Market development

Recovery in Europe, weak economic growth in the US

During 2013, the eurozone gradually climbed out of the recession which began in late 2011. Economic growth declined 0.4 per cent year-on-year in 2013, compared to a 0.6 per cent decrease in the previous year. In the course of this, positive quarterly growth rates were being posted as of the second quarter, accompanied by an increased upward trend in early economic indicators. Towards the end of the year, factual data confirmed the economic upturn that was gaining momentum and also spreading to Southern European countries. This was supported, on the one hand, by the extremely expansive monetary policy of the ECB, and on the other, by the significant progress made in reducing foreign trade imbalances in Southern European countries. While the economic upturn was predominantly driven by increasing foreign trade, in a number of core countries – first and foremost Germany – domestic demand also played an important role. The greatest risk factor remains to be policies and their neglected reforms, followed by problematic developments in real estate and credit markets that have yet to be fully corrected in individual countries.

As expected, US economic growth was significantly weaker this past year when compared to 2012. Real gross domestic product was up just 1.9 per cent, following 2.8 per cent in the previous year. This was primarily due, not only to noticeable tax increases at the beginning of the year, which weighed on private consumer spending, but also to further cutbacks in government spending. These factors, as well as the prolonged debate over the budget and debt ceiling – which culminated in a two-week government shutdown in October – contributed to a considerable level of uncertainty among consumers and companies. As a result, corporate investment growth dramatically slowed. However, in spite of restrained economic activity, the labor market continued to recover. In the US, 2.2 million new jobs were created in 2013, with unemployment falling from 7.9 per cent to 6.7 per cent over the course of the year.

CEE profits from recovery in the eurozone

The marked economic slowdown, observed in Central and Eastern Europe (CEE) since 2012, continued in 2013. While the region recorded economic growth of 2.2 per cent in 2012, it will probably post just 1.2 per cent in 2013. Export growth continued to be moderate and domestic demand also remained weak. Economic growth in CEE was still driven by the eurozone as the region's main export market. In addition, generally stagnating commodity prices, and ongoing consolidation efforts of the public sector, negativly impacted economic growth in several markets.

Within the Central Europe region (CE), the economic performance of Poland and Slovakia stood out (as in the previous year), though economic growth also slowed in those countries. While Poland's economy grew 1.9 per cent in 2012, it probably settled at 1.6 per cent in 2013. During the same period, Slovakia posted a decline in growth, falling from 1.8 per cent to 0.9 per cent. After the Hungarian economy continued to contract in 2012, it returned to moderate growth in 2013 with an increase of 1.1 per cent. The Czech Republic proved to be less resilient; although economic conditions improved in the second half of 2013, the country's economy was down 0.9 per cent and once again failed to reach positive growth for the full year. In Slovenia, economic output contracted for the second consecutive year, down 2.0 per cent in 2013 – following a decline of 2.3 per cent in the previous year.

The economy in Southeastern Europe (SEE), which stagnated in the previous year, rebounded in 2013 with growth of 2.1 per cent. Croatia was the only country to remain in recession while economic output in all other countries in the region picked up. The economic trend in Romania has been particularly positive. Following 0.6 per cent growth in 2012, its economy has grown 3.5 per cent in the reporting period. The upswing is attributable, amongst other things, to successful consolidation efforts, as well as to the improved competitive position of Romania's economy. Bosnia and Herzegovina, as well as Serbia posted growth rates of around 2 per cent in 2013, while Bulgaria's economy, at less than 1 per cent, grew less.

Economic activity in the CIS weakened significantly over the course of 2013. In Russia, the growth rate decreased, down from 3.4 per cent in 2012 to around 1.3 per cent in the reporting period. This was triggered by stagnating industrial production and declining investment; whereas, consumer demand continued to support growth. The Ukrainian economy stagnated in the reporting period, for a second year in a row, due to a lack of positive stimuli from both exports and domestic demand.

For 2014, economic growth of 1.2 per cent is, once again, projected in CEE, with CE, and partly also SEE, contributing more to the development than CIS. Development in the eurozone is to remain highly relevant for the entire region in 2014.

The significant economic recovery expected in Central Europe (CE) is based on growth in Poland, Hungary, the Czech Republic, and Slovakia, putting the economy on a firm footing. Poland, in particular, is projected to achieve a higher growth rate of 3.1 per cent, with economists forecasting a return to a pattern of growth for the Czech economy. In Slovenia, however, there is also the perceived risk of the recession continuing in 2014. Southeastern Europe (SEE) is set to achieve growth of 1.7 per cent in 2014. Romania's economic growth of 2.3 per cent is more than the regional average. In Russia, GDP growth of only 1.0 per cent is anticipated for 2014, following 1.3 per cent in 2013. Expectations for investment and industrial production in Russia remain subdued. Moreover, due to the recent developments in Ukraine, the outlook for the Ukrainian, as well as Russian economy is marked by significant downside risks.

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

Region/country	2012	2013e	2014f	2015f
Czech Republic	(0.9)	(0.9)	2.3	2.4
Hungary	(1.7)	1.1	2.0	2.0
Poland	1.9	1.6	3.1	3.3
Slovakia	1.8	0.9	2.2	3.0
Slovenia	(2.3)	(2.0)	(0.5)	1.5
CE	**0.6**	**0.8**	**2.5**	**2.8**
Albania	1.6	1.3	2.0	3.0
Bosnia and Herzegovina	(1.1)	1.9	1.5	3.5
Bulgaria	0.8	0.8	2.0	3.5
Croatia	(2.0)	(1.0)	0.0	1.0
Kosovo	2.5	3.0	3.0	4.0
Romania	0.6	3.5	2.3	2.5
Serbia	(1.7)	2.2	1.0	2.0
SEE	**(0.1)**	**2.1**	**1.7**	**2.4**
Belarus	1.7	0.9	0.5	1.5
Russia	3.4	1.3	1.0	1.5
Ukraine	0.2	0.0	(5.0)	1.5
CIS	**3.1**	**1.2**	**0.5**	**1.5**
CEE	**2.2**	**1.2**	**1.2**	**1.9**
Austria	**0.9**	**0.4**	**1.5**	**2.3**
Germany	**0.9**	**0.5**	**1.8**	**2.5**
Eurozone	**(0.6)**	**(0.4)**	**1.5**	**2.0**

Moderate economic revival in Austria

In Austria, economic growth markedly slowed again during 2012, after a brief acceleration at the beginning of the year. Not until the second half of 2013, did economic recovery start gaining momentum again. As of the second quarter of 2012, key stimuli came from foreign trade, while domestic demand dampened GDP growth. However, in the course of 2013, active consumer spending and investment increased slightly, while the total contribution to GDP quarterly growth from foreign trade declined slighty. Economic momentum is expected to accelerate further in 2014. This is reflected in a real GDP growth forecast of 1.5 per cent for 2014, following an increase of 0.4 per cent in 2013 (2012: up 0.9 per cent).

Further subdued growth in Asia

China posted robust growth of roughly 7.7 per cent throughout 2013, with public infrastructure investments contributing significantly. Foreign trade also reported higher growth rates compared to 2012, whereas the pace of private investment slowed significantly. Private consumption again supported economic growth. Since November, considerable attention has centered on China's plans to open up further to the outside world, as well as to liberalize many economic sectors. In India, economic growth for 2013 (the Indian fiscal year runs from April to March) is expected to reach 4.5 per cent – driven primarily by high government spending and a recovery in exports – with only minor stimuli coming from private consumption and investment. In 2013, Singapore once again recorded significantly higher economic growth, up 3.5 per cent. This was mainly attributable to improved global economic conditions, notably within Southeast Asia, as reflected in considerably higher exports.

Global currencies

As in 2012, the euro to US dollar exchange rate continued to move within a narrow range of only EUR 0.10 in 2013 – between EUR/USD 1.28 and EUR/USD 1.38. The exchange rate stood at EUR/USD 1.36 at year-end, a mere EUR 0.04 above the level at year-end 2012. Exchange rates were again principally driven by the monetary policies of ECB and US central bank. Sustained speculation of a possible reduction in bond purchases by the Federal Reserve has flared up since mid-year, occasionally leading to marked exchange rate fluctuations.

The Swiss franc enjoyed a strong start to 2013, slightly above the intervention threshold of EUR/CHF 1.20 introduced by the Swiss National Bank in 2011. In the wake of increased economic optimism and a greater appetite for risk on the part of investors, the Swiss franc depreciated to above EUR/CHF 1.28 in the first quarter. In the following quarter, confidence was dampened by disappointing economic surveys in Europe, as well as problems in Cyprus and Italy. The resulting increase in risk aversion caused the Swiss franc to appreciate to EUR/CHF 1.25. As of mid-2013, the Swiss franc fluctuated within a narrow range of between EUR/CHF 1.22 and EUR/CHF 1.24. The currency movements were largely driven by interest rate spreads between the eurozone and Switzerland.

CEE currencies

While CE and SEE currencies remained comparatively stable, CIS currencies fell more steeply against the euro in 2013. This trend was even more pronounced in other emerging markets (outside the CEE region), mainly due to concerns that massive liquidity injections by central banks would come to an end – potentially resulting in liquidity outflows from emerging markets. This primarily affected countries with previously higher liquidity inflows. However, in comparison with other emerging market currencies, the CEE region benefitted from a cutback in existing imbalances (including a sharp reduction in current account deficits).

Ongoing cuts to key interest rates had a relatively weak impact on currencies. For example, Hungary lowered its key interest rate significantly without causing marked weakening of the forint. One reason for this has been continued low risk aversion, which has kept investors invested in emerging market countries. Conversely, the Czech central bank launched an FX intervention to weaken the koruna versus the euro after the key interest rate was lowered to virtually zero (0.05 per cent).

CEE and SEE currencies are expected to develop steadily in 2014, in spite of possible weak phases due to a reduction in liquidity. As CIS currencies have already depreciated since the beginning of 2014, further downside risks are foreseen for the Russian rouble, the Ukraininan hryvnia and the Belarusian rouble. These developments might also weigh heavily on other currencies of the region, thus further influencing the outlook negatively.

Development of the banking sector

Continued banking sector growth in CEE

Supported by improved economic indicators and heightened economic expectations, the CEE banking sector enjoyed somewhat stronger overall activity in the past year. This trend initially manifested itself in an increase in domestic loans which tended to stabilize in the second half of 2013. A sustained, stable level of lending growth (observed in the CEE region as of the third quarter of 2013), as well as regional credit growth activity (which has continued to be supported by solid growth in the Russian banking sector), increasingly benefitted from the upward trend in the Central European banking sector. Moreover, with the exception of Southeastern Europe, non-performing loans (NPL) in the CEE region have shown visible signs of stabilization.

Monthly credit growth rates in CEE reached around 10 per cent year-on-year in the second half of 2013, significantly exceeding the weak eurozone level (down 2.7 per cent year-on-year). This trend was principally driven by positive developments in CE, and contrasted with SEE, where signs of a sustainable return to higher credit growth rates have yet to be seen. This was mainly due to the three largest SEE markets – Croatia, Romania and Serbia – whose banking sectors have either stagnated, or else lost significant growth momentum. As in the past, strong correlation has been observed between CEE credit growth and asset growth. With the exception of only a few countries (e.g., Poland, Hungary, Serbia, and Albania), assets have grown more sharply than credit volumes. However, this has been largely attributable to market-specific factors such as a marked rise in demand for corporate bonds in Poland, and the increase in (short-term) holdings of government bonds in Hungary and Serbia.

Continuing the previous year's trend, growth in deposits has outpaced credit growth in nearly all CEE markets. However, the gap between the growth of credit and deposits has narrowed slightly – notably in countries of the CE region. Due to the solid loan/deposit ratio in nearly all CEE markets, this is viewed positively, as deposits are gradually being transformed into interest-bearing loans. Only in the SEE region have deposits once again significantly outpaced loans, with no improvement in the unfavorable ratio as a result.

