to be implemented for the Group as a whole and its key parts. These include risk tolerance, various risk budgets, limits at overall Bank level and monitoring the current risk situation, with appropriate management measures.

Risk committees

The Risk Management Committee is responsible for ongoing further development and implementation of methods and parameters for risk measurement and refining management instruments. The committee also evaluates the current risk situation, taking into account appropriate equity levels and corresponding risk limits. It approves the various risk management and steering activities (e.g. allocation of risk budgets) and assists the Management Board with these activities.

The Market Risk Committee controls market risk from RBI's trading and bank book business and sets the relevant limits and procedures. This process includes specifically business results, identified risks and appropriate limit utilization, as well as the results of scenario analyses and stress tests for market risks.

The Credit Committees bring together representatives of the market and back office areas, with specific membership differing depending on customer group for corporate customers, banks, the public sector and retail. They reach decisions within the framework of the credit approval process and rating and volume oriented authorization limits, and handle all the credit decisions affecting them.

The Group Asset/Liability Committee evaluates and manages balance sheet and liquidity risk, and also performs key functions relating to refinancing planning and determining measures for safeguarding against structural risks.

Credit Portfolio Committees define the relevant credit portfolio strategy for the various customer segments. On these committees, representatives of the market and risk management units jointly evaluate the risks and potential of various customer groups (e.g. industries, countries, retail segments). Based on this, credit portfolio management develops lending guidelines and limits for future orientation of the credit portfolio.

Quality assurance and internal audit

Quality assurance in risk management means ensuring the integrity, reliability and freedom from errors of processes, models, calculations and data sources. The aim is to ensure compliance with legislation by the Group and achieve the highest level of quality requirements for activities relating to risk management. Group Audit is responsible for independent review of risk management in all Group units. Independent internal audit is a statutory requirement and a central component in the internal control system. Group internal audit periodically audits all the business processes and is a major contributor to securing and improving these. The reports from this process go directly to the RZB Management Board and are discussed regularly at board meetings.

The coordination of these aspects is the responsibility of the central Organization & Internal Control System department, which permanently monitors the internal control system and which is responsible for monitoring implementation, if there is any need for modifications.

The Compliance Office supplements and is an element of the internal control system responsible for all issues connected with compliance with statutory requirements. Therewith, the compliance of existing regulations in daily operations is monitored.

In addition, the audit of the annual financial statements by independent audit firms includes an entirely independent and objective audit, free of potential conflicts of interest. Finally, RZB is subject to ongoing monitoring by the Austrian Financial Market Authority and by the local regulators in the countries where RZB has branches or subsidiaries.

Group risk management

Ensuring capital adequacy is one of the main goals of RZB risk management. The necessary capital adequacy is regularly evaluated on the basis of risk assessments by internal models, where the choice of the models takes into account the materiality of the risk. This concept of Group risk management takes into account capital needs from both the regulatory aspect (sustainability and going concern perspectives) and an economic point of view (target rating perspective). It accordingly complies with the quantitative internal capital adequacy assessment procedure (ICAAP) as required under the second pillar of Basel II. The entire RZB ICAAP is audited annually as part of the regulatory evaluation by the Austrian Financial Market Authority.

Objective	Description of risk	Measurement technique	Confidence level
Target rating perspective	Risk of not being able to satisfy claims of the Group's senior debt holders	Unexpected losses on an annual basis (economic capital) must not exceed the present value of equity and subordinated liabilities	99.95 per cent as derived from the default probability implied by the target rating
Going concern-perspective	Risk of not meeting the regulatory capital requirement	Risk-taking capacity (projected earnings plus capital exceeding regulatory requirements) must not fall below the annualized value-at-risk of the Group	95 per cent reflecting the owners' willingness to inject additional own funds
Sustainability perspective	Risk of falling short of a sustainable core capital ratio over a full business cycle	Capital and loss projection for a three-year planning period based on a severe macroeconomic downturn scenario	70-90 per cent based on the management decision that the Group might be required to temporarily reduce risks or raise additional core capital

This concept of Group risk management also satisfies the requirement to implement an internal capital adequacy assessment procedure (ICAAP) in Basel II (pillar 2).

Target rating perspective

In the target rating perspective, risks are measured by the economic capital, which provides a comparable risk valuation ratio for all risk types. It is calculated as the total of unexpected losses from transactions in all Group units in the various risk categories (credit, participation, market, liquidity, macroeconomic and operational risk as well as risk resulting from other tangible fixed assets). In addition, a general buffer is created for all other risk types that are not explicitly quantified.

In calculating economic capital, RZB uses a 99.95 per cent confidence level derived from the probability of default of the target rating. The goal in calculating economic capital is to identify the capital that would be needed to meet all customer and creditor claims, even in the event of such a rare loss.

Risk contribution of individual risk types to economic capital

€ 000	2012	Share	2011	Share
Credit risk corporate customers	2,605,323	26.5%	4,020,000	40.3%
Credit risk private individuals	2,456,811	24.9%	1,966,000	19.7%
Credit risk sovereigns	969,144	9.8%	753,000	7.6%
Credit risk financial institutions	331,125	3.4%	586,000	5.9%
Market risk	793,831	8.1%	713,000	7.2%
Operational risk	844,649	8.6%	891,000	8.9%
Liquidity risk[1]	214,442	2.2%	0	0.0%
Participation risk	367,925	3.7%	131,000	1.3%
Other tangible fixed assets[1]	456,771	4.6%	0	0.0%
Macroeconomic risk[1]	340,416	3.5%	0	0.0%
Risk buffer	469,022	4.8%	906,000	9.1%
Total	**9,849,460**	**100.0%**	**9,966,000**	**100.0%**

1 New items due to ongoing development of calculation of economic capital

The economic capital of RZB increased by 12 per cent compared to last year. The highest risk of RZB is in credit risk of the asset class corporate customers which accounts for 26 per cent (2011: 40 per cent) of total risk. In total, credit risk is responsible for 65 per cent (2011: 74 per cent) of economic capital. Market risk accounts for 8 per cent (2011: 7 per cent) and operational risk for 9 per cent (2011: 9 per cent). In addition, a general risk buffer for other risks of 5 per cent (2011: 9 per cent) of the calculated economic capital is added.

Economic capital is matched by internal capital, which consists primarily of the Group's equity and subordinated capital, and serves in the event of loss as the primary risk-covering measure to meet obligations to senior creditors.
Total utilization of the available risk capital (the ratio of economic to internal capital) was around 71 per cent as of 31 December 2012 (2011: 64 per cent).

Economic capital is an important instrument in Group risk management. Limits for economic capital are allocated to the individual business areas for this purpose in the annual budget process, and supplemented by volume, sensitivity and value-at-risk limits for operational management.

Risk-adjusted performance is also based on this measure of risk, using the ratio of a business unit's income to the allocated economic capital (ratio of risk adjusted income to risk adjusted capital, RORAC). This provides a comparable performance measurement for all the Group's business units, and is also used as a key ratio in overall Bank management, future capital allocation and remuneration for Group executives.

Going concern perspective

In parallel with this perspective, capital adequacy is assessed in terms of the Group's continuing existence as a going concern. The risk is again compared with risk-bearing capacity, taking into consideration the regulatory requirements for equity and own funds. During the year 2012, the calculation was updated with regard to the regulations of Basel III in preparation.

In line with this target, risk-bearing capacity is calculated as the amount of planned profits, expected risk costs and the excess of own funds (taking into account various limits on eligible capital). This is compared with value-at-risk (including expected losses), calculated using a comparable procedure (with a lower confidence level of 95 per cent) to the one used in the target rating perspective. With this approach, the Group ensures capital adequacy for regulatory (going concern) purposes with the desired level of probability. In 2012, this objective has been continuously met on Group level.

Sustainability perspective

The aim of the sustainability perspective is to ensure that RZB has an adequate core capital ratio at the end of the multi-year planning period, even in the event of unexpected deterioration in the macroeconomic environment. The analysis is based on a multi-year macroeconomic stress test in which hypothetical market developments are simulated after a significant – albeit realistic – economic downturn. Risk parameters include interest rate curves, exchange rates and security prices, and also changes in default probability and rating migrations in the credit portfolio.

The focus in this integrated stress test is on the resulting core capital ratio at the end of the multi-year period. This ratio must not fall below a sustainable level, avoiding a need for substantial capital increases or sharp reductions in business volume. The current core capital requirement is therefore a result of the potential for economic setbacks. The assumed downturn scenario involves the allocation of the necessary provisioning and potential procyclical effects (which raise regulatory capital requirements), foreign currency effects and other valuation and earnings components.

This perspective supplements the standard risk measurement based on the value-at-risk concept (which is primarily based on historical data). The sustainability perspective makes it possible to cover even market situations that are unusual and have never before been experienced, while estimating the potential effects of these developments. The stress test also enables analysis of risk clusters (e.g. in individual items, industries or regions) and provides insight into profitability, liquidity and solvency in unusual circumstances. RZB risk management uses this to actively manage portfolio diversification, e.g. by setting caps on total exposure in individual industries and countries, or through ongoing adjustment of corresponding lending standards.

Credit risk

Credit risk within RZB stems mainly from default risks that arise from business with retail and corporate customers, other banks and sovereign borrowers. This is by far the most important risk category for RZB, as the internal and regulatory capital requirements show. Credit risks are consequently monitored and analyzed in the Group on an individual loan basis as well as on a customer and portfolio basis. The foundation for credit risk management and credit decisions is provided by credit risk policy, credit risk manuals and by the credit risk management methods and processes developed for this purpose.

The internal control system for credit risks comprises various forms of monitoring measures that are integrated directly into the procedures to be monitored, from the customer's loan application, through to the Bank's credit decision and to repayment of the loan.

Credit decision-making process

In non-retail business, no lending takes place without undergoing the credit decision-making process. As well as applying to new lending, the process is undergone for credit increases, extensions, overdrafts and changes to risk-relevant factors on which the original credit decision was based (e.g. financial circumstances of the borrower, intended use or collateral). It also applies to the setting of borrower-related limits for trading and issuing transactions, other limits entailing credit risk, and equity participations.

Credit decisions are made in accordance with hierarchical levels of authority depending on the size and type of credit involved. For individual credit decisions and the regular assessment of counterparty default risk, the approval of the market and back-office units must always be obtained. In the event of a difference of opinion between individual decision-makers, the rules on authority provide for escalation to the next level of decision-making.

The entire credit decision-making process is conducted on the basis of uniform principles and guidelines. For instance, the Global Account Management System is used to assist in business relations with multinational customers conducting transactions with various units in the Group at the same time. This is made possible by Group-wide verification of identity for non-retail customers.

Credit decision-making in retail business is a more automated process on account of the large number of transactions and lower lending amounts. Credit applications are to a large extent assessed and approved in central processing units using credit scorecards. Appropriate IT systems assist in this process.

Credit portfolio management

RZB's credit portfolio is managed on the basis of a portfolio strategy. It restricts lending in different countries, sectors or product types and thereby prevents unwanted concentrations of risk. In addition, long-term development prospects in the individual markets are analyzed on an ongoing basis. This enables the strategic direction to be decided upon at an early stage with regard to future credit exposure.

The table below translates items of the statement of financial position (bank and trading book positions) into the maximum credit exposure, which is used for portfolio management. It includes exposures on and off the statement of financial position before the application of credit-conversion factors. It is not reduced by the effects of credit risk mitigation such as guarantees and physical collateral, effects that are, however, considered in the internal assessment of credit risks. The maximum credit exposure is used – if not explicitly stated otherwise – for showing exposures in all subsequent tables in the risk report. The variation between the values used for internal portfolio management and those used in external accounting is due to different scope of consolidation (regulatory versus corporate legal basis pursuant to IFRS), different classification and presentation of exposure volumes.

Reconciliation of figures from the IFRS consolidated financial statements to total credit exposure (according to Basel II)

€ 000	2012	2011
Cash reserve	9,872,901	10,897,088
Loans and advances to banks	21,430,482	22,457,416
Loans and advances to customers	85,599,701	84,093,000
Trading assets	9,773,805	10,589,154
Derivatives	1,404,223	1,404,137
Financial investments	12,855,064	15,927,705
Other assets	264,654	320,267
Contingent liabilities	12,467,627	13,752,690
Commitments	10,957,331	12,779,677
Revocable credit lines	16,053,749	14,713,219
Description differences	(3,569,921)	48,312
Total[1]	**177,109,617**	**186,982,664**

1 Items on the statement of financial position containing only credit risk parts

The more detailed analysis of the credit portfolio is based on a subdivision into asset classes and ratings. Creditworthiness is assessed using internal risk classification procedures (rating and scoring models) which are centrally validated. In defining the likelihood of default for different ratings, the various asset classes are looked at separately. This means that the likelihood of default applying to the same given rating level (e.g. 1.5 for corporate customers, A3 for financial institutions and A3 for the public sector) is not directly comparable between the different asset classes.

The rating models in the main non-retail asset classes – corporate customers, financial institutions and the public sector – are uniform across the Group and always use ten rating levels. Scorecards for retail asset classes, on the other hand, are drawn up on a country-specific basis in accordance with uniform Group-wide guidelines. Software tools (e.g. company valuations, rating and default database) are available to assist in both the production and validation of ratings.

Credit portfolio – corporate customers

The internal rating model for corporates takes into account qualitative factors as well as various business and performance figures (e.g. interest cover, EBT margin, EBTDA margin, equity ratio, return on assets, debt amortization period), which are tailored to the various industries and financial reporting standards.

The table below shows the credit exposure per internal rating for corporate customers (large corporates and mid market). In the overall assessment of credit risk collateral and recovery rates must also be taken into account:

€ 000		2012	Share	2011	Share
0.5	Minimal Risk	1,194,159	1.4%	1,275,365	1.4%
1.0	Excellent credit standing	8,468,399	10.2%	7,938,656	8.7%
1.5	Very good credit standing	9,314,870	11.2%	9,292,416	10.2%
2.0	Good credit standing	12,472,872	15.0%	12,668,147	13.9%
2.5	Sound credit standing	12,185,968	14.7%	16,056,118	17.6%
3.0	Acceptable credit standing	12,893,438	15.5%	14,925,283	16.4%
3.5	Marginal credit standing	11,667,194	14.0%	12,800,012	14.1%
4.0	Weak credit standing/sub-standard	5,383,703	6.5%	6,548,302	7.2%
4.5	Very weak credit standing/doubtful	3,568,130	4.3%	3,895,111	4.3%
5.0	Default	4,986,075	6.0%	4,704,013	5.2%
NR	Not rated	1,029,433	1.2%	991,974	1.1%
Total		**83,164,241**	**100.0%**	**91,095,397**	**100.0%**

The total credit exposure for corporate customers at the year-end 2012 amounted to € 83,164,241 thousand (2011: € 91,095,397 thousand). The total credit exposure for corporate customers sank by € 7,931,157 thousand compared to year-end 2011. The Raiffeisen Bank International group accounts for the largest share at € 80,895,816 thousand (2011: € 89,165,748 thousand).

The share of good credit standing to minimal risk in overall credit volumes rose from 34.2 per cent to 37.8 per cent. Rating classes minimal risk (rating 0.5) and good credit standing (rating 2.0) showed a slight decline while rating class 1.0 (excellent credit standing) increased by € 529,743 thousand. The later was due to rating upgrades of existing customers. On the other hand, this also reflects active credit portfolio management, which directs credit growth mainly to economically successful markets like e.g. Russia; and the high lending standards demand that new loans are extended mainly to customers with good credit ratings.

The share of loans in the medium rating classes (rating 2.5 and 3.0) in the overall credit volumes sank by 3.8 percentage points to 30.2 per cent. This represents a decrease of € 5,901,995 thousand. Rating class 2.5 (sound credit standing) showed the largest decline of € 3,870,150 thousand and was due to transactions in Russia and Austria.

Defaulted exposures according to Basel II (rating 5.0) amounted to 6.0 per cent of total credit exposure, which is € 4,986,075 thousand (2011: € 4,704,013 thousand). The segment Central Europe was mostly affected with € 1,603,422 thousand (2011: € 1,450,074 thousand). Slightly less than half of the unrated credit exposure was due to small loans.