In terms of asset quality, the CEE banking sector witnessed further divergence in 2013. On the one hand, the level of NPLs in Russia and the CE region noticeably stabilized – albeit with the situation in Hungary negatively influencing the average. On the other, asset quality remained problematic in SEE as NPL ratios deteriorated further – mostly due to the unfavorable economic environment.

Regional trend differences in terms of asset quality are also clearly reflected in the divergent profitability ratios of the regional banking sectors. Profitability indicators in the CE banking sector have remained at encouragingly positive levels, (with the exception of Hungary where the banking sector's profitability was negative). Although profitability in the Russian banking market has decreased somewhat, it still ranked among the highest in CEE with a return on equity of 16 per cent (before tax) in 2013. In SEE, profitability was low in 2013 and attributable in part to diminishing asset quality, as well as to weak demand for credit in new business.

Overall solid growth in CEE resulted in an increase in the CEE banking sector's total assets, from roughly € 2,350 billion in 2012 to nearly € 2,500 billion in 2013. Accordingly, CEE banks accounted for approximately 9 per cent of total bank assets in the eurozone. This continues to indicate the potential to catch-up in many CEE markets.

Performance and financials

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

Performance

RBI realized profit before tax of € 835 million in 2013. The year-on-year decrease of € 203 million was primarily attributable to one-off effects in 2012, such as the sale of bonds and the hybrid tier 1 capital buyback totaling € 276 million. Operating result improved significantly by 17 per cent, or € 351 million. This pleasing result contrasted with higher net provisioning for impairment losses (up € 140 million), increased bank levies, and a negative result from derivatives and liabilities. Profit after tax for the reporting period was 20 per cent, or € 149 million, below the value for the previous year. The tax rate remained unchanged at 28 per cent. As a result of the decline in profit after tax, return on equity after tax decreased 1.3 percentage points to 5.7 per cent. After deducting profit attributable to non-controlling interests, which increased € 23 million to minus € 46 million, consolidated profit amounted to € 557 million. This resulted in earnings per share of € 1.83 (2012: € 2.72) based on an average of 194.9 million shares outstanding.

The Management Board decided on 17 February 2014 to propose to the Annual General Meeting that a dividend of € 1.02 per share be paid for the 2013 financial year. As the new shares, following the capital increase performed at the beginning of 2014, have full dividend entitlement for the financial year 2013, this will result in a total dividend payout of up to € 299 million.

Operating income increased 8 per cent, or € 432 million, to € 5,729 million year-on-year. There was a favorable development in net interest income, which recorded growth of 7 per cent, or € 257 million, to € 3,729 million despite lower volumes. This was due to the improved net interest margin, which (calculated on average interest-bearing assets) increased 46 basis points to 3.11 per cent thanks to repricing measures and the optimization of liquidity. In addition, net fee and commission income recorded an increase of 7 per cent to € 1,626 million owing to repricing measures and higher volumes. Net trading income in the reporting period increased € 106 million to € 321 million due to growth in currency-based transactions.

General administrative expenses grew 3 per cent, or € 81 million, year-on year to € 3,340 million. This increase was primarily due to the consolidation and integration of Polbank, in May 2012, and to salary increases in Russia, as well as the impairment of a software project in the Czech Republic. A number of countries reported positive effects from ongoing cost reduction programs. The number of business outlets fell by 81 to 3,025 year-on-year, predominantly due to the optimization of the branch network following the merger with Polbank. The cost/income ratio improved 3.2 percentage points to 58.3 per cent due to higher operating income.

Compared to the previous year, net provisioning for impairment losses rose 14 per cent, or € 140 million, to € 1,149 million. Thereby, individual loan loss provisions increased € 33 million to € 1,215 million, while in the case of portfolio-based loan loss provisions there were net releases amounting to € 52 million.

Net income from derivatives and liabilities amounted to minus € 257 million compared to minus € 127 in the previous year. This decline was due in part to valuation losses from other derivatives and in part to profit resulting from the partial repurchase of hybrid bonds (€ 113 million) in the previous year. Net income from financial investments declined € 261 million to € 58 million year-on-year. This was mainly attributable to the prior-year net proceeds from the sale of bonds at Group head office, in the amount of € 245 million.

Statement of financial position

Total assets declined 4 per cent, or € 5.5 billion, to € 130.6 billion year-on-year. A large part of this decrease (around € 3.4 billion) was attributable to currency effects, which largely consisted of the weakening of the US dollar, Russian rouble, Czech koruna, and the Ukrainian hryvnia against the euro.

On the asset side, loans and advances to customers (before deduction of loan loss provisions) fell 3 per cent, or € 2.7 billion, to € 80.6 billion. Besides the mentioned currency effects, the principal reason for the decrease was weak credit demand from corporate customers. Short-term receivables from repurchase agreements and securities lending also fell € 1.4 billion. In addition, trading assets declined € 2.2 billion. On the liabilities side, the fall was essentially due to debt securities issued – a reduction of € 1.8 billion to € 11.5 billion on the basis of net repayments – and a decrease, mainly in Group head office, of € 3.6 billion in trading liabilities.

The portfolio of non-performing loans to customers increased € 0.5 billion to € 8.7 billion over the year. Currency effects caused a decline of € 0.2 billion. As a result, currency-adjusted growth, almost exclusively attributable to corporate customers, amounted to € 0.7 billion. Group Corporates segment reported the largest increases (up € 0.5 billion), together with Slovenia (up € 0.1 billion) and Romania (up € 0.1 billion), while the portfolio of non-performing loans fell € 0.1 billion in Ukraine. The NPL ratio – i.e., the ratio of non-performing loans to total customer loans – was 10.7 per cent in the reporting year after 9.8 per cent in the previous year. Non-performing loans were covered by provisions totaling € 5.6 billion. This resulted in an NPL coverage ratio of 63.1 per cent, which was 3.9 percentage points below the previous year's figure. This was attributable to the higher level of collateralization and resulting lower provisions for new non-performing loans.

Equity including non-controlling interests recorded a decline of € 509 million to € 10,364 million. Total comprehensive income amounted to € 137 million. Profit after tax of € 603 million contrasted with currency devaluations amounting to € 460 million. Furthermore, equity decreased as a result of dividend distributions totaling € 485 million for the 2012 financial year. Of this amount, € 228 million was attributable to shareholders of RBI, € 200 million to participation capital, as well as € 56 million to non-controlling interests. The acquisition of 25 per cent of the non-controlling interests in Raiffeisenbank Austria d.d., Zagreb reduced equity by € 161 million.

Regulatory own funds

Tier 1 capital in accordance with Basel II recorded a decline of € 311 million to € 8,968 million, which primarily resulted from currency devaluations amounting to € 460 million. Regulatory own funds amounted to € 12,686 million at 31 December 2013.

The own funds requirement fell € 234 million to € 6,392 million. The decline was caused primarily by own funds requirements for credit risk (down € 224 million) and for operational risk (down € 38 million). Besides the currency devaluations, this was also due to the slight reduction in the corporate customer portfolio.

The core tier 1 ratio (without taking hybrid capital into account) remained stable year-on-year at 10.7 per cent. The tier 1 ratio relating to total risk remained unchanged at 11.2 per cent. The own funds ratio increased 0.3 percentage points to 15.9 per cent.

Please consult the "Events after the reporting date" chapter, for information on the capital increase carried out at the beginning of 2014.

Detailed review of income statement items

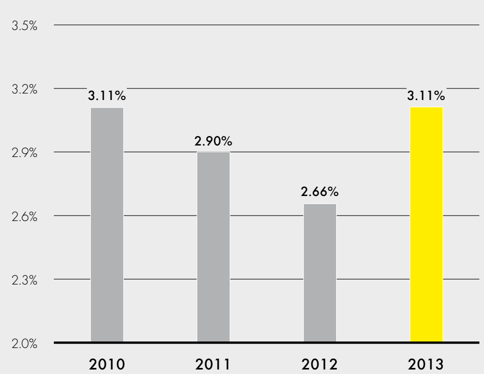
in € million	2013	2012	Change absolute	Change in %
Net interest income	3,729	3,472	257	7.4%
Net fee and commission income	1,626	1,516	110	7.2%
Net trading income	321	215	106	49.6%
Other net operating income[1]	53	94	(41)	(43.8)%
Operating income	**5,729**	**5,297**	**432**	**8.2%**
Staff expenses[2]	(1,632)	(1,601)	(31)	1.9%
Other administrative expenses	(1,277)	(1,257)	(20)	1.6%
Depreciation	(431)	(401)	(30)	7.5%
General administrative expenses[2]	**(3,340)**	**(3,258)**	**(81)**	**2.5%**
Operating result	**2,389**	**2,039**	**351**	**17.2%**
Net provisioning for impairment losses	(1,149)	(1,009)	(140)	13.9%
Other results[3]	(405)	8	(413)	–
Profit before tax	**835**	**1,037**	**(203)**	**(19.5)%**
Income taxes[2]	(232)	(285)	54	(18.8)%
Profit after tax	**603**	**752**	**(149)**	**(19.8)%**
Profit attributable to non-controlling interests	(46)	(22)	(23)	104.5%
Consolidated profit	**557**	**730**	**(172)**	**(23.6)%**

1 Excl. impairment of goodwill and bank levies.
2 Adaptation of previous year's values due to retrospective application of IAS 19R.
3 Incl. impairment of goodwill and bank levies.

Net interest income

Despite a decline in interest-bearing assets, net interest income increased 7 per cent, or € 257 million, to € 3,729 million in 2013. This was attributable to the 46 basis point increase in the net interest margin to 3.11 per cent compared to the previous year. The main reasons for this were the positive effects of repricing measures in loans and deposits, as well as optimization of the liquidity situation (i.e., the reduction or restructuring of liquidity), which primarily took place at Group head office. The decline in interest income, due to lower lending volumes, was thus fully compensated through lower interest expenses for customer deposits. Interest income from derivatives grew 11 per cent, or € 41 million, to € 403 million (primarily at Group head office). Net interest income in Belarus and Slovakia developed positively, due especially to favorable trend in the credit business. Net interest income also increased in Poland, although comparison with the previous year is limited in this case, due to the different allocation of individual interest-bearing transactions resulting from the integration of Polbank. In the Czech Republic, however, net interest income declined due to lower volumes and margins resulting from the strongly competitive environment with private individuals and corporate customers. In Hungary, a reduction in lending volumes and market interest rates as well as lower interest income from derivatives and securities led to a decline in net interest income. The reduction in net interest income in Romania was primarily attributable to a fall in market interest rates and a decline in interest income from securities. In Russia,

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



lower interest income from derivatives, due to the reclassification of the interest portion of new business to the trading book, led to a fall in net interest income.

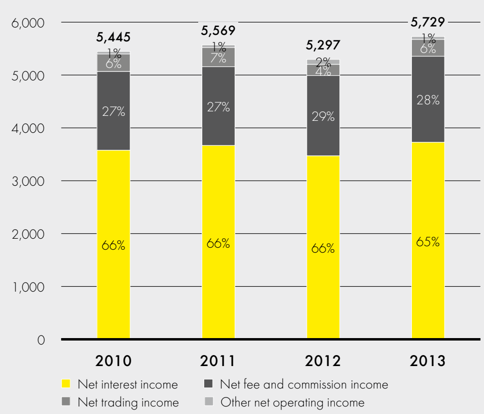
Net fee and commission income

Net fee and commission income increased € 110 million year-on-year and therefore contributed 28 per cent of operating income. In particular, net income from the payment transfer business, as well as from the securities business, increased. The € 68 million increase arising from the payment transfer business, is mainly attributable to: higher fees in Hungary following the introduction of the financial transaction tax, a volume-driven increase in income from the credit card business in Russia, and the Polbank consolidation. Income from the securities business's volume-based growth of 25 per cent, or € 30 million, was primarily due to positive performance at Group head office and in Hungary.

The foreign currency, notes/coins and precious metals business revealed volume- and margin-related growth of 2 per cent, or € 6 million, primarily in Romania, the Czech Republic and Poland. Higher fund volumes – mainly in Slovakia and Croatia – also contributed to an 18 per cent or € 4 million increase in net income from the management of investment and pension funds. Net income from the loan and guarantee business – mainly due to the development in Russia and Group head office – increased 1 per cent, or € 3 million, while net income from the sale of own and third party products fell € 3 million, predominantly due to business performance in Russia, and net income from the credit derivatives business remained virtually unchanged. Net income from other banking services revealed the highest increases in the Czech Republic, as a result of structured financing, as well as in Hungary.

Development of operating income

in € million



Net trading income

In 2013, net trading income grew 50 per cent, or € 106 million, to € 321 million. Thereby significant net income growth was achieved in currency-based transactions (up € 53 million), other business (up € 26 million), as well as equity and index-based transactions (up € 21 million). Net income from interest-based transactions also rose € 1 million. Although the credit derivatives business improved by € 6 million, it remained negative.

While interest-based transactions predominantly increased in Hungary, Poland and the Czech Republic, due to valuation gains on derivatives, net income from interest swaps declined at Group head office due to a decrease in volumes.

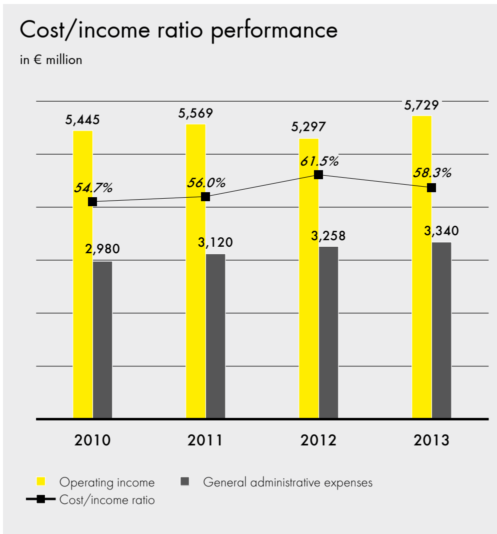
Net income from currency-based transactions grew 25 per cent, or € 53 million, to € 262 million. With € 90 million and € 51 million respectively, both Russia and Hungary posted positive net interest income from derivative transactions for hedging purposes, while Poland revealed a decline – albeit measured against extraordinarily high earnings in 2012. This income item was extensively influenced by the application of IAS 29 in connection with hyperinflation accounting in Belarus, straining net trading income by a virtually unchanged € 22 million year-on-year.

The significant increase in net income from other business stemmed largely from capital guarantees issued by Group head office. It improved from minus € 25 million to plus € 1 million due to the lower level of long-term interest rates. Net income from equity and index-based transactions improved considerably, by € 21 million to € 29 million, as a result of portfolio restructuring from fixed-interest securities to variable-yield securities due to changed market conditions.

Other net operating income

In the reporting year, other net operating income fell € 41 million to € 53 million. This was due mainly to the new financial transaction tax introduced in Hungary, which made an impact of € 35 million. Net income from the allocation and release of other provisions declined due to releases of provisions for litigation in the previous year. A € 6 million default event also arose at F.J. Elsner Trading GmbH commodity trading. The release of an € 11 million provision for VAT liabilities in Poland, and a rise in income from operating leasing, also helped to increase net income.

General administrative expenses



RBI's general administrative expenses rose 3 per cent, or € 81 million, to € 3,340 million in the reporting period, due mainly to increases in Russia, the Czech Republic and Poland (resulting from the consolidation and integration of Polbank in May 2012). However, the cost/income ratio improved 3.2 percentage points to 58.3 per cent due to increased operating income.

Staff expenses

Staff expenses, the largest component in general administrative expenses at 49 per cent, rose 2 per cent, or € 31 million, to € 1,632 million in 2013. This increase mainly resulted from the consolidation of Polbank and from salary increases in Russia. It was partially offset by lower costs and staff reductions – with the largest cutbacks in the Czech Republic and Ukraine.

The average number of staff (full-time equivalents) fell by 1,857 year-on-year to 59,067. The biggest declines occurred in Ukraine (down 1,210), Romania (down 411), Hungary (down 173), and Bulgaria (down 128).

Other administrative expenses

Other administrative expenses also rose 2 per cent, or € 20 million, to € 1,277 million. While reductions occurred in some countries, the consolidation of Polbank and increased IT expenses – especially in Poland and Russia – as well as the intensification of advertising campaigns in Russia and other administrative expense increases in Romania, led to a rise in this item.

The number of business outlets decreased by 81 to 3,025 compared to year-end 2012. The largest declines were posted in Poland (down 46), Ukraine (down 27) and Bulgaria (down 15).

Depreciation expenses

Depreciation of tangible and intangible assets rose € 30 million to € 431 million year-on-year (2012: € 401 million). The largest increase occurred in depreciation of intangible assets, which rose € 40 million to € 219 million. This was attributable to impairment of a core banking system in the Czech Republic.

During the reporting period, Group investment in fixed assets totaled € 451 million, 47 per cent (€ 209 million) of which was in own fixed assets. Investments in intangible assets, mainly related to software projects, amounted to 43 per cent. Investment in assets of the operating leasing business, accounted for the rest.

Net provisioning for impairment losses

Net provisioning for impairment losses rose 14 per cent, or € 140 million, to € 1,149 million year-on-year. Individual loan loss provisions increased € 33 million to € 1,215 million, while net releases of portfolio-based loan loss provisions fell € 112 million. In 2013, net releases of portfolio-based loan loss provisions amounted to € 52 million, after € 164 million in the previous year. Net provisioning for impairment losses includes income from the sale of impaired loans amounting to € 14 million (2012: € 9 million).

Impairment needs in the Group Corporates segment, where various loans to major customers became non-performing, were € 145 million higher year-on-year. In Russia, net provisioning for impairment losses of € 48 million was made for both large corporate customers and retail customers, whereas net releases of € 16 million were booked the previous year. Similarly, in Slovenia, net provisioning for impairment losses increased € 31 million year-on-year, particularly due to non-performing loans and the revaluation of collateral. A positive trend was revealed in Hungary and Poland, where net provisioning for impairment losses was significantly lower year-on-year. Net provisioning for impairment losses declined € 89 million in Hungary, and decreased by € 41 million in Poland.

The provisioning ratio – i.e., net provisioning for impairment losses versus average loans and advances to customers – increased 0.18 percentage points to 1.39 per cent.

Other results

Net income from derivatives and liabilities

Net income from derivatives and liabilities fell to minus € 257 million versus minus € 127 million the previous year. This was due in part to valuation losses on other derivatives and in part to prior year profits from the partial repurchase of hybrid bonds (€ 113 million). This was countered by improved net income from liabilities designated at fair value. The increased interest rates led to a positive valuation result for own issues. At minus € 126 million, the negative effect of the credit spread valuation was less than the previous year (minus € 145 million). This was attributable to continuing calming of the financial markets, leading to a reduction in RBI's premiums for credit default swaps.

Net income from financial investments

Net income from financial investments fell € 261 million to € 58 million year-on-year. This decline was due above all to the prior year € 163 million result from the sale of high-quality bonds from the available-for-sale securities portfolio at Group head office. Net income from securities at fair value through profit and loss fell € 129 million to € 26 million. The valuation of securities from the fair value portfolio led to gains of € 7 million, whereas gains of € 73 million were incurred the previous year. Significant valuation losses on bonds arose at Group head office, while valuation gains on government and municipal bonds were posted in Ukraine and Hungary. Net income from the sale of securities from the fair value portfolio amounted to € 19 million after € 82 million the previous year, and was earned primarily at Group head office. € 12 million of the net proceeds for the reporting year were generated in Romania through the sale of government bonds.

Net income from equity participations amounted to € 29 million, an improvement of € 30 million year-on-year. Gains of € 51 million – primarily from the sale of VISA and MasterCard shares in Russia and Ukraine – were countered by unchanged valuation losses (write-downs on investments) of € 22 million.

Net income from securities held-to-maturity amounted to € 3 million (2012: € 1 million) and was attributable primarily to gains from the sale of government bonds in Slovakia and at Group head office.

Net income from disposal of Group assets

In the reporting year, the disposal of seven subsidiaries resulted in a loss of € 6 million, while positive net income of € 12 million was generated due to the exclusion of ten subsidiaries from the prior year scope of consolidation. Three companies were excluded due to immateriality, one company was sold and two companies were excluded as a result of end of operations and liquidation respectively. The companies were primarily active in leasing, investment and securities services.

Income taxes

Income taxes fell € 54 million to € 232 million year-on-year. This decline was due to income of € 45 million arising from a tax allocation with RZB AG and a one-off effect – release of a deferred tax liability of € 12 million – in Romania. The effective tax rate remained unchanged at 28 per cent.

Comparison of results with the previous quarter

in € million	Q4/2013	Q3/2013	Change absolute	Change in %
Net interest income	953	940	12	1.3%
Net fee and commission income	424	417	6	1.5%
Net trading income	81	100	(19)	(19.1)%
Other net operating income[1]	5	(3)	8	–
Operating income	**1,462**	**1,454**	**8**	**0.5%**
Staff expenses	(405)	(411)	6	(1.5)%
Other administrative expenses	(357)	(304)	(53)	17.4%
Depreciation	(147)	(97)	(50)	51.7%
General administrative expenses	**(910)**	**(813)**	**(97)**	**11.9%**
Operating result	**552**	**641**	**(89)**	**(13.9)%**
Net provisioning for impairment losses	(350)	(330)	(19)	5.8%
Other results[2]	(64)	(82)	18	(21.8)%
Profit before tax	**138**	**229**	**(91)**	**(39.6)%**
Income taxes	4	(80)	84	–
Profit after tax	**142**	**149**	**(7)**	**(4.7)%**
Profit attributable to non-controlling interests	4	(15)	19	–
Consolidated profit	**146**	**134**	**12**	**8.8%**

1 Excl. impairment on goodwill and bank levies.
2 Incl. impairment on goodwill and bank levies.

Net interest income

Compared to the third quarter of 2013, net interest income rose 1.3 per cent, or € 12 million, to € 953 million in the fourth quarter of 2013. Similarly, the net interest margin improved 6 basis points quarter-on-quarter to 3.21 per cent. This was in particular due to improved assets margins in both corporate and retail customer business.

Net fee and commission income

Net fee and commission income rose € 6 million to € 424 million compared to the third quarter of 2013. The most significant increase, at € 7 million, was reported in net income from loan and guarantee business – due to higher volumes in Romania and Russia – followed by a rise in net income of € 4 million from securities business. Net income from other banking services and income from payment transfer business both improved by € 2 million. In contrast, net income from the management of investment and pension funds declined € 5 million, while net income from the sale of own and third party products decreased € 2 million, and net income from foreign currency, notes/coins and precious metals business was down € 1 million.

Net trading income

Net trading income fell € 19 million to € 81 million quarter-on-quarter, mainly attributable to a decrease in currency-based transactions in Russia. Belarus also contributed to the decline in net trading income as a result of the application of IAS 29 (hyperinflation accounting). The opposite trend was reported in interest-based transactions, which increased primarily in Hungary, as a result of gains on derivative financial instruments. Net income from other transactions declined € 6 million due to the valuation of capital guarantees issued.

Other net operating income

Other net operating income totaled € 5 million in the fourth quarter compared to minus € 3 million in the third quarter. Expenses for the newly introduced financial transaction tax in Hungary were down in the fourth quarter due to lower volumes.