The table below shows the total credit exposure for corporate customers based on ultimate risk grouped by region:

€ 000	2012	Share	2011[1]	Share
Central Europe	17,986,250	21.6%	18,648,001	20.5%
Austria	16,575,848	19.9%	17,891,714	19.6%
Western Europe	11,223,048	13.5%	12,574,907	13.8%
Southeastern Europe	10,370,446	12.5%	11,239,604	12.3%
Russia	10,237,258	12.3%	10,795,370	11.9%
Asia	6,888,077	8.3%	8,547,278	9.4%
CIS Other	3,681,640	4.4%	4,093,986	4.5%
Other	6,201,673	7.5%	7,304,538	8.0%
Total	**83,164,241**	**100.0%**	**91,095,397**	**100.0%**

1 Adjustments of previous year figures due to different mapping

The table below shows the total credit exposure for corporate customers and project finance broken down by sector:

€ 000	2012	Share	2011	Share
Wholesale and retail trade	21,248,512	23.0%	23,832,637	23.7%
Manufacturing	18,737,196	20.3%	21,351,872	21.3%
Real estate	10,391,198	11.3%	10,872,700	10.8%
Financial intermediation	10,093,546	10.9%	9,691,591	9.7%
Construction	6,983,651	7.6%	7,522,216	7.5%
Transport, storage and communication	3,913,436	4.2%	3,861,613	3.8%
Other industries	20,851,577	22.6%	23,215,703	23.1%
Total	**92,219,116**	**100.0%**	**100,348,332**	**100.0%**

The rating model for project finance has five different grades which provide both individual default probabilities and collateral. The project finance volume is composed as shown in the table below:

€ 000		2012	Share	2011	Share
6.1	Excellent project risk profile – very low risk	3,899,494	43.1%	3,014,256	32.6%
6.2	Good project risk profile – low risk	2,668,622	29.5%	3,548,279	38.3%
6.3	Acceptable project risk profile – average risk	1,412,089	15.6%	1,404,527	15.2%
6.4	Poor project risk profile – high risk	459,136	5.1%	718,247	7.8%
6.5	Default	586,708	6.5%	540,871	5.8%
NR	Not rated	28,826	0.3%	26,754	0.3%
Total		**9,054,875**	**100.0%**	**9,252,935**	**100.0%**

The maximum credit exposure in project finance amounted to € 9,054,875 thousand at year-end 2012 (2011: € 9,252,935 thousand). Projects rated either in categories Excellent project risk profile – very low risk (rating 6.1) or Good project risk profile – low risk (rating 6.2) account for 72.6 per cent (2011: 70.9 per cent) and thus represents the highest share of the portfolio. This reflects mainly the high level of collateralization in specialized lending transactions. The decline of € 879,657 thousand in rating category 6.2 resulted from rating improvements, especially within the Austrian and Czech portfolio. In parallel, rating category 6.1 increased. The remaining increase in rating category 6.1 was due to new business and expansion of existing credit financings. Unrated projects remained stable at 0.3 per cent or € 28,826 thousand (2011: € 26,754 thousand).

Credit portfolio – retail customers

Retail customers are subdivided into private individuals and small and medium-sized enterprises (SMEs). For retail customers a two-fold scoring system is used – consisting of the initial and ad-hoc scoring based on customer data and behavioural scoring based on account data. The table below shows the retail credit exposure of RZB:

€ 000	2012	Share	2011	Share
Retail customers – private individuals	25,856,000	88.7%	20,778,317	88.2%
Retail customers – small and medium-sized entities	3,278,328	11.3%	2,567,762	11.8%
Total	**29,134,328**	**100.0%**	**23,346,079**	**100.0%**
hereof non-performing loans	3,053,804	10.5%	2,454,576	10.5%
hereof individual loan loss provision	1,680,615	5.8%	1,498,758	6.4%
hereof portfolio-based loan loss provision	570,004	2.0%	274,839	1.2%

Compared to year-end 2011, the retail credit portfolio increased by € 5,788,249 thousand to € 29,134,328 thousand (2011: € 23,346,079 thousand) . The highest volume of € 16,214,036 thousand (2011: € 11,186,960 thousand) was booked in the region Central Europe. This was an increase of € 5,027,076 thousand compared to last year, mainly caused by the acquisition of Polbank. The second largest region was Southeastern Europe with € 7,380,448 thousand (2011: € 7,460,683 thousand). Compared to the previous year the exposure decreased slightly by € 80,235 thousand. In Russia, the volumes in asset class private individuals increased by approximately one third resulting mainly from consumer loans.

€ 000	2012	Share	2011	Share
Mortgage loans	14,666,850	50.3%	10,678,823	45.7%
Personal loans	6,580,293	22.6%	5,708,251	24.5%
Car loans	2,457,087	8.4%	2,149,028	9.2%
Overdraft	2,290,178	7.9%	1,754,043	7.5%
Credit cards	1,806,105	6.2%	2,036,026	8.7%
SME financing	1,333,814	4.6%	1,019,907	4.4%
Total	**29,134,328**	**100.0%**	**23,346,079**	**100.0%**

The proportion of the retail portfolio accounted for by loans in foreign currencies provides an indication of the potential shift in default rates if the local currency's exchange rate changes. The internal assessment of this risk takes account of the share of lending in foreign currencies but also of the usually much more stringent lending guidelines applying to such loans and the fact that, in a number of countries, customers' income can often be in the same foreign currency as their lending. Compared to the previous year, loans in foreign currencies increased mainly due to the acquisition of Polbank by € 2,640,660 thousand. The highest increase was shown in loans denominated in Swiss francs and Euro, while loans in US-Dollar slightly declined.

€ 000	2012	Share	2011	Share
Swiss franc	5,109,986	48.6%	2,905,186	36.9%
Euro	4,054,190	38.6%	3,321,774	42.2%
US-Dollar	1,198,526	11.4%	1,444,798	18.4%
Other foreign currencies	141,338	1.3%	191,622	2.4%
Loans in foreign currencies	**10,504,040**	**100.0%**	**7,863,380**	**100.0%**
Share of total loans	**36.1%**		**33.7%**	

Credit portfolio – financial institutions

The financial institutions asset class mainly consists of exposure to banks and securities firms. The internal rating model for financial institutions is based on a peer-group approach that takes into account both qualitative and quantitative information. The final rating of financial institutions is capped by the country rating of the respective home country.

The table below shows the credit exposure by internal rating for financial institutions. In view of the low number of customers (and of observable defaults) in this asset class, different rating levels are assigned to the varying likelihood of default using a combination of internal and external data.

€ 000		2012	Share	2011	Share
A1	Excellent credit standing	95,668	0.3%	85,187	0.2%
A2	Very good credit standing	987,935	3.2%	3,409,599	9.8%
A3	Good credit standing	18,242,812	58.7%	20,014,243	57.7%
B1	Sound credit standing	7,367,878	23.7%	5,233,225	15.1%
B2	Average credit standing	1,781,723	5.7%	2,993,010	8.6%
B3	Mediocre credit standing	1,110,708	3.6%	1,344,037	3.9%
B4	Weak credit standing	696,652	2.2%	620,881	1.8%
B5	Very weak credit standing	330,228	1.1%	370,186	1.1%
C	Doubtful/high default risk	157,261	0.5%	184,310	0.5%
D	Default	269,207	0.9%	352,391	1.0%
NR	Not rated	48,533	0.2%	83,799	0.2%
Total		**31,088,607**	**100.0%**	**34,690,866**	**100.0%**

In 2012 credit exposure to financial institutions totalled € 31,088,607 thousand (2011: € 34,690,866 thousand). At 58.7 per cent (2011: 57.7 per cent) share, the rating class A3 (good credit standing) showed a decrease of € 1,771,431 thousand which mainly resulted from declines in bond and money market business (minus € 1,985,818 thousand). The medium rating classes B1 (sound credit standing) to B3 (mediocre credit standing) represent around 33 per cent (2011: 28 per cent) of the total credit exposure. Part of the credit exposure is made up of claims to financial institutions which are part of the overall RZB ownership structure. Because of the multi-layered structure of the Austrian Raiffeisen Banking Group, claims from liquidity balancing within the banking group are shown as part of the credit exposure in this asset class. To cover the risk, mutual offsetting agreements and joint risk monitoring systems are in place. The share of not rated financial institutions was less than one per cent at the end of 2012 and was mainly made up of short-term claims to relatively small institutions where the rating process had not yet been completed.

In view of the financial crisis and the risk it has brought to this sector, the management has decided that exposure in this asset class should not increase but rather be reduced as contracts reach an end in the normal way. Clearly, this does not apply to credit transactions with other financial institutions in the Raiffeisen Banking Group, which are also subject to their own risk monitoring system.

The table below shows the total credit exposure to financial institutions (excluding central banks) broken down by product:

€ 000	2012	Share	2011	Share
Derivatives	11,120,293	35.8%	8,325,306	24.0%
Money market	8,789,316	28.3%	13,126,781	37.8%
Repo	4,736,967	15.2%	2,681,168	7.7%
Loans	3,462,003	11.1%	4,984,158	14.4%
Bonds	2,195,631	7.1%	4,450,385	12.8%
Other	784,396	2.5%	1,123,069	3.2%
Total	**31,088,607**	**100.0%**	**34,690,866**	**100.0%**

Time deposits repurchase transactions, potential future claims from derivatives transactions, deposits due at call and bonds are the main product categories in this asset class. Along with this product composition goes a high level of collateralization for these types of credit (e.g. for repo transactions or through netting agreements).

Credit exposure – public sector

This customer segment is comprised of sovereign states, central banks and regional municipalities as well as other public sector entities. The table below provides a breakdown of the credit exposure to the public sector (including central banks) by internal rating. As defaults in this asset class have occurred only seldom historically, the varying likelihood of default is ascertained using the full range of data from external rating agencies.

€ 000		2012	Share	2011	Share
A1	Excellent credit standing	7,200,993	29.2%	11,155,643	39.0%
A2	Very good credit standing	815,865	3.3%	484,481	1.7%
A3	Good credit standing	3,864,482	15.7%	4,532,617	15.8%
B1	Sound credit standing	2,786,939	11.3%	1,839,688	6.4%
B2	Average credit standing	1,278,038	5.2%	770,372	2.7%
B3	Mediocre credit standing	3,425,307	13.9%	5,523,010	19.3%
B4	Weak credit standing	3,798,896	15.4%	2,254,210	7.9%
B5	Very weak credit standing	1,171,675	4.7%	1,658,844	5.8%
C	Doubtful/high default risk	232,424	0.9%	155,561	0.5%
D	Default	83,383	0.3%	139,390	0.5%
NR	Not rated	9,565	0.0%	83,573	0.3%
Total		**24,667,566**	**100.0%**	**28,597,387**	**100.0%**

In 2012 credit exposure in the public sector amounted to € 24,667,566 thousand (2011: € 28,597,387 thousand) which is 13.9 per cent (2011: 15.3 per cent) of overall credit exposure. In terms of the different ratings, the excellent credit standing (A1) accounts for the largest share at 29.2 per cent (2011: 39.0 per cent). The decrease of € 3,954,649 thousand mainly resulted from lower deposits at the Austrian National Bank in the segment RBI.

The rating class good credit standing (rating A3) accounts for 15.7 per cent (2011: 15.8 per cent) which includes mainly loans to the Czech Republic and to Slovakia. The rating class weak credit standing (rating B4) went up to € 3,798,896 thousand due to rating deterioration of the Hungarian central bank from B3 to B4.

The table below shows the total credit exposure to the public sector (including central banks) broken down by product:

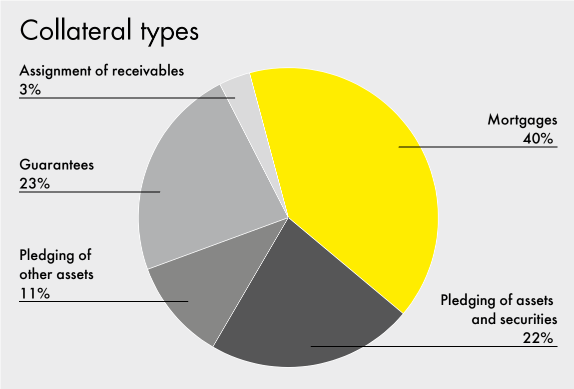
€ 000	2012	Share	2011	Share
Bonds	12,308,181	49.9%	14,809,947	51.8%
Loans	8,697,834	35.3%	9,023,119	31.6%
Derivatives	1,318,989	5.3%	1,028,086	3.6%
Other	2,342,563	9.5%	3,736,234	13.1%
Total	**24,667,566**	**100.0%**	**28,597,387**	**100.0%**

The table below shows the credit exposure to the public sector in the non-investment grade segment (rating B3 and below):

€ 000	2012	Share	2011	Share
Hungary	2,236,536	25.6%	1,911,614	19.5%
Romania	1,808,045	20.7%	2,000,334	20.4%
Croatia	1,022,513	11.7%	1,303,903	13.3%
Albania	976,138	11.2%	1,218,253	12.4%
Ukraine	766,157	8.8%	992,915	10.1%
Other	1,911,861	21.9%	2,387,568	24.3%
Total	**8,721,250**	**100.0%**	**9,814,587**	**100.0%**

The credit exposure decreased to € 8,721,250 thousand compared to the previous year. The credit exposure resulted primarily from deposits of group units with the local central banks in Central and Southeastern Europe. They were used for completion of the minimum reserve requirements, and the short-term investment of excess liquidity, and were therefore inextricably linked to the business activities in these countries.

Credit risk mitigation



Obtaining credit collateral represents a key strategy and an actively pursued means of reducing potential credit risk. The value of the collateral and the effect of other risk mitigation measures are assessed as part of the credit decision-making process. The value deemed to provide risk mitigation is that which RZB could expect to receive by realizing the collateral within a suitable timeframe. Recognized collateral is set down in a collateral catalogue and the Group's accompanying valuation guidelines. The value of collateral is calculated by means of uniform methods that encompass standardized calculation formulas using market values, pre-defined value deductions and expert opinions.

Credit collateral is divided into person-related cover (e.g. guarantees) and material collateral. The collateral accepted by RZB is dominated by real estate liens. These mainly involve residential and commercial real estate.

The maximum credit risk and the market value (fair value) of the collateral are as follows:

31/12/2012	Maximum credit exposure		Fair value of collateral
€ 000	Net exposure	Commitments/guarantees issued	
Banks	21,272,763	3,794,351	8,243,147
Sovereigns	1,470,465	199,937	762,766
Corporate customers – large corporates	50,840,698	31,422,789	35,608,275
Corporate customers – mid market	3,123,128	858,082	2,642,528
Retail customers – private individuals	21,624,739	2,727,893	14,099,956
Retail customers – small and medium-sized entities	2,682,039	435,922	1,982,897
Other	301,121	39,984	47,674
Total	**101,314,953**	**39,478,960**	**63,387,244**

31/12/2011	Maximum credit exposure		Fair value of collateral
€ 000	Net exposure	Commitments/guarantees issued	
Banks	22,229,773	2,250,743	5,361,351
Sovereigns	1,449,529	257,206	374,125
Corporate customers – large corporates	54,433,403	35,043,119	43,132,854
Corporate customers – mid market	3,514,686	898,882	2,884,820
Retail customers – private individuals	17,497,839	2,402,307	11,095,904
Retail customers – small and medium-sized entities	2,107,874	369,784	1,483,057
Other	206,857	23,783	31,139
Total	**101,439,961**	**41,245,824**	**64,363,250**

Collateral that is allowed to be resold or repledged without the collateral provider defaulting amounted to € 27,023,018 thousand (2011: € 25,724,543 thousand).

Management of problem loans

The credit portfolio and borrowers are subject to ongoing monitoring. The main aims of this monitoring activity are to ensure that loans are being used for their intended purpose and to keep an eye on borrowers' financial circumstances. For the non-retail asset classes – corporate customers, financial institutions and the public sector – this kind of credit review is carried out at least once a year. It comprises both a renewed creditworthiness rating and a revaluation of financial and physical cover.

Problem loans – i.e. those exposures where financial difficulties or delayed payment is expected on the part of borrowers – require more intensive work. In the non-retail asset classes, decisions about troubled loans are made through regular problem loan rounds in the individual Group units. In the event of problem loans having to be restructured, they are passed to specialists or restructuring units (workout departments). Staff in these departments can achieve a reduction of losses from problem loans through early intervention.

The standards applying to the management of problem loans in the retail business cover the entire restructuring and warning process for private individuals and small- and medium-sized enterprises. The Restructuring Guideline sets down the uniform Group-wide strategy, organizational structure, methods, monitoring and management for purposes of restructuring. In the workout process, retail customers are divided into "Early," "Late" and "Recovery," and it is on the basis of this categorization that the standardized approach for dealing with these customers is selected.

In assessing the prospects for recovery of claims, the length of delay in payment plays a key role. The table below shows the volume of overdue loans – with no individual value adjustment – to financial institutions and customers for the different timeframes.

31/12/2012 € 000	Current	Overdue Up to 31 days	More than 31 days, up to 90 days	More than 91 days, up to 180 days	More than 181 days, up to 1 year	More than 1 year	Collaterals received for assets which are past due
Banks	21,230,040	369	7	4	3	23	43,413
Sovereigns	1,390,753	32,012	1,430	68	275	570	12,002
Corporate customers – large corporates	47,371,608	1,595,958	243,280	41,820	82,579	216,885	779,274
Corporate customers – mid market	2,717,364	98,956	58,802	6,827	7,475	17,775	148,015
Retail customers – private individuals	18,973,561	1,541,442	335,648	152,950	40,383	280,751	923,748
Retail customers – small and medium-sized entities	2,211,158	233,554	73,559	20,060	19,728	71,373	333,345
Total	**93,894,484**	**3,502,291**	**712,726**	**221,730**	**150,443**	**587,377**	**2,239,797**

31/12/2011 € 000	Current	Overdue Up to 31 days	More than 31 days, up to 90 days	More than 91 days, up to 180 days	More than 181 days, up to 1 year	More than 1 year	Collaterals received for assets which are past due
Banks	22,220,166	5,693	26	11	451	0	0
Sovereigns	1,326,759	113,395	2,319	1,090	409	97	1,945
Corporate customers – large corporates	51,246,610	1,384,870	385,260	36,673	36,324	95,083	771,902
Corporate customers – mid market	3,065,309	139,740	66,148	8,124	6,504	18,023	165,846
Retail customers – private individuals	14,921,135	1,273,151	272,556	126,967	22,331	99,532	791,279
Retail customers – small and medium-sized entities	1,731,876	204,187	48,190	17,120	9,492	12,152	217,041
Total	**94,511,855**	**3,121,036**	**774,498**	**189,987**	**75,511**	**224,887**	**1,948,012**

Restructuring of loans

As of 31 December 2012, the carrying amount of loans for which terms had been renegotiated in connection with a substantial and immediate loss in cash value – and which otherwise would have had to be impaired or would have been overdue – was € 754,317 thousand (2011: € 474,473 thousand). In terms of asset classes, corporate customers accounted for € 141,832 thousand (2011: € 79,615 thousand) while € 612,314 thousand (2011: € 394,349 thousand) was attributable to retail customers.

Non-performing loans and loan loss provisions

According to the internal definition, a default and thus a non-performing loan (NPL) arises if it can be assumed that a customer will not meet his credit obligations toward the Bank in full, or will be in arrears for at least 90 days in meeting a significant claim owed to the bank. At RZB, 12 different indicators are used to determine default for non-retail customers. For instance, a default is deemed to occur if the customer is involved in insolvency or similar proceedings, if a value adjustment or direct write-down on a customer loan has been made, or if the credit risk management team assesses a customer loan as not fully recoverable, or the workout unit is considering restructuring for the customer.

A Group-wide default database was drawn up at RZB to record and document customer defaults. This database records defaults and reasons for default, enabling default probabilities to be calculated and validated.

Loan loss provisions are formed in accordance with defined Group guidelines, which are based on IFRS accounting rules, and cover all identifiable credit risks. In non-retail business, regular problem loan rounds are used in the individual Group units to decide on the formation of loan loss provisions for individual loans. In retail business, the calculation of loan loss provisions is carried out by retail risk management departments in the individual Group units. These ascertain the required loan loss provisions on the basis of defined calculation rules at monthly intervals and obtain confirmation from the local accounting department.

The tables below show the exposure of non-performing loans in the defined asset classes loans and advances to banks and loans and advances to customers as reported in the statement of financial position (excluding items off the statement of financial position) for the respective reporting period:

€ 000	As of 1/1/2012	Change in consolidated group	Exchange differences	Additions	Disposals	As of 31/12/2012
Corporate customers	4,749,445	77,429	44,759	1,752,303	(1,430,809)	5,193,127
Retail customers	2,454,576	430,405	50,179	1,020,563	(901,919)	3,053,804
Sovereigns	12,274	0	31	46,195	(1,284)	57,216
Total nonbanks	**7,216,295**	**507,833**	**94,969**	**2,819,061**	**(2,334,012)**	**8,304,146**
Banks	241,276	0	(960)	6,460	(45,110)	201,666
Total	**7,457,571**	**507,833**	**94,009**	**2,825,521**	**(2,379,122)**	**8,505,813**

€ 000	As of 1/1/2011	Change in consolidated group	Exchange differences	Additions	Disposals	As of 31/12/2011
Corporate customers	4,430,957	(335)	(88,103)	1,797,100	(1,390,172)	4,749,445
Retail customers	2,398,263	(73)	(56,706)	892,044	(778,952)	2,454,576
Sovereigns	12,098	0	(215)	3,935	(3,544)	12,274
Total nonbanks	**6,841,318**	**(408)**	**(145,025)**	**2,693,079**	**(2,172,669)**	**7,216,295**
Banks	267,834	0	1,904	97,172	(125,634)	241,276
Total	**7,109,152**	**(408)**	**(143,121)**	**2,790,251**	**(2,298,303)**	**7,457,571**

The following table shows the share of non-performing loans (NPL) in the defined asset classes loans and advances to customers and loans and advances to banks as reported in the statement of financial position (excluding items off the statement of financial position):

	NPL		NPL ratio		NPL coverage ratio	
€ 000	31/12/2012	31/12/2011	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Corporate customers	5,193,127	4,749,445	9.0%	7.8%	63.5%	65.2%
Retail customers	3,053,804	2,454,576	11.5%	11.5%	73.7%	72.3%
Sovereigns	57,216	12,274	3.9%	0.8%	19.8%	48.2%
Total nonbanks	**8,304,146**	**7,216,295**	**9.7%**	**8.6%**	**66.9%**	**67.7%**
Banks	201,666	241,276	0.9%	1.1%	78.2%	94.3%
Total	**8,505,813**	**7,457,571**	**7.9%**	**7.0%**	**67.2%**	**68.5%**

Corporate customer business recorded a total rise in non-performing loans of 9 per cent or € 443,681 thousand to € 5,193,127 thousand (2011: 4,749,445 thousand), the ratio of non-performing loans to credit exposure rose by 1.3 percentage points to 9.0 per cent; at the same time the NPL coverage ratio went down by 1.8 percentage points to 63.5 per cent

In the retail portfolio, non-performing loans grew by 24.0 per cent or € 599,228 thousand to € 3,053,804 thousand (2011: € 2,454,576 thousand). The ratio of non-performing loans to credit exposure remained stable at 11.5 per cent, the NPL coverage ratio improved by 1.4 percentage points to 73.7 per cent.

The portfolio of non-performing loans in the division financial institutions totaled € 201,666 thousand (2011: € 241,276 thousand), the NPL coverage ratio sank by 16.1 percentage points to 78.2 per cent.

The following table shows the development of impairment losses on loans and provisions for liabilities off the statement of financial position and the corresponding items from the statement of financial position:

€ 000	As of 1/1 2012	Change in consolidated group	Allocation[1]	Release	Usage [2]	Transfers, exchange differences	As of 31/12 2012
Individual loan loss provisions	**4,501,005**	**95,305**	**1,777,620**	**(573,939)**	**(919,873)**	**38,804**	**4,918,921**
Loans and advances to banks	208,591	0	2,387	(5,967)	(58,105)	(1,101)	145,805
Loans and advances to customers	4,202,257	90,494	1,697,364	(514,317)	(847,060)	37,696	4,666,434
Off-balance sheet obligations	90,157	4,811	77,869	(53,655)	(14,708)	2,209	106,682
Portfolio-based loan loss provisions	**762,777**	**337,897**	**361,008**	**(525,111)**	**0**	**13,193**	**949,763**
Loans and advances to banks	19,052	0	221	(7,350)	0	(9)	11,914
Loans and advances to customers	680,558	336,759	340,796	(479,537)	0	12,501	891,076
Off-balance sheet obligations	63,167	1,138	19,992	(38,225)	0	701	46,773
Total	**5,263,782**	**433,201**	**2,138,628**	**(1,099,051)**	**(919,873)**	**51,997**	**5,868,684**

1 Allocation including direct write-downs and income on written down claims.
2 Usage including direct write-downs and income on written down claims.

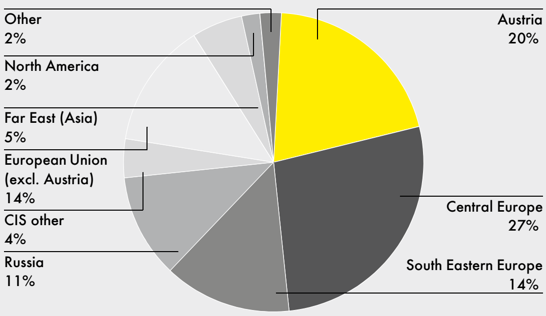
€ 000	As of 1/1 2011	Change in consolidated group	Allocation[1]	Release	Usage [2]	Transfers, exchange differences	As of 31/12 2011
Individual loan loss provisions	**4,030,624**	**(182)**	**1,773,386**	**(561,001)**	**(660,250)**	**(81,572)**	**4,501,005**
Loans and advances to banks	236,579	0	(3,666)	(4,540)	(21,540)	1,758	208,591
Loans and advances to customers	3,741,519	(182)	1,708,274	(533,659)	(635,871)	(77,824)	4,202,257
Off-balance sheet obligations	52,526	0	68,777	(22,802)	(2,839)	(5,506)	90,157
Portfolio-based loan loss provisions	**887,999**	**(15)**	**280,577**	**(385,510)**	**0**	**(20,275)**	**762,777**
Loans and advances to banks	18,440	0	634	(41)	0	19	19,052
Loans and advances to customers	790,137	(15)	249,889	(341,293)	0	(18,160)	680,558
Off-balance sheet obligations	79,422	0	30,054	(44,176)	0	(2,134)	63,167
Total	**4,918,623**	**(197)**	**2,053,963**	**(946,511)**	**(660,250)**	**(101,846)**	**5,263,782**

1 Allocation including direct write-downs and income on written down claims.
2 Usage including direct write-downs and income on written down claims.

Country risk

Country risk comprises transfer and convertibility risk as well as political risk, resulting from cross-border transactions or direct investments in other countries. RZB is exposed to this risk as a result of its business activities in the convergence markets of Central and Eastern Europe, in which the political and economic risks continue to be regarded as significant in some cases.

Credit exposure to customers by region



Country risk is closely connected with the risk from sovereign institutions and is therefore valued in the same way using the same ten-step rating model. This model takes account both of quantitative macroeconomic factors and of qualitative indicators for describing political risk. RZB's active country risk management takes place on the basis of the Country Risk Policy set every six months by the Management Board. This policy, as part of the credit portfolio limit system, sets a strictly defined limit for risks with respect to countries.As part of day-to-day operations, in cross-border transactions the business units thus also have to make limit applications as well as setting customer-specific limits. Country risk is factored into product calculations and risk-adjusted performance measurement too. In this way, the Group offers an incentive for business units to obtain cover for country risk through insurance (e.g. through export credit insurance agencies) or guarantees from other countries.

Finally, stress tests are also used to analyze the effects of severe crises in selected countries and regions on the Group's earnings situation. These stress tests underline the importance attached to this area in RZB's risk management.

Concentration risk

RZB's credit portfolio is well diversified in terms of geographical region and industry. Single credit concentrations are also actively managed (based on the concept of groups of connected customers) by limits and regular reporting. As a consequence, portfolio granularity is high. There are currencies in which the absolute value of the interest rate sensitivity is at least € 10 thousand. In accordance with risk policy, these include only customers with a very good rating or – in exceptional cases – a medium rating if a high level of cover is provided (using collateral that can be swiftly realized).

The regional breakdown of credit exposure reflects broad diversification in European markets. The table below shows the credit exposure in all asset classes broken down by customers' country of origin and grouped into regions. The "Other" line mainly consists of lending to customers in Western European countries – such as Switzerland and the Netherlands – and in other countries in Central and Eastern Europe in which RBI is represented through network banks (e.g. Slovenia, Belarus, etc.).

The following table shows the development of impairment losses on loans and provisions for liabilities off the statement of financial position and the corresponding items from the statement of financial position:

€ 000	2012	Share	2011[1]	Share
Central Europe	**48,187,162**	**27.2%**	**43,217,166**	**23.1%**
Poland	14,686,703	8.3%	8,903,746	4.8%
Slovakia	11,505,817	6.5%	11,947,936	6.4%
Czech Republic	11,176,189	6.3%	11,035,329	5.9%
Hungary	8,787,837	5.0%	8,940,207	4.8%
Other	2,030,616	1.1%	2,389,948	1.3%
Austria	**35,973,872**	**20.3%**	**42,100,828**	**22.5%**
European Union	**24,035,375**	**13.6%**	**27,427,983**	**14.7%**
Great Britain	6,932,414	3.9%	7,365,436	3.9%
Germany	6,681,870	3.8%	8,002,234	4.3%
France	5,277,852	3.0%	3,187,592	1.7%
Netherlands	1,446,262	0.8%	2,961,568	1.6%
Other	3,696,977	2.1%	5,911,153	3.2%
Southeastern Europe	**24,752,247**	**14.0%**	**26,949,342**	**14.4%**
Romania	8,097,000	4.6%	8,660,212	4.6%
Croatia	5,730,036	3.2%	6,240,402	3.3%
Bulgaria	4,271,157	2.4%	4,378,913	2.3%
Serbia	2,073,441	1.2%	2,549,325	1.4%
Other	4,580,613	2.6%	5,120,489	2.7%
Russia	**19,883,559**	**11.2%**	**18,507,888**	**9.9%**
Far East	**9,670,143**	**5.5%**	**12,277,528**	**6.6%**
China	4,167,045	2.4%	6,555,672	3.5%
Other	5,503,098	3.1%	5,721,856	3.1%
CIS Other	**7,424,800**	**4.2%**	**7,802,674**	**4.2%**
Ukraine	5,649,252	3.2%	6,357,144	3.4%
Other	1,775,548	1.0%	1,445,530	0.8%
North America	**3,496,344**	**2.0%**	**4,379,149**	**2.3%**
Rest of the world	**3,686,116**	**2.1%**	**4,320,108**	**2.3%**
Total	**177,109,617**	**100.0%**	**186,982,664**	**100.0%**

1 Adjustments of previous year figures due to different mapping.

RZB has no subsidiary banks in any of the EU periphery countries, but there are claims on customers in these countries resulting from the financing of international corporate customers and from capital market transactions. In particular, the Group holds almost no government bonds from these countries (except some from the Republic of Italy).

Risk policy and credit assessments at RZB take into account the sector to which the borrower belongs. Banking and insurance represent the largest sector, but this is mostly attributable to exposure to members of the Austrian Raiffeisen sector (central liquidity balancing function). The second largest sector is private households, primarily retail customers in Central and Eastern European countries.