General administrative expenses

General administrative expenses amounted to € 910 million in the fourth quarter, up € 97 million from the previous quarter's level. While staff expenses decreased € 6 million to € 405 million, other administrative expenses were up € 53 million to € 357 million, as a result of the seasonally adjusted increase in advertising, PR and promotional, as well as IT, expenses. Depreciation of fixed assets amounted to € 147 million in the fourth quarter, € 50 million above the previous quarter. This was due to impairment on a software project in the Czech Republic.

Net provisioning for impairment losses

Net provisioning for impairment losses rose € 19 million to € 350 million compared to the third quarter, which had already shown a considerably higher level than in previous quarters, at € 330 million. Significant increases were booked in Hungary, the Czech Republic, Bulgaria, and Slovenia. Owing to individual cases among large corporate customers, net provisioning for impairment losses in the Group Corporates segment came to € 50 million, which was, however, significantly below the previous quarter's level of € 105 million.

The portfolio of non-performing loans to customers was up € 180 million to € 8,657 million in the fourth quarter, with currency effects in the amount of € 56 million leading to a decline. On a currency-adjusted basis, the increase came to € 236 million, and was largely attributable to the Group Corporates segment.

Other results

Net income from derivatives and liabilities

Net income from derivative financial instruments improved € 42 million to minus € 14 million in the fourth quarter. Net income from own issues measured at fair value posted a gain, with increases in interest rates leading to a positive valuation result. In addition, the valuation on the credit spread for own issues improved € 13 million in the fourth quarter. Valuation gains on other derivatives also increased.

Net income from financial investments

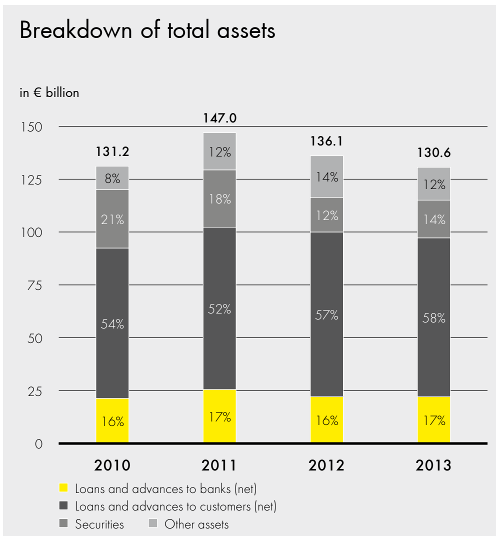
Net income from financial investments totaled minus € 15 million in the fourth quarter of 2013 (third quarter of 2013: plus € 9 million). This was attributable, on the one hand, to higher valuation losses on the fair-value portfolio of securities and, on the other, to lower net proceeds from sales of equity participations and securities from the fair-value portfolio.

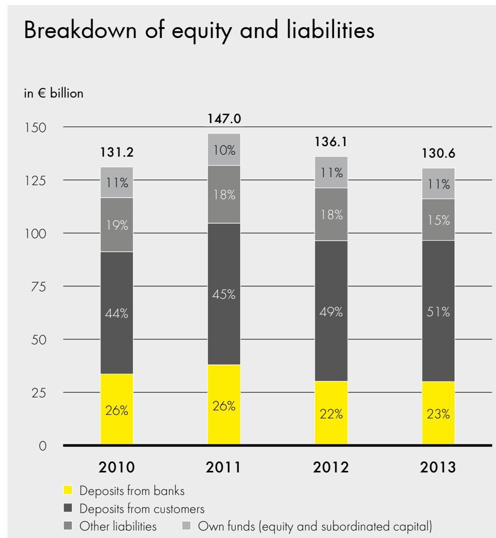
Income taxes

In the fourth quarter of 2013, a tax income of € 4 million arose versus tax expenses of € 80 million in the previous quarter. This change was mainly due to income booked from the RZB AG tax allocation in the amount of € 45 million, in the fourth quarter, as well as lower quarterly results from various Group units with higher tax rates (especially in the Czech Republic and Russia).

Statement of financial position

RBI's total assets declined 4 per cent, or € 5.5 billion, to € 130.6 billion during 2013. Currency effects accounted for around € 3.4 billion of this decline, predominantly due to the US dollar (down 3 per cent), as well as some CEE currencies (Russian rouble: down 12 per cent; Czech koruna: down 9 per cent; and the Ukrainian hryvnia: down 5 per cent). Optimization of liquidity was continued in the reporting year.





Assets

Loans and advances to customers (before provisioning) fell 3 per cent, or € 2.7 billion, to € 80.6 billion in 2013. Receivables from repurchase and securities lending transactions declined € 1.4 billion. Credit business with corporate customers decreased € 3.2 billion to € 52.2 billion, especially due to the development in Austria, Russia and Hungary. In contrast, credit business with the public sector was up € 0.3 billion, especially in Hungary. Credit business with retail customers also reported slight increases, while there was a significant increase in retail business in Russia (up € 0.8 billion), whereas credit volumes fell € 0.5 billion in Poland.

Interbank business remained stable in 2013 at € 22.1 billion. At the same time, money market business – primarily at Group head office – declined € 1.1 billion, as a result of the continued optimization of liquidity. Long-term receivables increased € 0.5 billion, primarily at Group head office, and receivables from repurchase and securities lending transactions also rose € 0.5 billion.

Loan loss provisions remained unchanged at € 5.6 billion in 2013, of which € 5.5 billion pertained to loans and advances to customers and € 0.1 billion to loans and advances to banks.

The item securities rose € 1.5 billion, predominantly as a result of bond purchases for liquidity purposes at Group head office. The € 4.2 billion decline in other assets was primarily attributable to the € 4.0 billion reduction in derivatives. This was due to close-out netting with contract partners.

Equity and liabilities

Deposits from customers remained stable year-on-year at € 66.4 billion. Whereas deposits from corporate customers – notably at Group head office – grew € 2.3 billion (repo business: up € 0.6 billion), deposits from retail customers fell € 1.7 billion and those from the public sector fell € 0.3 billion. The largest declines in deposits from retail customers occurred in Poland, Hungary and the Czech Republic.

Although RBI's refinancing volume via banks (chiefly commercial banks) remained stable at € 30.1 billion, refinancing revealed a shift from long-term to short-term deposits.

Other liabilities – excluding subordinated capital – declined € 5.2 billion to € 19.6 billion. This decrease included a € 1.8 billion net reduction in debt securities issued to € 11.5 billion. This was attributable to the reduced refinancing requirement, which also resulted in early redemptions. For example, a government-guaranteed bond with a date of maturity in 2014 was offered for early redemption within the framework of a tender, with € 0.6 billion repaid early. Trading derivatives decreased € 3.4 billion, mainly at Group head office, as a result of close-out netting with contract partners.

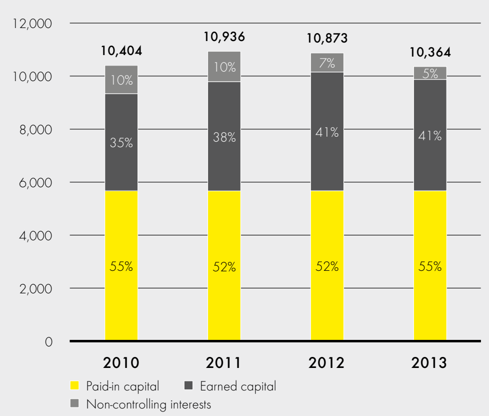
Equity

Equity on the statement of financial position

RBI's equity decreased € 509 million to € 10,364 million compared to year-end 2012.

Breakdown of equity

in € million



Consolidated equity, consisting of subscribed capital, participation capital, capital reserves, and retained earnings decreased € 102 million to € 9,322 million. The retention of earnings from financial year 2012 was € 302 million. Other comprehensive income made a further contribution of minus € 450 million: Exchange-rate differences had a negative effect of € 440 million, additionally, net income from the valuation of assets available-for-sale amounted to minus € 35 million – mainly due to the sale and the subsequent reclassification of the results in the income statement. The related deferred taxes amounted to € 7 million. The impact from applying hyperinflation accounting generated a positive effect of € 27 million.

In June 2013, RBI AG's Annual General Meeting approved the payment of a dividend of € 1.17 per share for the financial year 2012, which equated to a distribution totaling € 228 million. In addition, a dividend of € 200 million was paid on the participation capital.

Consolidated profit contributed € 557 million to equity in 2013.

Capital of non-controlling interests decreased € 234 million to € 485 million, in 2013. This was principally attributable to the purchase of 25 per cent of the non-controlling interests in Raiffeisenbank Austria d.d., Zagreb. Furthermore, dividends of € 56 million were paid to minority shareholders in the reporting year.

Own funds pursuant to the Austrian Banking Act (BWG)

RBI does not form an independent credit institution group (Kreditinstitutsgruppe), as defined by the BWG, and therefore is not subject to the regulatory provisions for banking groups, on a consolidated basis, as it is part of the RZB credit institution group. The following consolidated figures have been calculated in accordance with the provisions of the BWG and are assumed in calculations of the RZB credit institution group.

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

Consolidated own funds pursuant to BWG amounted to € 12,686 million as of 31 December 2013, which represents a decline of € 200 million for the reporting year.

Tier 1 capital fell 3.4 per cent, or € 311 million, to € 8,968 million, particularly due to the negative development of the Russian rouble, the Ukrainian hryvna, the Czech koruna and the Polish zloty. Another negative effect resulted from the purchase of 25 per cent of the non-controlling interests in Raiffeisenbank Austria d.d., Zagreb in July 2013. The profit for the financial year is included in the calculation. However, the projected dividends to be paid out for the financial year 2013 have been deducted.

Additional own funds were up € 47 million year-on-year at € 3,387 million. This item consists essentially of long-term subordinated capital, of which the largest part pertained to RBI AG at € 2,977 million, and the provision excess of IRB positions of € 221 million.

Short-term subordinated capital increased € 55 million to € 357 million. The deduction items relating to participations, securitizations and insurance came to € 26 million (2012: € 36 million).

Own funds stood vis-a-vis a lower own funds requirement of € 6,392 million, which decreased € 234 million. The own funds requirement for the credit risk accounted for € 5,227 million (a decrease of 4 per cent or € 224 million year-on-year), of which € 2,278 million related to the standardized approach, and € 2,949 million to the IRB approach. The own funds requirement for the position risk in bonds, equities and commodities increased € 24 million to € 297 million. The own funds requirement for open currency positions, in contrast, remained virtually unchanged. The requirement for operational risk was € 808 million, a decline of 4 per cent, or € 38 million, year-on-year.

This led to a 4.0 percentage points higher excess cover ratio of 98.5 per cent, or € 6,294 million.

The tier 1 ratio – based on the credit risk – was 13.7 per cent. Based on total risk, the core tier 1 ratio was 10.7 per cent and the tier 1 ratio 11.2 per cent. The own funds ratio totaled 15.9 per cent.

Please consult the "Events after the reporting date" chapter, for information on the capital increase carried out at the beginning of 2014.

Research and development

As a bank, RBI is generally not involved in research and development in the strictest sense of the term.

In the context of financial engineering, however, it does develop customized solutions for investment, financing or risk hedging. Financial engineering encompasses not only structured investment products, but also structured financing, i.e. financing concepts that go beyond the application of standard instruments and are used in acquisition or project financing. RBI also develops individual solutions to hedge a broad spectrum of risks, from interest rate risk and currency risk through to commodity price risk. Besides financial engineering, RBI is actively working on the further development of integrated product solutions for international financial transactions within cash management.

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

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

The consolidated financial statements are prepared in accordance with the relevant Austrian laws, notably the Austrian Banking Act (BWG) and Austrian Commercial Code (UGB), which govern the preparation of consolidated annual financial statements. The accounting standards used to prepare the consolidated financial statements are the International Financial Reporting Standards (IFRS) as adopted by the EU.

Control environment

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

- The hierarchical decision-making process for approving Group and company directives, as well as departmental and divisional instructions.
- Process descriptions for the preparation, quality control, approval, publication, implementation, and monitoring of directives and instructions.
- Regulations for the revision and repeal of directives and instructions.

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

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

Risk assessment

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

Control measures

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

Group consolidation

The financial statement data, which are examined by an external auditor, are mostly entered directly in, or automatically transferred to, the IBM Cognos Controller consolidation system by the end of January of the subsequent year. The IT system is kept secure by limiting access rights.

The plausibility of each Group unit's financial statements is initially checked by the relevant key account manager within the Group Financial Reporting department. Group-wide control activities comprise the analysis and, where necessary, modification of the financial statements which are submitted by the Group units. In this process, the reports submitted by the auditor and the results of meetings with the representatives of the individual companies where the financial statements are discussed, are taken into account. The discussions cover the plausibility of the individual financial statements as well as critical matters pertaining to the Group unit.

The subsequent consolidation steps are then performed using the IBM Cognos Controller consolidation system, including capital consolidation, expense and income consolidation, as well as debt consolidation. Finally, possible intra-Group gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and the UGB.

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

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

Information and communication

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

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

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

Monitoring

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

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

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

Capital, share, voting and control rights

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

(1) The company's capital stock amounted to € 596,290,628.20 and was divided into 195,505,124 voting common bearer shares as of reporting date 31 December 2013. Of those, 557,295 were own shares, which means that 194,947,829 shares were outstanding as of reporting date 31 December 2013. Please consult the notes on equity (34) for more information.

Regarding the capital increase, which was carried out at the beginning of 2014, please see the chapter "Events after the balance sheet date".

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

(3) As of reporting date 31 December 2013 RZB AG held around 78.5 per cent of the capital stock in the company indirectly through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH and other subsidiaries; the remaining shares of RBI AG were in free float. The Management Board knows of no direct or indirect participations in the capital amounting to 10 per cent or more.

The controlling parent company is Raiffeisen-Landesbanken-Holding GmbH, holding around 82.4 per cent (2012: approximately 78.5 per cent) of the shares of RZB AG, directly and indirectly. The direct share amounts to around 3.9 per cent (2012: 0.0 per cent) and the indirect share is approximately 78.5 per cent (2012: around 78.5 per cent) held by the wholly owned subsidiary R-Landesbanken-Beteiligung GmbH.

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

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

(6) Pursuant to the articles of association, a person who is 68 years or older may not be appointed as a member of the Management Board or be reappointed for another term in office. The rule for the Supervisory Board, is that a person who is 75 years or older may not be elected as a member of the Supervisory Board, or be re-elected for another term in office. Moreover, no person who already holds eight Supervisory Board mandates in a publicly traded company may become a member of the Supervisory Board. Holding a position as chairman of the Supervisory Board of a publicly traded company would count twice for this purpose. The Annual General Meeting may choose to waive this restriction through a simple majority of votes if permitted by law. Any candidate who has more mandates to, or chairman positions in, Supervisory Boards in publicly traded companies must disclose this to the Annual General Meeting. Beyond that, there are no regulations regarding the appointment or dismissal of members of the Management Board and the Supervisory Board beyond the provisions of the relevant laws. The articles of association stipulate that the resolutions of the Annual General Meeting are, notwithstanding any mandatory statutory provisions or articles of association to the contrary, adopted by a simple majority of the votes cast. Where the law requires a capital majority in addition to the voting majority, resolutions are adopted by a simple majority of the share capital represented in the votes. As a result of this provision, members of the Supervisory Board may be dismissed prematurely via a simple majority. The Supervisory Board is authorized to adopt amendments to the articles of association that only affect the respective wording. This right may be delegated to committees. Furthermore, there are no regulations regarding amendments to the company articles of association beyond the provisions of the relevant laws.

(7) Pursuant to Section 169 of the Austrian Stock Corporation Act (AktG), the Management Board has been authorized, since the Annual General Meeting of 26 June 2013, to increase the capital stock with the approval of the Supervisory Board – in one or more tranches – by up to € 298,145,314.10 through issuing up to 97,752,562 new common bearer shares with voting rights against contributions in cash and/or in kind (including by way of the right of indirect subscription by a bank pursuant to Section 153 (6) of AktG) by 26 July 2018 at the latest and to fix the offering price and terms of the issue with the approval of the Supervisory Board. The Management Board is further authorized to exclude shareholders' subscription rights, with the approval of the Supervisory Board, (i) if the capital increase is carried out by contributions in kind or (ii) if the capital increase is carried out by contributions in cash and the shares issued under the exclusion of subscription rights do not exceed 10 per cent of the company's capital stock (exclusion of subscription rights).

Pursuant to Section 159 (2) 1 of AktG, the capital stock has been increased contingently by up to € 119,258,123.20 through the issue of up to 39,101,024 common bearer shares (contingent capital). The contingent capital increase will only be performed if and when use is made of an irrevocable right of exchange or subscription granted on shares by the company to creditors holding convertible bonds issued on the basis of the resolution of the Annual General Meeting on 26 June 2013 and the Management Board does not decide to issue own shares. Pursuant to Section 174 (2) of AktG, the Annual General Meeting of 26 June 2013 authorized the Management Board to issue, in one or more tranches, convertible bonds in a total nominal amount of up to € 2,000,000,000 which grant conversion or subscription rights for up to 39,101,024 common bearer shares of the company with a pro rata amount of the capital stock of up to € 119,258,123.20, within five years from the date of resolution adopted by the Annual General Meeting, with the approval of the Supervisory Board. Shareholders' subscription rights to the convertible bonds are excluded. No convertible bonds have been issued to date.

The Annual General Meeting of 20 June 2012 authorized the Management Board to acquire own shares, under the provisions of Section 65 (1) 8 of AktG, during a period of 30 months from the date of the resolution, up to a maximum of 10 per cent of the company's respective capital stock and, if deemed appropriate, to retire them. The authorization may be exercised in one or more installments, for one or more purposes – with the exception of securities trading – by the company, by affiliated enterprises or, for their account, by third parties. The acquisition price for repurchasing the shares may be no lower than € 1.00 per share and no higher than 10 per cent above the average unweighted closing price over the 10 trading days prior to exercising this authorization. The Management Board was further authorized to decide, with the approval of the Supervisory Board, on the sale of own shares by means other than the stock exchange or a public tender, to the exclusion of shareholders' subscription rights. Shareholders' subscription rights may only be excluded if the own shares are used to pay for a contribution in kind, to acquire enterprises, businesses or branches of activity of one or several companies in Austria or abroad, or for the purpose of implementing the company's Share Incentive Program (SIP) for executives and members of the Management Boards of the company and affiliated enterprises. In addition, if convertible bonds are issued in accordance with the Annual General Meeting's resolution of 10 June 2008, shareholders' subscription rights may be excluded in order to issue (own) shares to the holders of these convertible bonds who exercise the conversion or subscription rights granted them under the terms of the convertible bonds to shares of the company. This authorization replaces the authorization to buy back and use own shares that was granted in the Annual General Meeting of 8 July 2010. No own shares have been bought since the authorization was issued in June 2012.

The Annual General Meeting of 20 June 2012 also authorized the Management Board, under the provisions of Section 65 (1) 7 of AktG, to acquire own shares for the purpose of securities trading, which may also be conducted off-market, during a period of 30 months from the date of the resolution, of up to a maximum of 5 per cent of the company's respective capital stock. The consideration for each share to be acquired must not be less than half the closing price at the Vienna Stock Exchange on the last day of trading preceding the acquisition and must not exceed twice this closing price. This authorization may be exercised in one or several installments by the company, by affiliated enterprises or, for their account, by third parties. This authorization replaces the authorization for the purpose of securities trading that was granted in the Annual General Meeting of 8 July 2010.

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

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

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

(8) The following material agreements exist, to which the company is a party and which take effect, change, or come to an end upon a change of control in the company as a result of a takeover bid:

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

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

- Furthermore, the syndicate agreement concluded by RBI AG in relation to a subsidiary bank with the relevant shareholder will automatically be terminated upon a change of control.

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

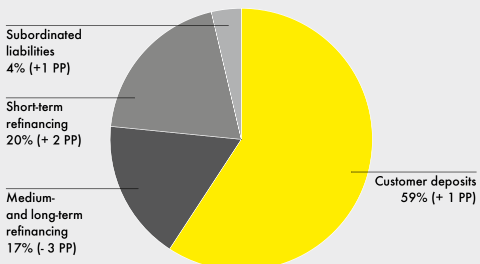
- The company's refinancing agreements and financing guarantees granted to subsidiaries provide for the right of early termination upon a change of control with negative material ramifications.

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

Funding

Banks essentially refinance themselves using their own funds, customer deposits, as well as various capital and interbank market tools. In the first half of 2013, banks profited from the moderate economic recovery in some markets and the refinancing situation improved. As a result of turbulence on emerging markets, such as Russia and Turkey, as well as the announcement of a more stringent US monetary policy, capital markets became more volatile by the second half of the year.

Funding structure



Stable basis for refinancing

RBI's refinancing is based on two key elements: firstly, on customer deposits, which at the end of 2013 accounted for € 66.4 billion, or 59 per cent, of refinancing; and secondly, on wholesale funding which totaled € 45.8 billion, or the remaining 41 per cent. The high share of customer deposits creates a stable refinancing basis, making RBI less vulnerable to turbulence on the financial markets.

Diversified funding sources

RBI focused on diversifying funding sources for the Group units again in 2013. More than 40 per cent of the wholesale funding of subsidiaries in Central and Eastern Europe came from external sources.

Long-term funding, from sources that are less susceptible to changes on the international capital markets, plays a key role for RBI. For this, RBI actively collaborates with supranational institutions that have been important and reliable partners for the Group for some time. This funding, amongst other purposes, is used to support SME and energy efficiency projects in Central and Eastern Europe. Group head office and the Group units in Central and Eastern Europe, however, do not only cooperate with these institutions for financing, but also for other areas such as risk-sharing programs that optimize risk-weighted assets.

Additional sources of funding for RBI include bond issuances by single Group units, such as an unsecured bond denominated in Romanian leu, issued by the Romanian Raiffeisen Bank in July 2013. Furthermore, Austria's Raiffeisen Banking Group is an important funding partner for RBI.

Issues

In 2013, RBI AG's resources for medium to long-term refinancing included, amongst other things, two issuance programs: the "EUR 25,000,000,000 Debt Issuance Program; and the "EUR 20.000.000.000 Emissionsprogramm der Raiffeisen Bank International AG." For reasons of efficiency, these were merged halfway through the year to form one issuance program – the "EUR 25,000,000,000 Debt Issuance Programme". Under this program, bonds can be issued in different currencies and different structures. The total volume of outstanding bonds under this program may not exceed € 25 billion. At the end of 2013, a total of € 13 billion had been drawn on.

RBI promptly implemented its funding plan again in 2013, primarily with low-volume private placements. In order to take advantage of the friendly market environment before the summer break, RBI AG issued a tier 2 bond in Swiss francs for CHF 250 million in the second quarter, with a ten-year maturity and a coupon of 4 per cent.

Due to its good liquidity situation, RBI AG issued a buy-back offer for an outstanding, government guaranteed bond, in July. It thus reduced its future interest costs through buy-backs amounting to € 500 million.

In mid-October, RBI issued a subordinated bond for € 500 million with a ten-year maturity and a coupon of 6 per cent to strengthen its capital basis. This was followed shortly afterwards by a senior benchmark bond, again for € 500 million but with a five-year maturity.

In December, shortly after this senior benchmark bond, RBI issued an offer to exchange existing subordinated capital with new subordinated capital (tier 2) with a volume of € 233 million. This offer was accepted by almost half of the investors, thus sustainably strengthening RBI's capital structure in the long term.