The table below shows credit exposure for the Group by customer sector:

€ 000	2012	Share	2011	Share
Banking and insurance	56,979,022	32.2%	57,569,117	30.8%
Private households	23,136,825	13.1%	22,064,425	11.8%
Wholesale trade and commission trade (except car trading)	16,520,201	9.3%	17,957,157	9.6%
Other manufacturing	12,068,959	6.8%	13,824,919	7.4%
Public administration and defence and social insurance institutions	11,015,205	6.2%	13,417,261	7.2%
Real estate activities	10,677,056	6.0%	11,437,577	6.1%
Construction	7,249,431	4.1%	7,478,576	4.0%
Other business activities	6,257,721	3.5%	6,600,147	3.5%
Retail trade except repair of motor vehicles	4,827,639	2.7%	5,389,774	2.9%
Electricity, gas, steam and hot water supply	3,349,926	1.9%	3,625,497	1.9%
Manufacture of basic metals	2,683,831	1.5%	3,648,883	2.0%
Manufacture of food products and beverages	2,380,700	1.3%	2,539,277	1.4%
Other transport	2,299,661	1.3%	2,157,793	1.2%
Land transport, transport via pipelines	2,028,215	1.1%	2,238,871	1.2%
Manufacture of machinery and equipment	1,445,707	0.8%	1,560,844	0.8%
Extraction of crude petroleum and natural gas	1,416,710	0.8%	1,580,433	0.8%
Sale of motor vehicles	1,370,643	0.8%	1,602,863	0.9%
Other industries	11,402,164	6.4%	12,289,249	6.6%
Total	**177,109,617**	**100.0%**	**186,982,664**	**100.0%**

Structured credit portfolio

RZB's strategy for the structured credit portfolio foresees progressive reduction in the investments through repayment or maturity or through sales, depending on the market situation. The total exposure to structured products is set out in note (39) securitizations. Around 98 per cent of this portfolio has an external rating of A or higher, and the pools are mainly made up of claims against European customers.

Counterparty default risk

A counterparty default in derivatives, repo or securities lending transactions may result in losses through the cost of reacquiring an equivalent contract. This risk is measured by RZB using the market valuation method, which takes into account the market value and a predefined add-on for any change in the value of the claim in the future. For internal management, possible price changes affecting the fair value of these instruments are ascertained for the specific types of instruments on the basis of historical changes in the market value.

The conclusion of derivatives contracts requires adherence to the credit approval process, in which the same risk classification, limitation and monitoring procedures apply as in traditional lending. Derivatives positions are taken into account in setting and monitoring of credit limits and in the measurement and allocation of internal capital, together with other claims applying to a client, and factored into the calculations on a weighted basis.

A key strategy for reducing this risk is the use of credit risk mitigation techniques, such as netting and collateral cover. As a basic principle, for all significant derivatives transactions with market participants, RZB seeks to conclude a standardized ISDA master agreement for bilateral netting and a Credit Support Annex (CSA) to cover the prevailing market value on a daily basis.

Market risk

RZB Group defines market risk as the potential for negative change in the market price of trading and investment positions. Market risk is determined by fluctuations in exchange rates, interest rates, credit spreads, share prices and commodities prices, as well as other relevant market parameters such as implicit volatilities.

Market risk in customer business is transferred to Treasury through transfer pricing methods. The Treasury division is responsible for the management of these structural risks and for adherence to the overall Group limit. The Capital Markets division is responsible for proprietary trading, market making and customer transactions in money and capital market products.

Organization of market risk management

RZB measures, monitors and manages all market risks at the Group level.

Strategic market risk management is the responsibility of the *Market Risk Committee*, which is in charge of managing and coordinating all market risks within the Group. The total Group limit is determined by the overall Management Board taking into account risk-bearing capacity and the income budget. This limit is divided into sublimits in consultation with the relevant business divisions in accordance with strategy, business model and risk appetite.

The Market Risk Management *department* ensures that business activities and products come within the scope of the Group's defined and approved strategy and risk appetite. It is responsible for developing and enhancing the risk management processes, rules, measuring methods, risk management infrastructure and systems for all market risk categories and for market risk-induced credit risks in derivatives business. Moreover, this department performs daily independent measurements and reports on all market risks.

All products in which open positions are held are defined in the catalogue of products. New products are not added to this list until they have successfully completed the *product introduction process*. Applications for the addition of a new product undergo comprehensive risk analysis and are not approved until they can be tracked in the front and back offices and risk management systems.

Limit system

RZB pursues a comprehensive risk management approach for its trading and banking books (total return approach). Market risk management is systematically applied to all trading and banking books. The following parameters are measured and limited in the market risk management system on a daily basis:

- Value at risk (VaR) confidence interval of 99 per cent, horizon of 1 day

- VaR is the main instrument for managing market risks in liquid markets and normal market situations. It is measured on the basis of a hybrid simulation approach in which 5,000 scenarios are generated. It combines the advantages of historical simulation with those of a Monte Carlo simulation. The market parameters applied are based on historical time series with a duration of 500 days. Modern characteristics such as volatility declustering, random time changes and extreme event containers are factored into the distribution assumptions in order to make allowance for top-heavy and asymmetric distribution. The model has been approved by the Austrian financial markets regulator as an internal model for measuring equity requirements. The value at risk results are used not only to cap risk, but also to calculate economic capital allocation.

- Sensitivity (toward changes in exchange and interest rates, gamma, vega, stock and commodity prices)

- Sensitivity limits are used to avoid clustering in normal market situations and are the main management instruments in stress situations or in markets that are illiquid or structurally difficult to measure.

- Stop loss: This limit supports traders' discipline in measuring proprietary trading positions and severely limiting losses rather than allowing them to accumulate.

This multi-level limit system is supplemented with a comprehensive stress testing model that calculates potential changes in the value of the overall portfolio in light of different scenarios. Any risk clustering indicated by such stress testing is reported to the Market Risk Committee and taken into account in the allocation of limits. Stress testing reports per portfolio form part of the daily market risk report.

Value at risk (VaR)

The following table sets out the risk parameters (VaR 99 per cent, 1d) for the market risk to which the trading and banking books are exposed for each risk type. RZB Group's VaR is dominated by structural capital positions, the structural interest risks and the spread risks on the bond books held as a liquidity reserve.

Trading book VaR 99% 1d € 000	VaR as of 31/12/2012	Average VaR	Minimum VaR	Maximum VaR	VaR as of 31/12/2011
Currency risk[1]	52,271	56,751	42,756	79,086	63,564
Interest rate risk	3,220	2,668	1,205	8,244	6,715
Credit spread risk	3,262	3,412	2,321	5,180	877
Share price risk	2,129	1,953	1,535	2,695	2,328
Vega risks[2]	658	815	530	1,387	n.a.
Total	59,093	60,758	43,796	83,988	48,039

1 Exchange rate risk on total bank level also includes equity positions of subsidiaries denominated in foreign currency.
2 October til December 2012

Banking book VaR 99% 1d € 000	VaR as of 31/12/2012	Average VaR	Minimum VaR	Maximum VaR	VaR as of 31/12/2011
Interest rate risk	14,378	19,441	9,283	45,748	46,274
Credit spread risk[1]	17,667	25,537	11,344	35,053	10,814
Vega risks[2]	1,044	1,853	1,044	2,913	n.a.
Total	23,910	35,632	21,054	58,158	29,172

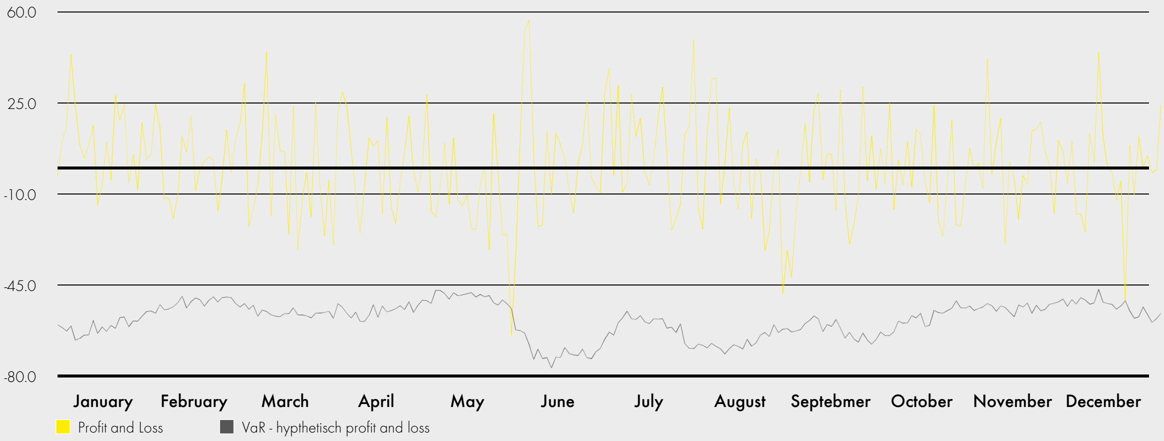
1 July to December 2012; with the full integration of the credit spread risk, a direct comparison with the previous year is not possible
2 October to December 2012

Total VaR 99% 1d € 000	VaR as of 31/12/2012	Average VaR	Minimum VaR	Maximum VaR	VaR as of 31/12/2011
Currency risk[1]	52,217	56,751	42,754	79,082	63,564
Interest rate risk	15,841	20,002	10,067	44,540	46,023
Credit spread risk	20,830	28,450	16,133	39,238	10,772
Share price risk	2,129	1,953	1,535	2,695	2,328
Vega risks[2]	860	1,380	828	2,412	n.a.
Total	71,212	78,296	49,162	104,665	50,954

1 Exchange rate risk on total bank level also includes equity positions of subsidiaries denominated in foreign currency.
2 October to December 2012

In addition to qualitative analyses of profitability, the risk measurement methods used are continuously monitored by means of back-testing and statistical validation processes and, in the event of any modelling weaknesses, duly adapted. In the year under review, there were no back-testing violation in RZB Group's trading book (including the capital positions of the network banks) as can be seen in the following chart, which compares VaR with the hypothetical gains and losses on a daily basis.

Value-at-Risk and theoretical market price changes of the trading book



VaR represents the maximum loss that is not exceeded within one day with a confidence interval of 99 percent. It is compared with the applicable hypothetical gain or loss that would have arisen on the following day as a result of actual market movements. Noteworthy is that the model reproduces market volatility regimes correctly and reacts very quickly to any changes in conditions. Additionally, since 2012 stressed-VaR results have been limited. In 2012, an additional module within the internal model was implemented for a better measurement of the option risk. This measures vega risks in the Group with a hybrid simulation approach. As of the beginning of 2012, stressed VaR is also included in reporting alongside VaR in accordance with the regulatory requirements.

Currency risks and capital (ratio) hedge

RZB's market risk is chiefly determined by the currency risk arising from the equity held in foreign currencies in non-domestic Group units and the resulting hedging operations managed by the Group Asset/Liability Committee. The following table lists the main currency positions as of 31 December 2012 and the comparative figures for the previous year. The amounts shown include both trading positions and capital positions of the subsidiaries preparing their financial statements in a foreign currency.

€ 000	31/12/2012	31/12/2011
ALL	277,703	244,810
BAM	266,547	217,268
BGN	5,722	(59,632)
BYR	170,343	109,977
CNY	167,079	97,353
CZK	768,020	678,626
HRK	741,430	755,662
HUF	461,277	290,401
PLN	2,191,602	765,891
RON	637,737	636,767
RSD	482,423	518,498
RUB	2,548,528	2,280,107
UAH	911,993	1,733,777
USD	(51,732)	(616,156)

Currency risk in the narrower sense is defined as the risk of losses as a result of open foreign-currency positions. Fluctuations in exchange rates affect both current income and the costs incurred. Moreover, they influence the capital-backing requirements for assets denominated in a foreign currency even if they are funded in one and the same currency, meaning that no open currency positions arise.

RZB Group holds material interests in companies that are domiciled outside the Eurozone and which hold their equity in the corresponding local currency. Similarly, a substantial part of RZB's risk-weighted assets are not denominated in euros. For this reason, changes in exchange rates result in fluctuations in RZB's consolidated capital as well as in changes in the capital-backing requirements for credit risk.

Two different approaches are taken to hedge the exchange rate risk.

- Absolute capital retention: This hedging strategy aims to immunize the capital held in local currency by establishing a corresponding counterposition on a consolidated basis. However, this hedging possibility is not available to the necessary extent in all currencies. Moreover, such hedges are not economically viable for some currencies in view of the significant interest differences.

- Constant capital ratio: The purpose of this hedging strategy is to bring the tier 1 capital and risk-weighted assets into line with the target tier 1 capital ratio for each currency (i.e. to eliminate any shortfalls or surpluses in capital in each currency relative to the risk-weighted assets) so as to ensure that the tier 1 capital ratio remains constant in the event of any exchange rate fluctuations.

RZB applies the constant capital ratio approach in its currency risk management. Accordingly, absolute changes in consolidated capital arise in the event of any changes in exchange rates. However, at the same time, the capital backing for credit risks arising from foreign-currency assets also changes accordingly. These risks are managed in the monthly meetings of the Group Asset/Liability Committee on the basis of historical exchange rate volatility and forecasts and the tier 1 capital ratio sensitivity of individual currencies.

Interest risks in the trading book

The following two tables set out the greatest changes in the present value of RZB's trading book in the event of a parallel increase of one basis point in the interest rate in € thousands for the two reporting dates, 31 December 2012 and 31 December 2011. There have been no material changes in the relevant risk drivers in the period under review:

31/12/2012 € 000	Total	< 3 m	3 -6 m	6-12 m	1-2 y	2-3 y	3 -5 y	5-7 y	7-10 y	10-15 y	15-20 y	>20y
ALL	(29)	0	(2)	(10)	(8)	(2)	(3)	(3)	0	0	0	0
BGN	(16)	(1)	0	0	(2)	(1)	(9)	(1)	0	0	0	0
CZK	(13)	(1)	(7)	(11)	3	(5)	1	1	12	(7)	0	0
€	(220)	14	(53)	(21)	(54)	3	(57)	21	5	(35)	(33)	(9)
GBP	11	8	4	(1)	0	0	0	0	0	0	0	0
HUF	(12)	7	(14)	(14)	8	(3)	3	(1)	1	1	0	0
RON	(10)	(2)	2	(2)	(4)	(4)	0	0	0	0	0	0
RUB	(80)	(15)	(10)	(13)	17	(36)	(13)	(10)	0	0	0	0
USD	(64)	17	(18)	19	11	(33)	27	(3)	(19)	3	43	(110)
Other	8	2	3	(2)	2	1	3	(4)	5	0	(1)	(1)

The representation of currencies has changed year on year depending on the absolute value of the interest rate sensitivity.

31/12/2011 € 000	Total	< 3 m	3 -6 m	6-12 m	1-2 y	2-3 y	3 -5 y	5-7 y	7-10 y	10-15 y	15-20 y	>20y
ALL	(31)	0	(1)	(8)	(10)	(10)	(1)	0	0	0	0	0
BGN	(10)	(1)	0	0	(2)	(1)	(4)	0	0	0	0	0
CHF	17	4	12	(2)	2	4	(3)	3	(3)	1	(1)	(1)
CZK	(27)	(1)	1	(3)	(8)	(11)	16	(14)	(1)	(6)	0	0
€	426	1	11	39	12	(8)	181	132	130	(50)	5	(27)
HRK	(14)	0	0	0	0	(1)	(10)	(2)	0	0	0	0
RUB	(185)	(1)	(14)	(22)	(38)	(59)	(28)	(21)	(2)	0	0	0
USD	87	9	(45)	26	(2)	(44)	(5)	(9)	32	(65)	(18)	207
Other	1	7	(11)	9	(2)	(3)	7	(2)	(3)	0	0	0

Interest risks in the banking book

Differing maturities and interest adjustment conditions in the products offered together with funding via customer deposits and via the money and capital markets result in interest risks within RZB. These risks chiefly arise as a result of the only partial equalization of the interest sensitivity of expected payments, their interest adjustment rhythms and other optional characteristics. Interest risks in the banking book arise in the two main currencies – euro and US dollar – as well as the local currencies of Group companies in Central and Eastern Europe.

This risk is fundamentally hedged by means of a combination of on- and off-balance-sheet transactions; interest rate swaps and – to a lesser extent – interest forwards and options are used for this purpose. Balance sheet structure management is a core task for both the central Global Treasury department and the local banks, which are supported by the Asset Liability Management Committee. For this purpose, they rely on scenarios and analyses to simulate interest income to ensure optimum positioning in line with the consensus on interest and within the confines of risk appetite.

Value-at-risk calculations as well as conventional methods for analyzing capital and interest commitments are used to quantify the interest risk in the banking book. Since 2002, a quarterly report on the interest risk has been submitted to the regulator as part of the interest risk statistics. In accordance with the Basel III rules, this also includes a percentage change in the present value of the Group's capital. Key assumptions essential for estimating maturities are made in accordance with regulatory requirements and based on internal statistics and past experience. The changes calculated for an interest shock of 200 basis points remained below the reportable threshold of 20 percent of the eligible capital within RZB at all times in 2012.

The change in the present value of RZB's banking book in the event of a parallel increase of one basis point in interest rates is analyzed in the following tables as of 31 December 2012 and 31 December 2011. They include currencies for which the absolute interest sensitivity is at least € 10,000. The reduction in the interest risk in the banking book is chiefly due to the reduction in holdings of government bonds.

31/12/2012 € 000	Total	< 3 m	3 -6 m	6-12 m	1-2 y	2-3 y	3 -5 y	5-7 y	7-10 y	10-15 y	15-20 y	>20y
ALL	(24)	0	(5)	4	(18)	(1)	0	0	(1)	(3)	(1)	0
BAM	14	(2)	0	1	5	6	2	0	1	2	0	0
BYR	(20)	0	(1)	(6)	(4)	1	(4)	(2)	(2)	(1)	0	0
CHF	(266)	28	(8)	(7)	(1)	0	(28)	(19)	(46)	(101)	(82)	(2)
CZK	(24)	10	(20)	32	(8)	(3)	(14)	(2)	(3)	(6)	(6)	(3)
€	241	57	20	184	187	67	79	(50)	149	(223)	(79)	(149)
HRK	(37)	(1)	0	1	(4)	0	(23)	0	(8)	(2)	0	0
RON	(73)	(5)	5	0	(29)	(13)	(9)	(20)	(3)	0	0	0
RSD	(23)	(1)	(3)	(5)	(10)	(2)	(1)	0	0	0	0	0
RUB	(159)	(18)	(10)	(4)	(38)	(19)	40	(5)	(37)	(51)	(15)	0
UAH	(73)	2	2	9	(55)	(19)	(4)	(3)	(3)	(1)	0	0
USD	(225)	12	22	67	(31)	(16)	(72)	(46)	(98)	(51)	(10)	(3)
Other	(16)	(11)	25	43	(11)	(1)	(18)	(10)	(12)	(12)	(8)	0

The representation of currencies has changed year on year depending on the absolute value of the interest rate sensitivity.

31/12/2011 € 000	Total	< 3 m	3 -6 m	6-12 m	1-2 y	2-3 y	3 -5 y	5-7 y	7-10 y	10-15 y	15-20 y	>20y
ALL	(45)	3	(4)	6	(33)	(13)	(1)	(4)	0	0	0	0
BGN	16	0	3	9	0	5	(1)	0	0	0	0	0
CHF	(154)	8	(5)	(1)	(16)	(2)	(11)	(19)	(37)	(49)	(23)	0
CNY	37	(10)	16	32	0	0	0	0	0	0	0	0
CZK	12	8	(4)	19	0	(2)	3	(10)	(4)	2	(1)	0
€	(345)	86	121	177	189	16	(132)	(616)	38	(118)	(8)	(98)
HRK	(16)	(1)	0	4	(5)	(4)	(3)	(4)	(3)	0	0	0
HUF	(88)	(5)	(7)	(8)	(7)	(21)	(25)	(11)	(5)	1	0	0
RON	(108)	1	(2)	2	(8)	(31)	(11)	(35)	(23)	0	0	0
RSD	(25)	(1)	(1)	(5)	(7)	(7)	(3)	(1)	0	0	0	0
RUB	66	(36)	2	(7)	13	68	113	(6)	(28)	(40)	(13)	0
UAH	(248)	(6)	(5)	(26)	(60)	(57)	(65)	(11)	(10)	(6)	(1)	0
USD	(755)	26	(12)	24	(25)	(98)	(115)	(157)	(151)	(211)	(32)	(4)
Other	(7)	(9)	(1)	(8)	2	5	9	(1)	(3)	0	0	(1)

Credit spread risks

The market risk management framework uses time-dependent bond and CDS-spread curves as risk factors in order to measure credit spread risks. This market risk category thus captures the specific interest rate risk of all securities in the trading and banking book. The value-at-risk report covers this risk category, where a major part of securities positions of the Group are booked. The integration of all positions was completed in the first half-year 2012.

Liquidity risk

Banks perform maturity transformation as an important role for international financial markets. This is done at the request of depositors who wish to access their deposits at short notice as well as in response to the opposing need by borrowers for long-term finance. Performance of these tasks consistently results in liquidity surpluses or shortfalls, which banks offset by exchanging liquidity with other participants in the financial markets under normal market conditions.

Liquidity management, i.e. ensuring that the Group maintain its ability to pay at all times, is performed both centrally by the Treasury division in Vienna and on a decentralized basis by local banking subsidiaries. Cash flows are calculated and analyzed by currency on a daily basis in an internal monitoring system. Based on this data, the Group creates liquidity balances, and analyzes whether the Group conforms to legal regulations on liquidity positions and defined internal liquidity limits. Liquidity analyses also include simulations on defined market or name specific liquidity crises in scenario-based cash flow forecasts. All these analyses are discussed in the Group Asset/Liability Committee of the bank.

RZB possesses all instruments for liquidity risk management required by the liquidity risk management directive (amongst others a sufficiently large liquidity buffer, stress tests based on different scenarios, and liquidity contingency plans). As far as it is possible to estimate the new liquidity ratios based on the still preliminary rules of Basel III, RZB appears to be well prepared for the new regulations.

Short-term liquidity risk

The following table shows excess liquidity and the ratio of expected cash inflows plus counterbalancing capacity to cash outflows (liquidity ratio) for selected maturities on a cumulative basis, taking into account items on and transactions off the statement of financial position. Based on expert opinions, statistical analyses and country specifics, this calculation also incorporates estimates on the prolongation of defined assets, the so-called customer deposit base, and the liquidity counterbalancing capacity (in particular, assets that are eligible for refinancing at central banks and that can be used as collateral in repo transactions). Through the acquisition of Polbank in the second quarter 2012, there was a reduction in excess liquidity in the short-term maturity buckets. Especially, the liquidity ratio of the maturity bucket for one week decreased significantly. This reflects the fact that the short-term liquid funds held for the take-over of Polbank were transferred at the date of take-over into long-term refinancing business.

€ 000	2012			2011		
Maturity	1 week	1 month	1 year	1 week	1 month	1 year
Liquidity gap	14,128,921	11,462,405	13,514,415	20,595,029	17,698,062	6,734,002
Liquidity ratio	124%	114%	109%	168%	126%	104%

Internal limits have been established in each Group unit in order to limit liquidity risk. They require a positive short-term liquidity gap based on the internal liquidity model. The Group holds sizeable amounts of liquid securities and favors assets eligible in tender transactions in the lending business in order to ensure liquidity in various currencies. In the case of a liquidity shortage in the Group, contingency plans would come into force. Such prioritized action lists for handling short-term liquidity needs (also with regard to the publicity impact) exist for all major Group units.

Structural liquidity risk

Structural liquidity risks are particularly triggered by a change in borrowers' risk strategy or deterioration in the rating of an institution seeking to fund itself. Funding costs and possibilities rise and fall with the risk premium sought, which fluctuates for both individual markets and institutions.

Accordingly, the long-term scope for funding hinges on a general recovery in confidence in banks and greater efforts to secure savings deposits. RZB funds itself by means of money and capital market transactions, on the one hand, and from the network banks' retail business, on the other. RZB is the central liquidity clearing unit for the Austrian Raiffeisen Banking Group and the various local Group companies in Central and Eastern Europe.

RZB's funding plan pays particular attention to achieving a balanced funding structure to keep control of structural liquidity risk. Within the Group, funds are raised not only by RBI AG as the largest single institution but also by many subsidiary banks, which are coordinated and optimized by means of a joint plan. In addition, RZB allows its subsidiaries to raise medium- and long-term funds by means of syndicated loans, bilateral bank finance and global loans of supranational institutions. These funding sources are consistently used on the basis of long-standing business relations.

Targets for the loan/deposit ratios (i.e. ratio of loans and advances to customers and customer deposits) have been revised at the individual network banks to manage and actively cap the liquidity risk in light of the expected Basel III rules. These limits take account of the planned future business volume as well as the scope for strengthening the deposit base in the individual countries. This reduces external funding requirements for the Group as well as the need for internal Group liquidity transfers and the related risks.

The analysis of the agreed contractual payment flows for financial liabilities results in the following maturities:

31/12/2012 € 000	Carrying amount	Contractual cash flows	Up to 3 months	3 to12 months	More than 1 year, up to 5 years	More than 5 years
Non-derivative liabilities	**124,999,906**	**142,115,580**	**84,192,817**	**20,244,197**	**27,980,266**	**9,698,298**
Deposits from banks	38,409,769	45,555,668	27,411,096	4,720,877	10,665,674	2,758,020
Deposits from customers	66,439,464	72,032,629	50,939,184	11,923,536	6,601,266	2,568,643
Debt securities issued	13,304,407	15,767,558	2,853,361	2,543,383	8,931,941	1,438,872
Other liabilities	2,961,020	3,855,732	2,894,286	341,457	581,402	38,587
Subordinated capital	3,885,246	4,903,993	94,890	714,944	1,199,983	2,894,176
Derivative liabilities	**7,935,300**	**16,707,935**	**6,101,621**	**2,750,464**	**6,382,611**	**1,473,237**
Derivatives in the trading book	7,446,216	13,901,500	4,060,048	2,587,414	5,843,662	1,410,376
Hedging derivatives	119,933	128,171	15,311	33,326	72,733	6,801
Other derivatives	368,297	2,678,021	2,026,157	129,658	466,145	56,060
Credit derivatives	854	243	105	66	71	0

31/12/2011 € 000	Carrying amount	Contractual cash flows	Up to 3 months	3 to12 months	More than 1 year, up to 5 years	More than 5 years
Non-derivative liabilities	**128,496,158**	**140,091,940**	**78,962,921**	**20,480,260**	**26,543,398**	**14,105,360**
Deposits from banks	39,873,123	43,617,494	23,441,338	5,388,061	11,198,928	3,589,167
Deposits from customers	67,114,176	70,472,246	49,132,455	12,256,688	4,602,633	4,480,470
Debt securities issued	14,277,881	16,940,851	3,518,422	2,559,178	9,391,010	1,472,242
Other liabilities	2,813,368	4,001,005	2,847,456	200,911	821,572	131,065
Subordinated capital	4,417,610	5,060,344	23,250	75,422	529,255	4,432,416
Derivative liabilities	**9,209,114**	**17,940,540**	**7,609,479**	**2,877,748**	**6,150,646**	**1,302,666**
Derivatives in the trading book	8,404,369	15,814,560	6,604,701	2,609,721	5,447,463	1,152,675
Hedging derivatives	42,702	49,372	541	4,782	13,065	30,984
Other derivatives	749,076	2,020,513	1,000,340	242,754	658,502	118,917
Credit derivatives	12,967	56,095	3,897	20,491	31,616	90

Operational risks

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Within this risk category, both internal risk factors – e.g. unauthorized acts, theft and fraud, clearing and process errors, business disruptions and system failures – as well as external risk factors such as property damage and fraudulent intent are controlled and managed.

These risks are analyzed and managed on the basis of the Group's own historical loss data collection and risk assessment results. A further component in managing this risk is an incentive system in the internal allocation of capital to reward high data quality and active risk management. Operational risk management at RZB employs both a centralized and a decentralized system. The basic principles and minimum standards are defined by central operational risk management, while detailed implementation is the responsibility of the local units.

As is the case with the other risk types, RZB applies the principle of functional separation in managing and monitoring operational risk. The risk controlling units for operational risk within the individual Group units are responsible for implementing and improving operational risk management (e.g. self-assessment or definition and monitoring of early warning indicators) and reporting to central operational risk monitoring. The responsible persons in the divisions implement controlling and mitigation measures for operational risk. They make decisions on the use of management instruments: e.g. insurance cover or other risk mitigation processes.

Risk identification

A material aspect of managing operational risks is the identification and assessment of risks liable to jeopardize the Group's going concern status (which, however, are extremely unlikely) and other areas in which losses may occur more frequently (albeit in only a small amount).

Operational risks are assessed on a structured and uniform Group-wide basis using a two-dimensional matrix by generic business process and event type (for each field of business or product group). This assessment is also performed for all new products. All Group units evaluate events with a high probability and a low impact as well as those with a low probability and a high impact relative to income on a one- and ten-year horizon. The low-probability/high-impact events are measured in a groupwide analysis tool using standardized scenarios. In addition, Group units implement further scenarios based on the risk profile and local conditions of the specific unit. In 2012, RZB carried out internal analysis as a result of external events in other institutions.

Monitoring

Key risk indicators of operational risks are used to identify and avert losses as early as possible. These are also oriented to the individual banks within the Group, while Group headquarters additionally defines a compulsory basic set of indicators for internal benchmarking purposes.

Operational loss is recorded on a structured Group-wide basis in the ORCA (Operational Risk Controlling Application) database, which is subdivided according to business field and event type. Collecting losses stemming from operational risks is a prerequisite for implementing a statistical loss distribution model and a minimum requirement for implementing the Standardized Approach. In addition, this loss data serves as a base for scenarios for identifying risks and swapping international loss databases for the development of used measuring methods. Since 2010, RZB has been participant in the ORX data pool, whose data are actually used for internal benchmark purposes and analysis. The results of the analysis as well as events resulting from operational risks are reported in a comprehensive manner to the Group Risk Committee on a regular basis.

Measurement and risk reduction

RZB currently uses the standard approach to calculate capital requirements for operational risk under Basel II. This applies to all the main Group units.

To reduce operational risk, the division managers implement preventive risk reduction and risk transfer measures. Risk controlling then monitors their progress and effectiveness. The managers also develop crisis plans and appoint employees or departments that will implement the necessary measures should a detrimental event actually occur. In addition, several specialized organizational units support the divisions in preventing operational risks. Fraud management plays a major role since it monitors and takes preventive measures to avert potential fraudulent actions. RZB also provides comprehensive employee training and has several contingency plans and backup systems in place.