Further refinancing measures

For short-term funding, RBI used both the interbank market and its program for short-term issues (commercial papers), "Euro-Commercial Paper and Certificate of Deposit Programme", in 2013. Under this program, RBI issued commercial papers in various currencies, thereby enabling it to refinance itself outside of the interbank market.

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

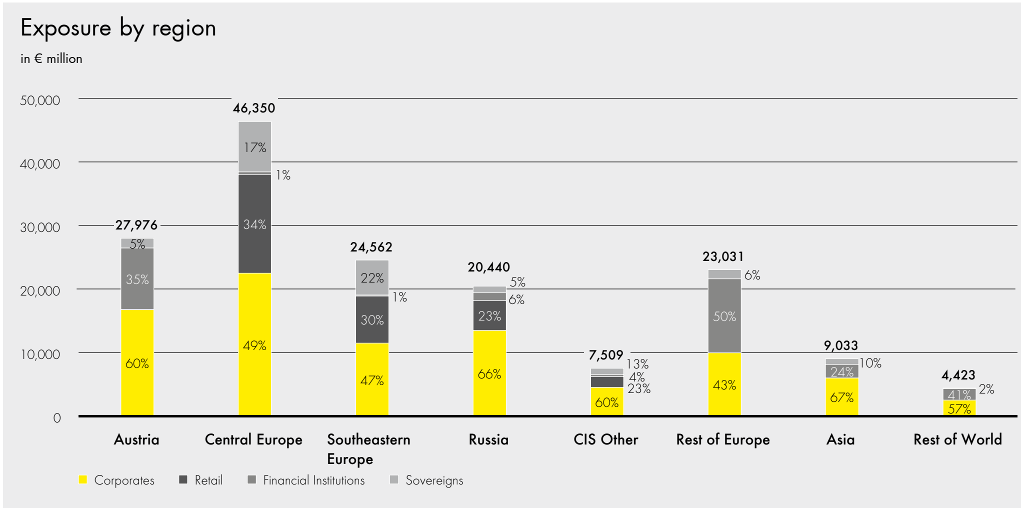
Risk management

The taking of risks and their transformation are an integral component of the banking business. This makes active risk management as much of a core competence of overall bank management as capital planning and management of the bank's profitability. In order to effectively recognize, classify and contain risks, RBI utilizes comprehensive risk management and controlling.

This function crosses the entire organizational structure, including all levels of management, and is also implemented in each of the subsidiaries by local risk management units. Risk management is structured to ensure the careful handling and professional management of credit risk and country risk, market risk and liquidity risk, investment risk, as well as operational risk, in order to ensure an appropriate risk-reward ratio. More detailed information on the structure of the risk organization and key figures can be found in the risk report.

Loan portfolio strategy

The following graph, lists RBI's outstanding exposure by business area and region at the end of the reporting period. The portfolio remained very stable throughout 2013 and thus reflected the Group's business model. On the reporting date, the total credit exposure used to manage the portfolio was € 163,323 million. This amount includes exposures on and off the statement of financial position, prior to the application of credit conversion factors and thus represents the total credit exposure.



Corporate customers are a central element of the portfolio in all regions. At the end of 2013, outstanding exposure to corporate customers for the Group totaled € 78,518 million, down € 2,378 million year-on-year. This decrease is attributable to a credit portfolio reduction at some network banks, compensated in part by an increase in loans in the Austrian portfolio. As new loans are granted primarily to customers with very good ratings, due to stricter lending policies, credit quality in the new business is significantly higher than that of the existing portfolio.

Retail business is undertaken exclusively in Central and Eastern European markets and grew € 268 million to € 29,402 million year-on-year. This increase is primarily attributable to higher lending volumes in Russia, where a rise of € 990 million was achieved despite currency devaluations. In Central Europe, however, retail exposure declined, mainly as a result of lower volumes in Poland (subdued credit demand), and in Hungary (selective lending).

The financial institutions sector consists mainly of loans and advances to, as well as securities from Western European banks to, the Austrian Raiffeisen Banking Group (as part of liquidity management within the sector). At the end of the reporting period, this portfolio totaled € 27,370 million, down € 5,355 million year-on-year. This decline was predominantly driven by liquidity optimization and led to less outstanding exposure with rating grade A3 (down € 6,606 million) as a result of fewer repo, swap and money market transactions.

In line with RBI's strategic orientation, credit exposure to sovereigns is kept at a low level. It serves primarily to meet the minimum reserve and liquidity management requirements. The credit portfolio in this segment remained largely stable throughout 2013 and totaled € 19,284 million at year-end, up € 363 million year-on-year.

At RBI, dedicated credit portfolio committees determine the credit portfolio strategy for the various customer business areas. Analyses by internal research departments, and portfolio management, form the basis of the definition of the loan portfolios' lending guidelines and limits. Credit portfolio strategies are regularly adapted to match changing market outlooks.

Although reassurances by the ECB have served to calm the European government bond market, loans and advances to governments, municipalities and banks have remained one of the main focal points of portfolio management in previous quarters. Outstanding exposure was continuously reassessed and – when necessary – limits were reduced. Besides regulatory requirements in the home market, government securities mainly serve to strengthen the liquidity buffer.

In the retail business, particular focus was placed on the cautious expansion of the consumer loans and credit cards portfolio, on the basis of selective and differentiated lending criteria, as well as the use and wide-ranging coverage of application and behavioral scorecard models. By doing so, the retail business made use of proven Group practices and successfully continued the implementation of the refined lending policies. In the underwriting process, value was placed on further simplification and automation of decision rules.

Management of non-performing loans

The management of non-performing loans continued to be one of the priorities of risk management in 2013. Above all, the targets and measures were aimed at improving the early recognition of potential problem cases, reporting on restructuring measures, as well as rapid and effective reduction of the non-performing loan portfolio. Continual measures to improve employee training in this area, as well as the ongoing exchange of experience among individual members of the credit institution group, were further key points. This prevented a more extensive increase in non-performing loans.

Continuing macroeconomic difficulties in RBI's home markets in 2013 were reflected in the rise in non-performing loans to € 8,657 million (up 6 per cent, or € 474 million, in comparison with year-end 2012). The non-bank loan portfolio, particularly in the Group Corporates segment and Slovenia, suffered from the default of some large corporate customers, which also led to an increase in planned risk costs during the second half of the year. In contrast, the non-performing loan portfolio in the retail business registered a slight fall of 4 per cent, or € 131 million, to € 2,922 million.

The allocation of corresponding loan loss provisions was, however, partly offset by high returns from reorganization measures. In doing so, adequate coverage was ensured through provisions.

Liquidity risk

RBI's liquidity position is subject to regular monitoring and is included in the RZB Group's weekly report to the Austrian banking supervisory authority. It continued to remain stable and revealed a comfortable liquidity buffer during the 2013 financial year.

To manage its liquidity risk, RBI uses a long-established and proven limit model which requires high excess liquidity for short-term maturities and is based on contractual and historically observed capital inflows and outflows. Limits have also been established for medium and long-term maturities, to lessen the negative impact of a possible refinancing cost increase on the operating result. In addition to the limit models, regular liquidity stress tests are also undertaken to evaluate and limit the effects of potential reputation and market crisis scenarios.

Liquidity management incorporates findings from past years into the cash flow modeling in order to adjust the resulting forecasts for capital commitment and refinancing needs. On the one hand, this should increase transparency with respect to actual costs and risks. On the other hand, it should also provide the right management impetus.

The underlying cash flow models are periodically adjusted to the observed portfolio dynamics trend. In 2013, particular attention was paid to modeling non-performing loans and finalizing the calculation of liquidity ratios according to Basel III.

Interest rate risk

RBI's net interest income significantly contributes to earnings. To do this significance justice, risk management of interest rate flows is treated as its own entity by a separate unit which is independent from liquidity risk. In particular, the impact of different interest rate scenarios on net interest income is simulated. In close cooperation with the front office, preparations for various developments in the markets are undertaken, so that RBI can react quickly in the case of negative trends. In 2013, the emphasis in this area was on further developing the available analytical and reporting tools as well as on harmonizing these systems within the Group.

Market risk

Since January 2010, RBI's market risk management has been based on the figures from an internal model. The model uses a hybrid approach – i.e., a combination of historical and Monte Carlo simulations with 5,000 scenarios – to calculate value at risk (VaR) for changes in the risk factors of foreign exchange, interest rate development, bonds credit spreads, credit default swaps, and equity indices. The model was expanded to include a stressed VaR module and refined measurement of option risks.

To improve the modeling of risk factors, where the probability of extreme price changes exceeds the probability given by the normal distribution, numerous approaches were integrated into the model. These include the enhancement of scenarios to include extreme events, the consideration of the current volatility levels in generating scenarios, and the application of different time periods in the volatility estimate. This model forms the basis for implementing the strict Basel III requirements into internal models.

The daily scope of management includes the trading and banking books based on VaR with a holding period of 1 day and a confidence interval of 99 per cent, as well as sensitivity limits. The market risk position, limit process and presentation of all capital market activities on the income statement are among the items on the fixed agenda for the weekly Market Risk Committee meeting.

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

Operational risk

Internal risk factors, e.g., unauthorized actions, theft and fraud, clearing and process errors, operational disturbances and system failures, as well as external risk factors, such as damage to physical assets and fraudulent acts, are both controlled and managed within the area of operational risk. These risks are analyzed, managed and controlled on the basis of the Group's own historic loss data collection, as well as the results of risk assessments.

Early warning indicators for operational risks are intended to ensure that possible losses can be recognized and prevented early on. Standardized scenario analyses are used to ascertain the effects of possible events, which have a low probability of occurrence but lead to extensive damage.

Operational risk controlling implements both a central and a decentralized management system. The basic principles and minimum standards are defined by the central operational risk controlling, while the local units are responsible for detailed implementation.

Changes in the regulatory environment

RBI concerned itself intensively with the current and the upcoming regulatory developments in 2013. One of the most important subjects was the preparation for the amended legal regulations, which came into effect with the EU directives on Basel III (CRD IV/CRR) at the beginning of 2014, and corresponding analysis of their impact.

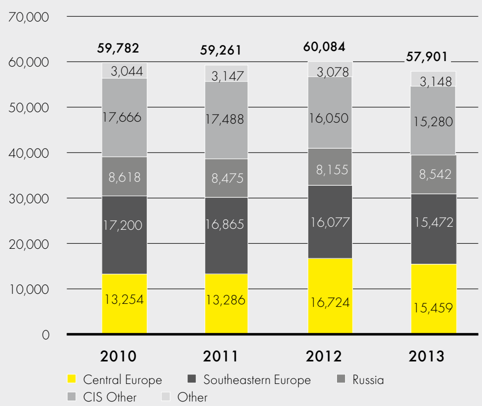
The focus, during the second half of 2013, was on preparing for the changes pertaining to the single supervisory mechanism, especially the related statement of financial position reviews ("comprehensive assessment") by the ECB, which will also lead to an asset quality review and a pan-European stress test during the first half of 2014. As part of the RZB Group, the regulatory reviews will also focus on RBI during these processes. An internal project was implemented to ensure optimum preparation for the reviews to be conducted by the ECB and to guarantee good data quality.

In addition to preparations surrounding the new Basel III regulations, risk management continued to focus on ongoing implementation of the advanced Basel II approach in 2013. The Basel II related activities included the implementation of the internal ratings-based (IRB) approach in the retail and non-retail segments of the Central and Eastern European subsidiaries, further development of the internal market risk model as well as Group-wide further development of the standard approach for operational risk.

Human resources

At RBI, human resources (HR) is responsible for ensuring that personnel resources are deployed throughout the Group in a sustainable manner, thereby harmonizing corporate interests and the needs of employees. As of 31 December 2013, RBI had 57,901 employees (full-time equivalents), 2,183 people, or 4 per cent, fewer than at the end of 2012. The largest absolute reduction (measured on the country's total number of employees) occurred in Ukraine. The average age of employees remained relatively low at 36 years, making RBI a young and dynamic bank. Moreover, graduates accounted for 72 per cent of employees, indicating a highly skilled workforce. 67 per cent of employees were women.