Other disclosures

(45) Derivative financial instruments

31/12/2012	Nominal amount by maturity				Fair values	
€ 000	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	Positive	Negative
Total	**102,837,243**	**99,583,821**	**55,566,939**	**257,988,003**	**8,180,932**	**(7,935,299)**
Interest rate contracts	**51,048,077**	**84,989,896**	**52,973,698**	**189,011,671**	**7,209,073**	**(6,308,866)**
OTC products						
Interest rate swaps	43,642,533	79,672,530	47,705,335	171,020,398	6,988,469	(6,101,056)
Interest rate futures	5,284,446	136,578	0	5,421,024	12,331	(11,923)
Interest rate options – purchased	704,341	2,511,311	2,334,282	5,549,934	207,292	(0)
Interest rate options – sold	1,103,028	2,388,977	2,864,175	6,356,180	0	(194,563)
Other similar contracts	2,633	0	0	2,633	0	0
Products trading on stock exchange						
Interest rate futures	311,097	280,500	69,906	661,503	982	(1,323)
Foreign exchange rate and gold contracts	**49,699,592**	**11,599,030**	**2,211,911**	**63,510,533**	**845,223**	**(773,030)**
OTC products						
Cross-currency interest rate swaps	5,076,458	10,528,653	2,187,184	17,792,294	286,359	(412,321)
Forward foreign exchange contracts	41,420,938	879,833	0	42,300,771	526,673	(278,775)
Currency options – purchased	1,536,174	73,358	0	1,609,532	31,589	0
Currency options – sold	1,539,816	99,582	0	1,639,398	0	(49,919)
Other similar currency contracts	0	0	0	0	0	(16)
Gold commodity contracts	2,243	17,604	24,727	44,574	116	(29,343)
Products trading on stock exchange						
Currency contracts (futures)	123,963	0	0	123,963	487	(2,655)
Equity/index contracts	**1,502,664**	**1,308,463**	**344,994**	**3,156,120**	**106,630**	**(834,981)**
OTC products						
Equity-/index-based options - purchased	207,152	340,046	170,910	718,108	21,343	0
Equity-/index-based options - sold	91,836	469,852	38,540	600,229	0	(60,325)
Other similar equity/index contracts	150,629	427,416	135,544	713,589	1,603	(675,668)
Products trading on stock exchange						
Equity/index futures - forward pricing	821,241	760	0	822,001	73,744	(89,428)
Equity/index futures	231,806	70,388	0	302,194	9,941	(9,561)
Commodities	**231,916**	**77,926**	**14,364**	**324,206**	**3,623**	**(2,003)**
Credit derivatives	**311,648**	**1,572,644**	**5,000**	**1,889,292**	**16,198**	**(13,745)**
Precious metals contracts	**43,346**	**35,862**	**16,973**	**96,181**	**185**	**(2,672)**

The surplus of negative market values for security-based transactions is offset by shares purchased for hedging purposes. These shares are recorded under trading assets and are not shown in the above table.

31/12/2011	Nominal amount by maturity				Fair values	
€ 000	Up to 1 year	More than 1 year, up to 5 years	More than 5 years	Total	Positive	Negative
Total	**122,268,966**	**144,974,282**	**82,199,384**	**349,442,632**	**8,669,375**	**(9,209,115)**
Interest rate contracts	**67,741,393**	**132,626,306**	**79,168,417**	**279,536,115**	**7,516,683**	**(7,099,901)**
OTC products						
Interest rate swaps	54,265,998	126,633,013	74,131,034	255,030,044	7,308,114	(6,913,713)
Interest rate futures	10,138,796	824,586	0	10,963,382	17,509	(12,836)
Interest rate options – purchased	799,461	2,536,276	2,188,593	5,524,330	181,574	0
Interest rate options – sold	1,136,378	2,632,431	2,688,104	6,456,913	0	(168,122)
Products trading on stock exchange						
Interest rate futures	1,138,261	0	10,686	1,148,947	5,824	(1,975)
Interest rate options	262,500	0	150,000	412,500	3,662	(3,255)
Foreign exchange rate and gold contracts	**51,886,997**	**8,971,520**	**1,857,057**	**62,715,575**	**893,822**	**(1,423,760)**
OTC products						
Cross-currency interest rate swaps	2,533,555	7,584,615	1,830,346	11,948,516	265,021	(592,346)
Forward foreign exchange contracts	46,624,332	1,187,839	0	47,812,171	578,005	(682,160)
Currency options – purchased	1,247,261	60,005	1,519	1,308,785	48,138	0
Currency options – sold	1,311,728	132,279	1,645	1,445,652	0	(120,046)
Other similar currency contracts	10	0	0	10	10	0
Gold commodity contracts	8,305	6,783	23,547	38,635	930	(25,154)
Products trading on stock exchange						
Currency contracts (futures)	161,807	0	0	161,807	1,717	(4,054)
Equity/index contracts	**1,453,434**	**1,144,660**	**382,450**	**2,980,543**	**82,102**	**(590,632)**
OTC products						
Equity-/index-based options - purchased	177,063	344,239	201,960	723,262	17,548	0
Equity-/index-based options - sold	233,653	321,498	57,226	612,377	0	(111,131)
Other similar equity/index contracts	181,165	405,559	121,965	708,689	4,980	(369,640)
Products trading on stock exchange						
Equity/index futures - forward pricing	596,579	458	1,299	598,336	42,639	(93,295)
Equity/index futures	264,973	72,905	0	337,878	16,935	(16,565)
Commodities	**155,274**	**83,595**	**24,645**	**263,514**	**12,923**	**(9,624)**
Credit derivatives	**1,017,437**	**2,127,287**	**753,226**	**3,897,950**	**163,846**	**(80,498)**
Precious metals contracts	**14,430**	**20,913**	**13,590**	**48,934**	**0**	**(4,701)**

(46) Fair value of financial instruments not reported at fair value

Fair values which are different from the carrying amount are calculated for fixed-interest loans and advances to and deposits from banks or customers, if the remaining maturity is more than one year. Variable-interest loans and advances and deposits are taken into account if they have an interest rollover period of more than 1 year. The fair value of loans and advances is calculated by discounting future cash flows and using interest rates at which similar loans and advances with the same maturities could have been granted to customers with similar creditworthiness. Moreover, the specific credit risk and collaterals are considered for the calculation of fair values for loans and advances.

€ 000	2012 Fair value	2012 Carrying amount	2012 Difference	2011[1] Fair value	2011[1] Carrying amount	2011[1] Difference
Assets						
Cash reserve	12,157,356	12,157,356	0	12,951,118	12,951,118	0
Loans and advances to banks	21,287,238	21,272,763	14,474	22,162,345	22,229,773	(67,428)
Loans and advances to customers	80,431,991	80,042,190	389,801	78,460,858	79,210,185	(749,328)
Financial investments	7,135,345	6,986,674	148,671	7,321,940	7,166,038	155,902
Intangible and tangible fixed assets	3,294,991	3,293,285	1,707	2,925,076	2,923,278	1,798
Other assets	2,324,056	2,324,056	0	2,474,216	2,474,216	0
Liabilities						
Deposits from banks	38,398,770	38,409,769	(10,999)	39,789,825	39,873,123	(83,298)
Deposits from customers	66,681,170	66,439,464	241,706	67,066,346	67,114,176	(47,830)
Debt securities issued	10,779,613	10,826,773	(47,160)	10,597,434	11,811,310	(334,536)
Subordinated capital	2,753,521	3,005,122[1]	(251,601)	3,944,096	3,538,270	(473,514)
Other liabilities	1,583,831	1,583,831	0	1,504,372	1,504,372	0

1 Adaption of previous year figures due to different allocation

(47) Fair value of financial instruments reported at fair value

€ 000	2012 Level I	2012 Level II	2012 Level III	2011 Level I	2011 Level II	2011 Level III
Trading assets	**2,118,474**	**8,264,399**	**93,491**	**2,861,986**	**8,602,072**	**102,882**
Positive fair values of derivatives[1]	99,561	7,286,997	92,712	166,781	7,973,537	102,707
Shares and other variable-yield securities	264,612	11,915	723	198,196	11,739	0
Bonds, notes and other fixed-interest securities	1,754,302	965,485	56	2,497,009	609,924	175
Call/time deposits from trading purposes	0	2	0	0	6,872	0
Financial assets at fair value through profit or loss	**5,106,433**	**3,232,801**	**44,333**	**5,063,500**	**2,268,679**	**52,280**
Shares and other variable-yield securities	55,048	105,301	5,700	137,535	118,978	4,745
Bonds, notes and other fixed-interest securities	5,051,385	3,127,501	38,633	4,925,965	2,149,701	47,535
Financial assets available-for-sale	**108,411**	**0**	**250,000**	**3,502,388**	**0**	**252,321**
Other interests[2]	108,411	0	0	80,319	0	0
Bonds, notes and other fixed-interest securities	0	0	0	3,422,069	0	0
Shares and other variable-yield securities	0	0	250,000	0	0	252,321
Derivatives (hedging)	**0**	**701,663**	**0**	**0**	**426,350**	**0**
Positive fair values of derivatives from hedge accounting	0	701,663	0	0	426,350	0

1 Including other derivatives
2 Includes only securities traded on the stock exchange
Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

€ 000	2012 Level I	2012 Level II	2012 Level III	2011 Level I	2011 Level II	2011 Level III
Trading liabilities	**787,531**	**8,377,381**	**27,642**	**670,907**	**9,691,907**	**112,596**
Negative fair values of derivatives financial instruments[1]	165,420	7,629,626	20,320	105,421	9,003,521	57,471
Call/time deposits from trading purposes	0	10,045	0	0	0	0
Short-selling of trading assets	622,111	52	0	565,486	142	0
Certificates issued	0	737,658	7,322	0	688,244	55,125
Liabilities at fair value through profit and loss	**0**	**3,357,758**	**0**	**0**	**3,345,911**	**0**
Debt securities issued[3]	0	2,477,634	0	0	2,466,571	0
Subordinated capital		880,124	0	0	879,340	0
Derivatives (hedging)	**0**	**119,933**	**0**	**0**	**42,702**	**0**
Negative fair values of derivatives from hedge accounting	0	119,933	0	0	42,702	0

1 Including other derivatives.
2 Includes only securities traded on the stock exchange.
3 Level III Valuation techniques not based on market data

Level I Quoted market prices
Level II Valuation techniques based on market data
Level III Valuation techniques not based on market data

Movements in Level III rated financial instruments at fair value

The following tables show the changes in the fair value of financial instruments whose valuation models are based on unobservable parameters.

€ 000	As of 1/1/2012	Change in consolidated group	Exchange differences	Purchases	Sales, repayment
Trading assets	102,882	0	(4,895)	0	(114)
Financial assets at fair value through profit or loss	54,601	0	(59)	10,335	(26,701)
Financial assets available-for-sale	250,000	0	0	0	0

€ 000	Gains/loss in P/L	Gains/loss in other comprehensive income	Transfer in Level III	Transfer aus Level III	As of 31/12/2012
Trading assets	(5,104)	0	723	0	93,491
Financial assets at fair value through profit or loss	(5,989)	0	12,145	0	44,333
Financial assets available-for-sale	0	0	0	0	250,000

€ 000	As of 1/1/2012	Change in consolidated group	Exchange differences	Purchases	Sales, repayment
Trading liabilities	112,332	0	0	437	(87,092)

€ 000	Gains/loss in P/L	Gains/loss in other comprehensive income	Transfer in Level III	Transfer aus Level III	As of 31/12/2012
Trading liabilities	1,965	0	0	0	27,642

Gains and losses resulting from financial instruments of the level III fair value hierarchy amounted to minus € 9.128 thousand (2011: gain of € 106.408 thousand).

(48) Contingent liabilities and commitments

€ 000	2012	2011
Contingent liabilities	**12,467,627**	**13,752,690**
Acceptances and endorsements	37,670	43,693
Credit guarantees	6,509,690	7,377,583
Other guarantees	2,563,103	2,907,583
Letters of credit (documentary business)	2,732,703	3,072,307
Other contingent liabilities	624,461	351,523
Commitments	**10,957,331**	**12,779,677**
Irrevocable credit lines and stand-by facilities	10,957,331	12,779,677
Up to 1 year	4,278,586	4,871,639
More than 1 year	6,678,745	7,908,038

The following table contains revocable credit lines which are unweighted according to Basel II:

€ 000	2012	2011
Revocable credit lines	**16,053,749**	**14,713,219**
Up to 1 year	11,296,890	11,830,786
More than 1 year	3,625,806	2,882,433
Without maturity	1,131,053	0

Raiffeisen Zentralbank Österreich Aktiengesellschaft and Raiffeisen Bank International AG are members of the Raiffeisen-Kundengarantiegemeinschaft Österreich. The members of this association assume a contractually agreed liability stating that together, they will guarantee to fulfill all customer deposits and own issues of an insolvent member up to the limit which results from the total of the financial strength of each individual member institution within the corresponding deadlines. The financial strength of a member institution depends on its freely available reserves taking into account the relevant rules according to the Austrian Banking Act (BWG).

(49) Fiduciary business

Fiduciary business not recognized in the statement of financial position was concluded with the following volumes on the reporting date:

€ 000	2012	2011
Loans and advances to banks	8,239	9,509
Loans and advances to customers	269,770	338,321
Financial investments	9,379	7,262
Other fiduciary assets	94,185	69,751
Fiduciary assets	**381,573**	**424,842**
Deposits from banks	115,565	113,085
Deposits from customers	162,646	234,915
Other fiduciary liabilities	103,362	76,842
Fiduciary liabilities	**381,573**	**424,842**

Fiduciary income and expenses break down as follows:

€ 000	2012	2011
Fiduciary income	6,681	7,019
Fiduciary expenses	981	827

The following table contains the funds managed by RZB:

€ 000	2012	2011
Retail investment funds	**6,578,312**	**4,976,007**
Equity-based and balanced funds	4,478,591	3,004,068
Bond-based funds	1,948,411	1,700,639
Money market funds	93,311	232,330
Other	57,999	38,970
Special funds	**1,049,481**	**992,300**
Property-based funds	**125,375**	**69,699**
Total	**7,753,169**	**6,038,006**

(50) Subordinated assets

€ 000	2012	2011
Loans and advances to banks	37,112	37,809
Loans and advances to customers	56,037	50,563
Trading assets	1,979	2,471
Financial investments	55,905	85,105
Total	**151,033**	**175,947**

(51) Securities admitted for trading on a stock exchange in accordance with section 64 of the Austrian Banking Act (BWG)

	2012		2011	
€ 000	listed	unlisted	listed	unlisted
Bonds, notes and other fixed-interest securities	8,363,915	680,203	13,094,144	550,933
Shares and other variable-yield securities	396,186	207,060	382,929	220,921
Equity participations	38,571	66,580	34,571	20,623

(52) Securities trading book volume in accordance with section 22b of the Austrian Banking Act (BWG)

€ 000	2012	2011
Securities, equity investments	3,211,013	3,389,479
Other financial instruments	233,469,320	322,972,007
Total	**236,680,332**	**326,361,487**

(53) Capital management and regulatory funds according to the Austrian Banking Act (BWG)

Capital is an integral part of bank management. RZB as an international Group considers several control parameters.

Regulatory values are defined for RZB on a consolidated and an individual basis by the Austrian Banking Act based on adequate guidelines of the EU. There are also – often deviating with regard to content – guidelines in the several countries in which RZB operates. Such guidelines have to be adhered to by the local Group units.

RZB uses target values for internal regulation, which comprise all risk types (including trading book, currency risk and operational risk). The current planning/budgeting is shaped by the developments in Basel and Brussels regarding the advancement and harmonizing of own funds regulations. Parallel to the development of these regulations, RZB will introduce new target capital ratios, which are sufficiently above the 7 per cent core tier 1 capital (full expansion stage Basel III) in order to avoid regulatory limitations regarding management decisions (e.g. amount of dividend). An additional dimension has been added with the requirements of the European Banking Authority (EBA). Here the underlying rules differ from the previously valid BWG, as well as from the drafts contained in the CRR I/CRD IV.

Control on a Group level is exerted in cooperation between the departments Treasury, Planning & Finance and Group Strategy. The individual Group units are responsible for the observation of the capital targets in coordination with central departments responsible for the participation management of the respective unit.

The main focus of control is on the core tier 1 ratio (common equity tier 1) and the internal capital within the framework of ICAAP. Accordingly, the mixture of capital instruments (several kinds of tier 1, tier 2 and tier 3 capitals) has an important role due to the complex mutual consideration limits. Tier 3 capital, however, plays a minor role, since this kind of capital will no longer be eligible under Basel III and CRR I/CRD IV. Moreover, it is expected that the mutual consideration limits under Basel III and CRR I/CRD IV will be released.

Besides that, the risk taking capacity is calculated in the framework of regulatory limits. It is defined as the maximum loss, which the bank or the banking group may encounter during the current calendar year without falling short of the regulatory minimum capital values.

The current regulatory discussions and publications of the Basel Committee, EU Committees and the Austrian Regulatory Authority in connection with the new regulatory guidelines (Basel III) are demonstrated in scenario calculations by Planning & Finance and Risk Controlling. The effects are immediately considered in planning and control in case of a certain occurrence probability.

The determination of the target values in relation to the compulsory minimum requirements needs additional internal control calculations. The department Risk Controlling calculates the value-at-risk in comparison with the above defined risk taking capacity. Moreover, a balance between economic capital and the respective cover is drawn. The economic capital is integral part of the planning and control of RZB. Further details regarding this calculation are stated in the risk report.