Development of personnel
Number of staff at year-end



Talent management and management development

During the reporting year 2013, HR also worked intensively on the further development and implementation of talent management across all Group units. Key areas included the further qualification of managers on this issue, ensuring high standards in the identification of talent (especially through calibration meetings), and an improvement in the quality of individual development plans. Alongside existing cross-functional development programs for executives, a Group-wide program was launched within IT aimed at the customized strengthening of executives' specialist and management expertise.

Professional development

Despite intensive efforts to reduce costs, the professional training of employees was still considered of great importance in 2013. Training centered on the key strategic fields of risk management, project management and compliance. Attention was also focused on the Group-wide project "Lean", a standardized method for the analysis and optimization of processes and procedures which anticipates significant improvements in efficiency. Group-wide training initiatives were launched in the fields of Controlling/Accounting and Procurement/Cost Management.

Compared to 2012, knowledge transfer sharply shifted from on-site training towards e-learning. The transfer of know-how was achieved through cross-functional and, in particular, international rotation/exchange programs, e.g., in the retail area, investment banking, collections and IT. In addition, the "International Young Potentials" program, to encourage high-potential employees from network banks by providing them with targeted trainee assignments in other network units, was launched for the third time in 2013.

Local initiatives in the network banks

The network banks also focused on cost reductions in 2013. Consequently, many network banks adopted measures to reduce personnel costs, for example by optimizing structures for a resulting reduction in management levels. A large number of network banks also started optimization processes in accordance with the "Lean" method.

Some network banks placed special attention on improving the (internal and external) quality of customer service. Corresponding surveys were conducted to identify critical areas and thus facilitate improvement measures. Numerous measures were also implemented in the area of management and employee development, such as the "Meet your customer" program, organized by Raiffeisen Bank Kosovo, in which managers based at head office swapped roles with branch managers for a certain period.

The integration process for Raiffeisen Polbank, which followed the merger between Raiffeisen Bank Polska and Polbank, included the launch of an "Employee Value Proposition" project designed to position the newly created bank as an attractive employer.

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SERVICE

Developments in compensation

As banks are typical services companies, personnel costs represent a major portion of administrative expenses – at RBI it was unchanged at 49 per cent in 2013 – and cost reduction programs also impact salaries and fringe benefits. Personnel costs for the reporting period rose 2 per cent year-on-year. As part of the performance management process, salary increases or bonuses were only granted to strong performers on the basis of differentiated performance evaluations.

As before, a significant portion of the HR capacity in 2013 was channeled towards implementing special regulations for compensation systems in the banking sector. In the reporting period, all companies associated with RBI were assessed using risk criteria in order to determine to what extent remuneration rules apply, and to identify the positions subject to the restrictive remuneration provisions of the Austrian Banking Act (BWG).

Focus on health

Since the health of employees plays a major role for RBI, the following section outlines a selection of health-related measures, which reflect the different needs in the various countries. In Austria, for example, RBI supports various sporting activities. An annual "health week" is also organized in which employees can undergo a full preventive health check-up as well as have their fitness status professionally assessed in the "UNIQA VitalTruck". Sports-related offers and specialist talks complete the health week. Cooperation is also maintained with an external consulting company which assists employees and their families with both professional issues (dealing with stress, mediation, etc.) as well as personal matters (family consulting, bereavement support, etc.). RBI also cooperates with an institute specialized in burnout and stress management, where employees can (if required) undergo five therapy units for which the majority of the costs are borne by the company.

Around 1,500 employees within Raiffeisen Bank Aval are insured under the "Health Insurance Program", the costs of which are assumed by the Bank. In the event of illness, employees who do not participate in the program are entitled to a subsidy for medical treatment for themselves, or for family members. In Russia, all Raiffeisenbank employees have access to free health insurance that includes extensive medical services at the best hospitals. In 2013, the initiative "Health and Productivity at Work" was launched within the Croatian Raiffeisenbank Austria, aimed at reducing work overload while at the same time increasing productivity. For a number of years, Priorbank in Belarus has organized a weekend for its employees each summer with various sports and leisure activities in which teams from the Russian and Ukrainian network banks also participate. A similar initiative, albeit focusing on a work-life balance, was launched by Raiffeisen Bank in Romania during the reporting period.

Outlook

Economic prospects

Central Europe

Positive growth trends, from the second half of 2013, should continue to strengthen in the Central Europe region in 2014. The economic turnaround seems to have taken hold, and improved growth in the eurozone should positively support export momentum. Domestic demand is also expected to pick up, which would further underpin the sustainability of the economic recovery. Following GDP growth of 0.8 per cent in 2013, the forecast for 2014 is currently at 2.5 per cent. Poland is likely to remain the top performing country, with GDP growth of 3.1 per cent, while the Czech Republic, whose GDP shrank 0.9 per cent in 2013, could well achieve 2.3 per cent growth in 2014, marking the strongest improvement. Slovenia is the only economy that is still expected to slightly contract. In terms of monetary policy, the reins will likely continue to be kept loose, with restrictive action not expected until the second half of 2014, at the earliest. The consolidation of government budgets is well advanced in Central Europe. The Czech Republic, Hungary and Slovakia, should be able to keep their budget deficits below the Maastricht-defined ceiling of 3 per cent of GDP. Poland may slightly exceed this level and Slovenia even significantly so. Overall, Central Europe is poised to develop from the weakest to the most dynamic CEE region in 2014.

Southeastern Europe

The Southeastern Europe region passed through the economic low sooner than Central Europe. The significant upswing, already experienced in 2013, reduced the potential for further economic recovery in the region in 2014. Moreover, owing to its weaker export positioning, Southeastern Europe stands to benefit less from the recovery in the eurozone. Aggregate economic growth in the region is projected at 1.7 per cent for 2014, slightly below the previous year, albeit with strong diversity among individual countries. Thus, Romania should continue its growth trajectory with an increase of 2.3 per cent, as strong export growth is expected to spread to domestic demand, as in Central Europe. In contrast, Croatia continues to grapple with a five-year-long recession and will at best transition to a period of stagnation in 2014. In Serbia, much-needed reforms and austerity measures may even ultimately lead to a weakening of the economy. In addition, Croatia and Serbia have the largest budget deficits in Southeastern Europe, whereas the Romanian budget deficit is unlikely to exceed 2.5 per cent of GDP.

CIS

Following growth rates in the vicinity of 4 per cent during the period of 2010 to 2012, the CIS region posted an increase of just 1.2 per cent in 2013, with only limited upside potential expected for 2014 as well. On the one hand, further growth is impaired by slower investment and export momentum. On the other hand, developments in Ukraine pose a significant downside risk to the Ukrainian as well as the Russian economy. High political and economic uncertainty will force Ukraine, supervised by the IMF, to carry out severe structural reforms in 2014, in order to adjust current economic imbalances. Russian economic growth is expected to remain weak at 1 per cent, while the economic performance in Ukraine is expected to decrease 3 to 7 per cent. The Russian state budget should continue to only show a slight deficit. However, this masks the structural weakness that its non-oil deficit would be very high, at roughly 8 to 10 per cent of GDP. Belarus will continue to depend on financial support.

Eurozone

The eurozone should see a continuing acceleration of economic growth in the course of 2014. The robust economic momentum of important trading partners (USA, UK), and the improved competitiveness of many crisis-affected countries, bodes well for a sustained recovery of the export sector. At the same time, the dampening effect from the consolidation of state finances should diminish further. In Germany, in particular in the domestic economy, potential growth is seen thanks to favorable financing conditions, as well as to pent-up consumer and investment demand. In the Netherlands, Ireland and Finland, consumption and investment growth in 2014 should likewise contribute to new growth, following hefty setbacks. In contrast, France is becoming more of a problem child, with growth forecasts below the eurozone average as a result of weak domestic and export demand. Southern Europe also continues to be exposed to heightened economic and political risks. In addition, the private sector in Italy, Spain, Portugal, and Greece, is held back by continued restrictive lending. Hence, economic recovery in these countries should be driven, in particular, by a rebound in foreign trade. However, differing trends can also be observed in Southern Europe. For example, Spain and Portugal are experiencing a much more dynamic recovery compared to Italy. Greece will not move out of recession until sometime later in 2014. Regarding inflation, low wage increases and weak consumer demand in the eurozone suggests that pressure on prices will continue to be subdued.

Austria

Over the course of 2013, consumption and investments showed initial signs of a halting recovery. This should increasingly continue in 2014. Private consumption should again profit from increasing employment momentum in the course of 2014. Investments should gain tailwind from the growing exports. In addition, the favorable financing environment is conducive to investment activities. However, as rising exports are also up against increasing imports, foreign trade contribution to GDP quarterly growth is expected to remain on the same level overall. On the other hand, contributions to growth from domestic demand are anticipated to rise significantly, thus becoming the driving force behind the continued economic recovery. Overall, due to increasing economic momentum, real GDP growth of 1.5 per cent is anticipated for 2014 after just 0.4 per cent in 2013. The highpoint of economic development should fall within the winter period of 2014/2015.

Outlook for RBI

We aim to slightly increase loans and advances to customers in 2014.

We expect the net provisioning requirement in 2014 to remain at around the same level as in the prior year, however, results may be impacted by the ECB Asset Quality Review process. The developments in Ukraine and their potential effects on the region are hereby also not taken into consideration.

In the course of our cost reduction program, we plan to reduce general administrative expenses to the level of 2012 by 2016. We aim to achieve a cost/income ratio of between 50 to 55 per cent by 2016. We plan to maintain 2014 costs at around the same level as 2013.

We aim for a return on equity before tax of approximately 15 per cent in the medium term.

Organizational changes

On 24 May 2013, RBI's longstanding CEO, Herbert Stepic, announced he was offering to resign from his position due to personal reasons. He left RBI's Management Board on 7 June 2013. On the same date, the former Deputy CEO, Karl Sevelda, who until then held Management Board responsibility for global corporate customer business, was appointed as RBI's new CEO. Chief Risk Officer, Johann Strobl, was appointed as RBI's new Deputy CEO.

Following acceptance of Herbert Stepic's offer of resignation, Karl Sevelda took over his area of responsibility. Karl Sevelda also assumed responsibility for Participations and International Banking Units from Management Board member Peter Lennkh, who is now in charge of corporate customer business.

Events after the reporting date

Capital increase

On 21 January 2014, RBI announced that it intended to strengthen its capital base by issuing new shares. The first stage of this capital increase was an offering of new shares to selected qualified institutional investors by way of an accelerated bookbuilding (pre-placement), in which all of 97,473,914 new shares were placed on 22 January. RZB participated in the capital increase, through its wholly owned subsidiary Raiffeisen International Beteiligungs GmbH, with a commitment of € 750 million as part of the pre-placement. 21.3 per cent of the shares from the pre-placement were subject to clawback with deferred settlement. This should be applied to the extent that shareholders exercise their subscription rights in the second stage of the capital increase, a rights offering during the period from 24 January to 7 February 2014.

Whereas RZB, through its subsidiary Raiffeisen International Beteiligungs GmbH, waived all of its subscription rights, the remaining shareholders exercised 35.7 per cent of their subscription rights. Consequently, 90,074,789 new shares were allocated to the qualified institutional investors from the pre-placement. This corresponds to 92.4 per cent of the total 97,473,914 shares issued by way of the capital increase, with existing shareholders receiving the remaining 7,399,125 new shares.

At a subscription and offer price of € 28.50 per new share, gross proceeds from the deal amounted to roughly € 2.78 billion. As a result of the capital increase, RBI's free float increased significantly to roughly 39.3 per cent as of the reporting date on 11 February 2014. RZB remains the indirect majority shareholder with some 60.7 per cent of the shares. RBI intends to use the proceeds from the capital increase to redeem participation capital in the amount of € 2.5 billion.