In the reporting year, the determination of eligible own funds in accordance with § 29a of the Austrian Banking Act was changed to international accounting standards. The comparable figures are based on BWG/UGB and have not been adjusted. The own funds of RZB credit institution group according to the Austrian Banking Act (BWG) 1993/Amendment 2006 (Basel II) break down as follows:

€ 000	2012	2011[1]
Paid-in capital	2,327,243	2,344,272
Earned capital	3,350,566	2,924,400
Non-controlling interests	4,641,814	4,397,825
Hybrid tier 1 capital	441,252	800,000
Intangible fixed assets	(754,752)	(507,058)
Core capital (tier 1 capital)	**10,006,123**	**9,959,439**
Deductions from core capital	(67,092)	(61,652)
Eligible core capital (after deductions)	**9,939,031**	**9,897,788**
Supplementary capital according to Section 23 (1) 5 BWG	35,564	598,742
Provision excess of internal rating approach positions	228,178	233,748
Long-term subordinated capital	3,030,221	2,485,571
Additional own funds (tier 2 capital)	**3,293,963**	**3,318,061**
Deduction items: participations, securitizations	(67,092)	(61,652)
Eligible additional own funds (after deductions)	**3,226,872**	**3,256,410**
Deduction items: insurance companies	(800,541)	(529,776)
Tier 2 capital available to be redesignated as tier 3 capital	302,070	100,079
Short term subordinated capital (tier(3))	**302,070**	**100,079**
Total own funds	**12,667,432**	**12,724,500**
Total own funds requirement	**6,965,210**	**7,982,494**
Excess own funds	5,702,221	4,742,006
Excess cover ratio	81.9%	59.4%
Core tier 1 ratio, total	10.9%	9.1%
Tier 1 ratio, credit risk	13.8%	12.2%
Tier 1 ratio, including market and operational risk	11.4%	9.9%
Own funds ratio	14.5%	12.8%

1 Comparable figures are based on BWG/UGB

The total own funds requirement is as follows:

€ 000	2012	2011
Risk-weighted assets according to section 22 BWG	**72,197,895**	**81,416,287**
of which 8 per cent minimum own funds for the credit risk according to Sections 22a to 22h BWG	5,775,832	6,513,303
Standardized approach	2,733,465	3,396,663
Internal rating approach	3,042,367	3,116,640
Settlement risk	1	7
Own funds requirement for position risk in bonds, equities and commodities	273,353	519,912
Own funds requirement for open currency positions	55,977	140,139
Own funds requirement for operational risk	860,048	809,133
Total own funds requirement	**6,965,210**	**7,982,494**

Risk-weighted assets decreased in particular due to the stricter own funds requirement and the resulting core tier 1 ratio of 9 per cent (core tier 1 as defined by EBA) which was decided in the fall of 2011 by the EBA and was to be met by 30 June 2012.

Risk-weighted assets for the credit risk according to asset classes break down as follows:

€ 000	2012	2011
Risk-weighted assets according to section 22 BWG on standardized approach	**34,168,308**	**42,458,287**
Central governments and central banks	2,063,350	3,518,187
Regional governments	97,525	99,000
Public administration and non-profit organizations	6,363	24,688
Multilateral development banks	1,150	0
Banks	410,188	737,575
Corporate customers	15,748,150	24,401,575
Retail (including small and medium-sized entities)	11,397,075	9,443,900
Covered bonds	1,313	1,313
Mutual funds	111,225	118,225
Securitization position	51,613	47,713
Other positions	4,280,358	4,066,113
Risk-weighted assets on internal rating approach	**38,029,588**	**38,958,000**
Central governments and central banks	402,650	38,838
Banks	3,801,700	4,452,038
Corporate customers	30,789,038	32,009,025
Retail customers	2,811,838	2,170,575
Equity exposures	118,300	249,575
Securitization position	106,063	37,950
Total	**72,197,895**	**81,416,287**

(54) Average number of staff

Full-time equivalents	2012	2011
Salaried employees	60,596	59,624
Wage earners	943	975
Total	**61,539**	**60,599**

Full-time equivalents	2012	2011
Austria	3,259	3,287
Foreign	58,280	57,312
Total	**61,539**	**60,599**

(55) Expenses on severance payments and retirement benefits

€ 000	2012	2011
Members of the management board and senior staff	11,720	7,936
Other employees	25,763	15,243
Total	**37,483**	**23,179**

For two members of the Management Board essentially the same rules apply as for employees, which provide for a basic contribution to a pension fund on the part of the company and an additional contribution, if the employee makes his own contributions in the same amount. One member of the Management Board has a performance-based pension benefit.

In the event of termination of function or employment and retirement from the company, two members of the Management Board are entitled to severance payments in accordance with the Salaried Employees Act (Angestelltengesetz) and the Banking Sector Pay Scale Agreement (Bankenkollektivvertrag) and one member in accordance with the Employee Benefit Act (Betriebliches Mitarbeitervorsorgegesetz).

Furthermore, protection is in place against occupational disability risk through one pension fund and/or on the basis of an individual pension benefit. The contracts for members of the Management Board are concluded for the duration of their functional period or are limited to a maximum of five years.

(56) Relations to key management

Group relations of key management

Key management refers to the members of the Management Board and Supervisory Board of the Group parent Raiffeisen Zentralbank Österreich Aktiengesellschaft and the managers of the holding company Raiffeisen-Landesbanken-Holding GmbH. Relations of key management to RZB are as follows (at fair values):

€ 000	2012	2011
Sight deposits	14	12
Bonds	1,680	3,881
Shares	897	1,202
Savings deposits	24	26
Leasing claims	347	71

The following table shows relations of close family members of key management to RZB:

€ 000	2012	2011
Bonds	61	0
Savings deposits	46	14

The Group has no further relations with key management.

Remuneration of members of the Management Board

The members of the Management Board of Raiffeisen Zentralbank are remunerated as follows:

€ 000	2012	2011
Fixed remunerations	1,919	1,857
Bonus (performance-related)	463	0
Payments to pension funds and business insurances	957	954
Other remunerations	1,018	655
Total	**4,357**	**3,467**

The table contains fixed and performance-based remuneration and other remunerations, including compensation for functions in the management bodies of affiliated companies and benefits in kind.

One member of the Management Board received all remuneration from an affiliated company; no additional remuneration was paid for his activities at RZB. For one member of the Management Board the bonus payment for 2010 was still measured in accordance with the return on equity (ROE) method. In accordance with the contractual provisions applicable to this person up until the end of 2010, bonus payments totalling € 458 thousand were made, € 234 thousand were paid in 2012 and € 215 thousand will be due in 2013. The amount actually paid will be determined at the discretion of the Personnel Committee.

Remuneration of other boards

The members of the Supervisory Board and other boards are remunerated as follows:

€ 000	2012	2011
Supervisory board	418	408
Federal Advisory Board (Länderkuratorium)	145	146

No additional contracts requiring approval within the meaning of Section 95 (5) Z 12 of the Austrian Stock Corporation Act (AktG) were concluded with the members of the Supervisory Board in the 2012 financial year.

(57) Boards

In accordance with Section 70 (1) of the Austrian Joint Stock Company Act (AktG), the members of the Management Board are personally responsible for leading the company to the best benefit of Raiffeisen Zentralbank and its Group, taking into account shareholders' and employees' interests as well as public interests.

According to Austrian Joint Stock Company Act, the Supervisory Board is responsible for monitoring and supporting the Management Board in fundamental strategic company decisions. The Supervisory Board established the Personnel Committee, Audit Committee, Working Committee and Remuneration Committee as sub-committees and staffed these from its own ranks.

- The authorizations of the Supervisory Board's Personnel Committee stretch to the legal relationships between the company and the active as well as the retired members of the Management Board, but exclude their appointment or their termination of contract.

- The Supervisory Board's Audit Committee oversees the accounting process, the effectiveness of the internal control system, the company's internal audit system and risk management system as well as the annual statutory audit and the consolidated financial statements audit. It prepares the recommendation of the Supervisory Board for the selection of the external auditor and bank auditor. The Audit Committee checks and supervises the independence of the Group's auditor and bank auditor, particularly with respect to the additional work performed for the audited company. The Audit Committee is also responsible for auditing the annual financial statements and preparing its findings, assessing the profit appropriation proposal, management report and, if required, corporate governance report as well as reporting on the audit results to the Supervisory Board and auditing the consolidated financial statements and management report, including reporting on the audit results to the Supervisory Board of the parent company.

- The Supervisory Board's Working Committee holds a monitoring and authorization function. This particularly applies when taking on risks arising from banking transactions (including the acquisition and sale of securities). It also authorizes risk limits for customers or a group of related customers as from a limit specified by the articles of association. This also applies when establishing, discontinuing or closing subsidiaries and when acquiring investments, directly or indirectly, if the limits set in the articles of association are exceeded.

- The Supervisory Board's Remuneration Committee monitors the remuneration policy, remuneration practices and remuneration-related incentive structures, each in connection with steering, monitoring and limitation of risks pursuant to Section 39 (2b) 1 to 10 Austrian Banking Act (BWG), with the capital adequacy and liquidity. Also the long-term interests of shareholders, investors and employees of the company had to be taken into account. The Supervisory Board's Remuneration Committee approves the general regulations of the remuneration policy, reviews them on a regular basis and is responsible for the implementation of the remuneration policy and practices approved as well as the direct review of the remuneration of higher management in the risk management and in compliance functions.

Finally, the Supervisory Board authorizes the appointments of members of the Management Board and employees of the Bank to the bodies of associated companies and in the case of the Management Board, it also issues authorizations to suspend the non-competition clause regarding the acceptance of Supervisory Board memberships within the company, which are unconnected to the Group or in whose operations the company does not participate within the meaning of Section 228 (1) of the Austrian Commercial Code (UGB). The conclusion of special employment contracts with pension commitments – with exception of the legal relationship stated for the Supervisory Board in Section 6 (2) of the rules of procedure – also requires the approval of the Supervisory Board.

The Federal Advisory Board (Länderkuratorium) of the Supervisory Board has been set up as an additional body in accordance with the articles of association. It has an advisory function and is authorized to submit proposals to the Supervisory Board at any time.

Management Board

- Walter Rothensteiner, since 1 January 1995, Chairman and CEO; Chairman of the Austrian Raiffeisen Association
- Johannes Schuster, since 10 October 2010
- Johann Strobl, since 1 October 2007

Supervisory Board

Executive Committee

- Christian Konrad, until 23 May 2012, President, PersA, PrüfA, AA, VergA, Chairman of the Austrian Raiffeisen Association, Chairman of the Supervisory Board of Raiffeisenlandesbank Niederösterreich-Wien AG, Chairman of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.
- Erwin Hameseder, since 23 May 2012, President, PersA, PrüfA, AA, VergA, General Director of Raiffeisenlandesbank Niederösterreich-Wien AG
- Markus Mair, since 20 June 2006, first Vice President, PersA, PrüfA, AA, VergA, General Director of Raiffeisen-Landesbank Steiermark AG
- Ludwig Scharinger, until 23 May 2012, second Vice President, PersA, PrüfA, AA, VergA, General Director of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft
- Heinrich Schaller, since 23 May 2012, second Vice President, PersA, PrüfA, AA, VergA, General Director of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft
- Julius Marhold, since 2 April 1982, third Vice President, PersA, PrüfA, AA, VergA, General Director of Raiffeisenlandesbank Burgenland und Revisionsverband reg. Gen.m.b.H.

Members

- Klaus Buchleitner, since 25 June 2003, since 1 June 2012 General Director of Raiffeisenlandesbank Niederösterreich-Wien AG
- Peter Gauper, since 24 June 2008, Spokesman of the Management Board of Raiffeisenlandesbank Kärnten – Rechenzentrum und Revisionsverband, reg. Gen.m.b.H.
- Wilfried Hopfner, since 18 June 2009, Chairman of the Management Board of Raiffeisenlandesbank Vorarlberg Waren- und Revisionsverband reg. Gen.m.b.H.
- Günther Reibersdorfer, since 23 June 2005, General Director of Raiffeisenverbandes Salzburg reg. Gen.m.b.H.
- Hannes Schmid, since 23 June 2005, Spokesman of the Management Board of Raiffeisen-Landesbank Tirol AG
- Gottfried Wanitschek, since 25 June 1997, Director of the Management Board of UNIQA Versicherungen AG
- Reinhard Wolf, since 23 May 2012, Director of the Management Board of RWA Raiffeisen Ware Austria AG

All of the above members of the Supervisory Board have been appointed until the Annual General Meeting regarding the 2013 financial year.

Delegated by the Works Council

- Gebhard Muster, since 20 November 2008, since 14 June 2011 Chairman of the Works Council, PrüfA, AA, VergA
- Désirée Preining, since 14 June 2011, Deputy Chairwoman of the Works Council, PrüfA, AA, VergA
- Gregor Bitschnau, since 14 June 2011
- Doris Reinsperger, since 14 June 2011

State Commissioner

- Alfred Lejsek, since 1 September 1996, State Commissioner
- Gerhard Popp, since 1 December 2009, Deputy State Commissioner

The Federal Advisory Board (Länderkuratorium)

- Jakob Auer, since 13 June 2000, since 23 June 2012 Chairman, President of the Supervisory Board of Raiffeisenlandesbank Oberösterreich Aktiengesellschaft
- Josef Graber, since 8 May 2009, since 23 June 2012 Deputy Chairman, Chairman of the Supervisory Board of Raiffeisen-Landesbank Tirol AG
- Karl Donabauer, since 28 January 2012, Chairman of the Supervisory Board of Raiffeisen-Holding Niederösterreich-Wien reg. Gen.m.b.H.
- Walter Hörburger, since 22 June 2010, Chairman of the Supervisory Board of Raiffeisenlandesbank Vorarlberg Waren- und Revisionsverband reg. Gen.m.b.H.
- Robert Lutschounig, since 12 June 2009, Chairman til 23. May 2012, Chairman of the Supervisory Board of Raiffeisenlandesbank Kärnten – Rechenzentrum und Revisionsverband, reg. Gen.m.b.H.
- Sebastian Schönbuchner, since 20 June 2002, Chairman of Raiffeisenverband Salzburg reg. Gen.m.b.H.
- Wilfried Thoma, since 25 June 2003, President of the Supervisory Board of Raiffeisen-Landesbank Steiermark AG
- Erwin Tinhof, since 20 June 2007, President of the Supervisory Board of Raiffeisenlandesbank Burgenland und Revisionsverband reg. Gen.m.b.H.

PersA	Member of the Personnel Committee
PrüfA	Member of the Audit Committee
AA	Member of the Working Committee
VergA	Member of the Remuneration Committee
1	A new Chairman and his/her Deputy are appointed each year.

(58) Subsequent events

Financial transaction tax

Implementation of a financial transaction tax (FTT) has been specifically pursued since October 2012 by eleven EU member states – including Austria – and is being supported by the European Commission in the framework of so-called increased cooperation.

In mid-February 2013, agreement was reached to apply tax rates of 0.1 per cent to financial instruments and 0.01 per cent to derivative contracts. However, exact details of the implementing provisions have not yet been announced. As a result, annual tax revenues of € 30-35 billion will be generated in the eleven countries.

Apprehension looms that both implementation and application as well as the tax itself will pose a significant burden for banks. The fact that the FTT will only be implemented in eleven countries also merits criticism. It could distort competition and deprive individual markets of liquidity.

Bank Intervention and Restructuring Act

In January 2013, work began on the assessment of the Austrian draft of the Bank Intervention and Restructuring Act. The Act makes provisions for prompt intervention by the Austrian Financial Market Authority (FMA) in order to prevent crisis situations at banks.

The draft makes it compulsory in the future for financial institutions to submit restructuring and liquidation plans, with the initial date for submission set for 1 July 2014. From then onward, the plans are to be updated annually. All financial institutions are affected. Exemptions for smaller institutions are possible. The Act is scheduled to become effective on 1 January 2014.

At the same time, European bank insolvency legislation is currently being negotiated at the EU level. A draft is expected by mid-2013. Should the Austrian legislation be implemented before an EU agreement is reached, adaptations can be expected.

Basel III agreement at the political level

In the night of 28 February, 2013, the negotiators of the EU parliament, the council presidency and the European Commission reached a provisional agreement on implementation of Basel III in the European Union. This agreement at the political level still needs to be reformulated in final texts by technical specialists. Therefore, adjustments in details are possible.

The effective date of the Basel III package – which consists of two legislative acts, a regulation (CRR) and a directive (CRD IV) – is planned for 1 January 2014. The CRR is effective immediately, while the CRD IV still needs to be implemented in national law by the member states.

From the point of view of RZB, the agreement considers important points taking into account the diversity of the European banking landscape, which, in turn, make a significant contribution to the stability of the banking system. In particular, these include the deductibility of participating interests in the central institution of decentralized banking sectors and of the shareholdings of cooperative banks.

RZB via RBI active in the issuance business

In the first two months of 2013, RBI AG issued about 11 bonds with an issuance volume of € 244 million.

(59) List of fully consolidated companies

The following table shows a selection of operating companies in the scope of consolidation. The complete list of Raiffeisen Zentralbank's participations is available at the parent company's headquarters.

Company, domicile (country)	Subscribed capital[2] in local currency		Share[2]	Type[1]
Austria Leasing GmbH, Eschborn (DE)	1,000,000	€	100.0%	OT
Centralised Raiffeisen International Services & Payments S.R.L., Bucharest (RO)	2,820,000	RON	78.9%	BR
Centrotrade Chemicals AG, Zug (CH)	5,000,000	CHF	78.9%	OT
Centrotrade Commodities Malaysia Sdn Bhd, Kuala Lumpur (MY)	1,400,000	MYR	78.9%	OT
Centrotrade Deutschland GmbH, Eschborn (DE)	1,000,000	€	78.9%	OT
Centrotrade Minerals & Metals Inc., Chesapeak (US)	3,002,000	USD	78.9%	OT
Centrotrade Singapore Pte. Ltd., Singapore (SG)	500,000	SGD	78.9%	OT
F.J. Elsner & Co. Gesellschaft mbH, Vienna (AT)	436,037	€	78.9%	OT
F.J. Elsner Trading Gesellschaft m.b.H., Vienna (AT)	35,000	€	78.9%	OT
Kathrein & Co. Vermögensverwaltung GmbH, Vienna (AT)	125,000	€	73.1%	FI
Kathrein Privatbank Aktiengesellschaft, Vienna (AT)	20,000,000	€	78.9%	BA
Non-state pension fund Raiffeisen, Moscow (RU)	513,000,000	RUB	78.9%	FI
OOO Raiffeisen-Leasing, Moscow (RU)	1,071,000,000	RUB	81.5%	FI
Priorbank JSC, Minsk (BY)	412,279,277,350	BYR	69.2%	BA
Raiffeisen Bank Aval JSC, Kiev (UA)	2,997,575,532	UAH	75.9%	BA
Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo (BA)	237,388,000	BAM	78.9%	BA
Raiffeisen Bank International AG, Vienna (AT)	593,412,127	€	78.9%	BA
Raiffeisen Bank Kosovo J.S.C., Pristina (RS)	58,000,000	€	78.9%	BA
Raiffeisen Bank Polska S.A., Warsaw (PL)	1,250,893,080	PLN	78.9%	BA
Raiffeisen Bank S.A., Bucharest (RO)	1,200,000,000	RON	78.3%	BA
Raiffeisen Bank Sh.a., Tirana (AL)	14,178,593,030	ALL	78.9%	BA
Raiffeisen Bank Zrt., Budapest (HU)	165,023,000,000	HUF	78.9%	BA
Raiffeisen banka a.d., Belgrade (RS)	27,466,157,580	RSD	78.9%	BA
Raiffeisen Banka d.d., Maribor (SI)	17,578,052	€	78.3%	BA
Raiffeisen Centrobank AG, Vienna (AT)	47,598,850	€	78.9%	BA
Raiffeisen Energy Service Ltd., Budapest (HU)	500,000	HUF	81.5%	OT
Raiffeisen Factoring Ltd., Zagreb (HR)	15,000,000	HRK	59.2%	FI
Raiffeisen Financial Services Company Zrt., Budapest (HU)	20,100,000	HUF	78.9%	FI
Raiffeisen Insurance Agency Sp.z.o.o, Warsaw (PL)	200,000	PLN	81.5%	BR
RAIFFEISEN INSURANCE BROKER EOOD, Sofia (BG)	5,000	BGN	78.9%	BR
Raiffeisen Investment Aktiengesellschaft, Vienna (AT)	730,000	€	78.9%%	FI
Raiffeisen Leasing Aval LLC, Kiev (UA)	180,208,527	UAH	77.0%	FI
Raiffeisen Leasing Bulgaria OOD, Sofia (BG)	5,900,000	BGN	82.9%	FI
Raiffeisen Leasing d.o.o., Belgrade (RS)	226,389,900	RSD	81.5%	FI
Raiffeisen Leasing d.o.o., Ljubljana (SI)	3,738,107	€	84.2%	FI
Raiffeisen Leasing d.o.o., Sarajevo (BA)	17,774,281	BAM	81.6%	FI
Raiffeisen Leasing IFN S.A., Bucharest (RO)	14,935,400	RON	81.3%	FI

1 Company type: BA...Bank, BR...Company rendering banking-related ancillary services, FI...Financial institution, OT...Other companies, VV...Insurance, WP...Securities firms
2 Less own shares

Company, domicile (country)	Subscribed capital[2] in local currency		Share[2]	Type[1]
Raiffeisen Leasing Kosovo LLC, Pristina (RS)	642,857	€	80.5%	FI
Raiffeisen Leasing sh.a., Tirana (AL)	263,520,134	ALL	80.2%	FI
Raiffeisen Lizing Zrt., Budapest (HU)	50,800,000	HUF	81.5%	BA
Raiffeisen Malta Bank plc., Sliema (MT)	340,000,000	€	78.9%	BA
Raiffeisenbank (Bulgaria) EAD, Sofia (BG)	603,447,952	BGN	78.9%	BA
Raiffeisenbank a.s., Prague (CZ)	9,357,000,000	CZK	59.2%	BA
Raiffeisenbank Austria d.d., Zagreb (HR)	3,621,432,000	HRK	59.2%	BA
Raiffeisen-Leasing Bank Aktiengesellschaft, Vienna (AT)	5,000,000	€	100.0%	FI
Raiffeisen-Leasing d.o.o., Zagreb (HR)	30,000,000	HRK	71.7%	FI
Raiffeisen-Leasing Gesellschaft m.b.H., Vienna (AT)	363,364	€	100.0%	FI
Raiffeisen-Leasing Polska S.A., Warsaw (PL)	150,003,800	PLN	81.5%	FI
Raiffeisen-Leasing Real Estate, s.r.o., Prague (CZ)	10,000,000	CZK	77.9%	FI
Raiffeisen-Leasing, s.r.o., Prague (CZ)	50,000,000	CZK	71.7%	FI
RALT Raiffeisen-Leasing Gesellschaft m.b.H. & Co. KG, Vienna (AT)	20,348,394	€	100.0%	BR
RALT Raiffeisen-Leasing Gesellschaft m.b.H., Vienna (AT)	218,500	€	100.0%	FI
RB International Finance (Hong Kong) Ltd., Hong Kong (HK)	10,000,000	HKD	78.9%	FI
RB International Finance (USA) LLC, New York (US)	1,510,000	USD	78.9%	FI
RB Trading House Ltd., Budapest (HU)	4,000,000	HUF	78.9%	BR
RSC Raiffeisen Service Center GmbH, Vienna (AT)	2,000,000	€	61.0%	BR
RZB Finance (Jersey) II Ltd, St. Helier (JE)	2	€	78.9%	FI
RZB Finance (Jersey) III Ltd, St. Helier (JE)	1,000	€	78.9%	FI
RZB Finance (Jersey) IV Limited, St. Helier (JE)	2,000	€	78.9%	FI
Tatra Asset Management, správ. spol., a.s., Bratislava (SK)	1,659,700	€	62.2%	FI
Tatra banka, a.s., Bratislava (SK)	64,326,228	€	62.2%	BA
Tatra-Leasing, s.r.o., Bratislava (SK)	6,638,784	€	73.1%	FI
ZAO Raiffeisenbank, Moscow (RU)	36,711,260,000	RUB	78.9%	BA
ZHS Office- & Facilitymanagement GmbH, Vienna (AT)	36,336	€	99.8%	BR
ZUNO BANK AG, Vienna (AT)	5,000,000	€	78.9%	BA

1 Company type: BA...Bank, BR...Company rendering banking-related ancillary services, FI...Financial institution, OT...Other companies, VV...Insurance, WP...Securities firms
2 Less own shares

(60) List of equity participations

The following table shows selected participations. The complete list of Raiffeisen Zentralbank's participations is available at the parent company's headquarters.

Companies valued at equity in the consolidated statement of financial position

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
A-Leasing SpA, Treviso (IT)	80,000,000	€	49.0%	FI
A-Real Estate S.p.A., Bozen (IT)	1,000,000	€	49.0%	FI
card complete Service Bank AG, Vienna (AT)	6,000,000	€	25.0%	BA
LEIPNIK-LUNDENBURGER INVEST Beteiligungs Aktiengesellschaft, Vienna (AT)	32,624,283	€	33.1%	OT
NOTARTREUHANDBANK AG, Vienna (AT)	8,030,000	€	26.0%	BA
Oesterreichische Kontrollbank Aktiengesellschaft, Vienna (AT)	130,000,000	€	8.1%	BA
Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H., Vienna (AT)	11,627,653	€	31.3%	BA
Raiffeisen Banca pentru Locuinte S.A., Bucharest (RO)	131,074,560	RON	33.3%	BA
Raiffeisen Bausparkasse Gesellschaft m.b.H., Vienna (AT)	35,000,000	€	37.0%	BA
Raiffeisen evolution project development GmbH, Vienna (AT)	43,750	€	40.0%	OT
Raiffeisen Informatik GmbH, Vienna (AT)	1,460,000	€	47.8%	BR
Raiffeisen Kapitalanlage-Gesellschaft mit beschränkter Haftung, Vienna (AT)	15,000,000	€	50.0%	BA
Raiffeisen Wohnbaubank Aktiengesellschaft, Vienna (AT)	5,100,000	€	25.0%	BA
UNIQA Versicherungen AG, Vienna (AT)	213,428,250	€	44.8%	VV

1 Company type: BA...Bank, BR...Company rendering banking-related ancillary services, FI...Financial institution, OT...Other companies, VV...Insurance, WP...Securities firms

Other subsidiaries and participations not included in the consolidated financial statements

Company, domicile (country)	Subscribed capital in local currency		Share	Type[1]
AIL Swiss-Austria Leasing AG, Glattbrugg (CH)	5,000,000	CHF	50.0%	FI
A-Trust Gesellschaft für Sicherheitssysteme im elektronischen Datenverkehr GmbH, Vienna (AT)	5,290,013	€	12.1%	OT
CEESEG Aktiengesellschaft, Vienna (AT)	18,620,720	€	7.0%	SC
Doplnková dôchodková spoločnosť Tatra banky, a.s., Bratislava (SK)	1,659,700	€	100.0%	FI
LLC "Insurance Company 'Raiffeisen Life", Moscow (RU)	240,000,000	RUB	25.0%	VV
Österreichische Raiffeisen-Einlagensicherung eGen, Vienna (AT)	3,100	€	16.1%	OT
Österreichische Volksbanken-Aktiengesellschaft, Vienna (AT)	311,095,412	€	0.9%	BA
Österreichische Wertpapierdaten Service GmbH, Vienna (AT)	36,336	€	25.3%	OT
PayLife Bank GmbH, Vienna (AT)	13,234,665	€	11.2%	BA
Raiffeisen Asset Management (Bulgaria) EAD, Sofia (BG)	250,000	BGN	100.0%	FI
Raiffeisen Auto Leasing Bulgaria EOOD, Sofia (BG)	250,000	BGN	100.0%	FI
Raiffeisen Capital & Investment S.A., Bucharest (RO)	1,600,000	RON	100.0%	FI
Raiffeisen Capital a.d. Banja Luka, Banja Luka (BA)	355,000	BAM	100.0%	BR
Raiffeisen Car Leasing Ltd., Budapest (HU)	510,000	HUF	100.0%	FI
Raiffeisen consulting d.o.o., Zagreb (HR)	14,900,000	HRK	100.0%	FI
Raiffeisen Financial Services Polska Sp. z o.o., Warsaw (PL)	3,847,500	PLN	100.0%	FI
RAIFFEISEN FUTURE AD, Belgrade (RS)	143,204,921	RSD	100.0%	FI
Raiffeisen Insurance and Reinsurance Broker S.R.L, Bucharest (RO)	180,000	RON	100.0%	BR
Raiffeisen Invest a.d., Belgrad (RS)	56,465,730	RSD	100.0%	FI
Raiffeisen Invest d.o.o., Zagreb (HR)	8,000,000	HRK	100.0%	FI
Raiffeisen INVEST Sh.a., Tirana (AL)	90,000,000	ALL	100.0%	FI
Raiffeisen Investment Fund Management JSC, Budapest (HU)	100,000,000	HUF	100.0%	FI
Raiffeisen Pension Insurance d.o.o., Zagreb (HR)	14,400,000	HRK	100.0%	FI
RAIFFEISEN TRAINING CENTER LTD., Zagreb (HR)	20,000	HRK	100.0%	BR
S.A.I. Raiffeisen Asset Management S.A., Bucharest (RO)	10,656,000	RON	100.0%	FI
Valida Holding AG, Vienna (AT)	5,000,000	€	24.7%	OT
W 3 Errichtungs- und Betriebs-Aktiengesellschaft, Vienna (AT)	1,020,000	ATS	20.0%	OT

1 Company type: BA...Bank, BR...Company rendering banking-related ancillary services, FI...Financial institution, OT...Other companies, VV...Insurance, WP...Securities firms

Vienna, 14 March 2013

The Management Board

Walter Rothensteiner

Johannes Schuster

Johann Strobl

Auditor’s report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Raiffeisen Zentralbank Österreich AG, Vienna, for the year from 1 January 2012 to 31 December 2012. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2012, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year ended 31 December 2012 and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company’s management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, as well as the disclosures in accordance with section 64 (1) Z 1 to (15) and (2) of the Austrian Banking Act (BWG). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2012 and of its financial performance and its cash flows for the year from 1 January to 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 14 March 2013

KPMG Austria AG

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Rainer Hassler

Wirtschaftsprüfer

Mag. Bernhard Mechtler

Wirtschaftsprüfer

Statement of all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

Vienna, 14 March 2013

The Management Board

Walter Rothensteiner
Chairman of the Management Board responsible for
Participation Management, Internal and Group Audit, Group Management,
HR, Legal, Tax and Management Services, General Secretariat

Johannes Schuster
Member of the Management Board responsible for
Sector Marketing, Sector Customers, Sector Treasury and
Sector Saleservices

Johann Strobl
Member of the Management Board responsible for
Risk Controlling and Risk Management

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Notes: In this extract of RZB's Annual Report, "RZB" refers to the RZB Group and "Raiffeisen Zentralbank" is used wherever statements refer solely to Raiffeisen Zentralbank Osterreich AG.

The forecasts, plans and forward-looking statements contained in this report are based on RZB's state of knowledge and assessments at the time of its preparation. Like all statements of this kind, they are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.

No guarantee can be provided for the accuracy of forecasts, plan values or forwardlooking statements.

We prepared this Annual Report and checked the data with the greatest possible care. Nonetheless, transmission, typesetting and printing errors cannot be ruled out.

Adding and subtracting rounded amounts in tables may have led to minor discrepancies.

Statements of rates of change (percentages) are based on actual figures and not on the rounded figures presented in tables.

The Annual Report was prepared in German. The extract of the Annual Report in English is a translation of the original German report. The only authentic version is the German version.

If you have any questions about the Annual Report, please contact
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