A key reason for the capital increase was to strengthen RBI's equity base to comply with the new Basel III rules (CRR), under which participation capital counts towards common equity tier 1 (CET1) during the transition period only. The capital increase has improved the fully phased-in CET1 ratio by 3.2 percentage points, to 10.1 per cent.

Political and economic turbulence in Ukraine

During the first few weeks of 2014, the political and economic situation in Ukraine deteriorated considerably. In combination with the tensions in the region, this turbulence led to an increase in Ukraine's budgetary deficit, a reduction in the Ukrainian national bank's currency reserves and a rating downgrade for Ukrainian government bonds. Up to the time of completion of RBI's annual financial statements on March 11, 2014, the Ukrainian hryvnia devalued 11 per cent against the US dollar. The national bank subsequently implemented tighter currency controls and changed its exchange rate policy. The impacts on Raiffeisen Bank Aval's financial and asset position could not yet be assessed at the editorial deadline of this report. However, devaluation of the hryvnia resulted in negative exchange differences in RBI's equity.

The tensions in the region also had an impact on Russia, where uncertainties resulted in double-digit slides on the Moscow stock exchange and devaluation of the Russian rouble against the US dollar of around 10 per cent. This devaluation resulted in negative exchange differences in RBI's equity.

At the time of completion of RBI's annual financial statements on March 11, 2014, the performance of all currencies of relevance to RBI resulted in a reduction in common equity tier 1 (CET1) of around 25 basis points.

Segment reports

The details on the division of the segments are explained in the segment reports section of the consolidated financial statements.

Segment overview

At € 835 million, RBI's profit before tax declined 20 per cent, or € 203 million, compared to the previous year, and was heavily influenced by positive one-off effects of € 276 million.

In Central Europe, profit before tax increased from € 53 million to € 65 million due to a higher operating result. Reductions in net provisioning for impairment losses, predominantly in Hungary and Poland, were fully offset by the newly introduced financial transaction tax in Hungary, as well as by higher bank levies and lower net income from financial investments.

Profit before tax in the Southeastern Europe segment declined 8 per cent to € 277 million year-on-year. This was due to higher net provisioning for impairment losses, especially in Bulgaria, Albania, Serbia and Croatia.

Russia made by far the largest regional contribution to earnings with profit before tax of € 615 million (up 3 per cent). While the operating result rose 8 per cent year-on-year and net income from financial investments substantially increased – following the sale of equity participations – net provisioning for impairment losses also increased.

In the CIS Other segment, profit before tax doubled to € 217 million, primarily due to a significant increase in operating income in Belarus and a substantial rise in net income from financial investments in Ukraine.

Despite higher operating income, profit before tax in the Group Corporates segment decreased from € 319 million to € 174 million mainly due to higher provisioning for impairment losses on loans to large corporate customers.

In the Group Markets segment, profit before tax fell 52 per cent to € 125 million year-on-year. This was attributable to a decline in net income from financial investments, which was influenced in the previous year by a one-off effect relating to sales of securities.

The Corporate Center segment reported a net loss before tax of € 130 million compared to a loss of € 399 million in the previous year. A significant improvement in net interest and dividend income, as well as lower depreciation of equity participations served to offset higher valuation losses on derivatives.

Segment development

Central Europe

In Central Europe, profit before tax rose 23 per cent to € 65 million in 2013. While a significantly lower net provisioning for impairment losses positively affected the results for the region, there was a negative effect from the lower net income from financial investments and higher bank levies. Return on equity before tax rose 0.3 percentage points to 2.0 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income[1]	1,657	1,582	4.7%	419	418	0.2%
General administrative expenses	(1,098)	(1,037)	5.9%	(314)	(267)	17.6%
Operating result	**558**	**545**	**2.4%**	**105**	**151**	**(30.6)%**
Net provisioning for impairment losses	(403)	(517)	(22.1)%	(143)	(91)	57.1%
Other results[2]	(90)	25	–	(24)	(3)	>500.0%
Profit/loss before tax	**65**	**53**	**23.2%**	**(62)**	**56**	**–**
Assets	38,421	40,787	(5.8)%	38,421	38,353	0.2%
Net interest margin (average interest-bearing assets)	2.92%	2.85%	0.07 PP	2.94%	2.99%	(0.05) PP
Return on equity before tax	**2.0%**	**1.7%**	**0.3 PP**	**(7.6)%**	**6.9%**	**–**

1 Operating income excl. impairment on goodwill and bank levies.
2 Other results incl. impairment on goodwill and bank levies.

Operating income

The segment's net interest income increased 2 per cent year-on-year to € 1,068 million. As a result of the consolidation of Polbank, Poland reported an increase of 35 per cent, or € 81 million, which fully offset declines in other countries in this segment. In Slovakia, higher margins in new retail business, as well as repricing of existing deposits, resulted in a rise in net interest income. Hungary posted the largest decline in interest income as a result of reduced credit volumes, lower market interest rates, decreased income from derivative financial instruments, and a fall in income from securities. Moreover, a decline in retail and corporate customer business in the Czech Republic had a negative impact. The segment's net interest margin improved to 2.92 per cent, with the largest rise in interest margins being recorded in Slovakia and the largest decline in Hungary. Total assets were down 6 per cent, or € 2.4 billion, to € 38.4 billion year-on-year due to the optimization of liquidity and weak demand for credit. Credit-risk-weighted assets also decreased 5 per cent from € 22.0 billion to € 20.9 billion.

Net fee and commission income in the segment increased, by an overall, 10 per cent, or € 50 million, to € 546 million. Income from payment transfer business increased 19 per cent to € 240 million, largely driven by higher fees charged to customers in connection with the financial transaction tax recently introduced in Hungary. Income from securities business also rose 35 per cent to € 44 million due to an increase in Hungary. Similarly, income from foreign currency, notes/coins and precious metals business increased € 5 million to € 154 million, primarily as a result of the development in the Czech Republic and Poland.

Net trading income in the segment improved € 20 million year-on-year to € 28 million. Net income from interest-based transactions rose € 29 million to € 39 million year-on-year. This was attributable to the higher net income from interest-based derivatives in Hungary and Poland. In contrast, net income from currency-based transactions posted a decline from minus € 3 million to minus € 12 million year-on-year. The reduction was particularly significant in Poland, where one-off gains relating to transactions at Polbank, prior to its first-time consolidation in May 2012, led to a positive one-off effect last year. At the same time, Hungary recorded a substantial increase owing to gains from currency swaps.

Other net operating income for the region fell € 21 million to € 14 million year-on-year. In particular, the newly introduced financial transaction tax in Hungary, most of which, however, could be passed on to customers as shown in net fee and commission income, had a negative effect on net income. The release of a provision for VAT liabilities in Poland provided a positive contribution to other net operating income.

General administrative expenses

General administrative expenses in the segment increased 6 per cent to € 1,098 million year-on-year. This development is largely attributable to depreciation on software in the Czech Republic, as well as the consolidation of Polbank and its continuing operational merger with the structures and systems of Raiffeisen Bank Polska S.A. In addition, staff expenses increased in Slovakia due to a change in statutory social security costs. This was set against reductions in the Czech Republic, Hungary, and Slovenia, resulting from cost saving programs. Other administrative expenses showed a slight € 1 million increase to € 436 million, primarily due to Polbank consolidation. In contrast, there were reductions in Hungary, the Czech Republic, Slovakia and Slovenia. The € 49 million year-on-year rise in depreciation was largely attributable to the € 57 million impairment of a core banking software system in the Czech Republic. The segment's number of business outlets decreased by 51 to 802 year-on-year, largely as a result of the optimization of local presence in Poland. The cost/income ratio rose 0.8 percentage points to 66.3 per cent.

Net provisioning for impairment losses

The Central Europe segment revealed a favorable trend in provisioning for impairment losses, in 2013. Overall net provisioning for impairment losses fell € 114 million to € 403 million. Net allocations to individual loan loss provisions fell € 152 million to € 429 million, while net releases of portfolio-based loan loss provisions decreased € 45 million to € 16 million. Hungary, Poland and the Czech Republic reported decreases, whereas higher net provisioning for impairment losses was needed in Slovenia and Slovakia. In Hungary, provisioning for impairment losses dropped to € 152 million (2012: € 241 million) following additional loan loss provisions, in the previous year, due to the legally defined right to early repayment of foreign currency loans at an exchange rate below the market rate. Net provisioning for impairment losses fell € 41 million in Poland, where sales of large NPL portfolios had a positive effect. The Czech Republic reported a € 23 million decrease in net provisioning for impairment losses, following the prior year rise as a result of higher mortgage loans allocations. Net provisioning for impairment losses almost doubled in Slovenia due to an increase in volumes of non-performing loans to corporate customers. Higher net provisioning for impairment losses was required in Slovakia for both corporate and retail customers.

The share of non-bank non-performing loans in the loan portfolio in the Central Europe segment rose 0.7 percentage points to 12.2 per cent, while the NPL coverage ratio improved slightly to 64.3 per cent.

Other results and taxes

Other results of the Central Europe segment decreased from plus € 25 million to minus € 90 million year-on-year. This was mainly attributable to bank levies in Slovakia and Hungary, as well as the newly introduced financial transaction tax in Hungary. This led to a negative € 93 million impact on income – an increase of € 40 million compared to last year – as well as to a significantly reduced net income from financial investments and negative net income from derivatives.

Net income from financial investments fell by € 43 million overall to € 9 million, with the valuation of the fair-value portfolio of securities declining € 32 million to € 17 million. A significantly weaker valuation of municipal bonds in Hungary resulted in a decline of € 24 million. Net proceeds from sales of equity participations remained below € 1 million during the reporting period, following prior year net proceeds of € 9 million primarily as a result of the sale of VISA shares in Croatia, Serbia, as well as Bosnia and Herzegovina.

The segment posted net income from derivatives of minus € 4 million (2012: plus € 16 million) for the reporting period, mainly due to valuation losses from various hedging transactions, carried out to adjust the currency and interest-rate structure in the Czech Republic.

Income taxes for the segment were down 14 per cent to € 58 million. The tax rate remained extraordinarily high at 89 per cent. As in the previous year, the high tax rate was the result of the situation in Hungary, where incurred losses could not be deducted for tax purposes through the recognition of corresponding tax loss carry-forwards. Similarly, tax loss carry-forwards relating to the Polbank consolidation could not be fully utilized due to tax restrictions.

Detailed results of individual countries:

Czech Republic

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	232	257	(9.7)%	55	56	(3.0)%
Net fee and commission income	125	125	0.3%	29	30	(4.4)%
Net trading income	15	5	209.8%	4	2	124.4%
Other net operating income	14	8	66.1%	5	4	29.0%
Operating income	**386**	**395**	**(2.2)%**	**93**	**93**	**0.7%**
General administrative expenses	(277)	(237)	17.2%	(95)	(67)	42.3%
Operating result	**109**	**158**	**(31.3)%**	**(2)**	**26**	**–**
Net provisioning for impairment losses	(52)	(75)	(31.0)%	(26)	(7)	291.6%
Other results	(6)	16	–	(4)	(2)	47.6%
Profit/loss before tax	**51**	**99**	**(48.9)%**	**(31)**	**17**	**–**
Income taxes	(8)	(21)	(63.1)%	9	(4)	–
Profit/loss after tax	**43**	**78**	**(45.1)%**	**(22)**	**12**	**–**
Assets	7,987	8,938	(10.6)%	7,987	8,274	(3.5)%
Loans and advances to customers	5,983	6,380	(6.2)%	5,983	6,289	(4.9)%
hereof corporate %	44.0%	44.0%	0.0 PP	44.0%	43.4%	0.6 PP
hereof retail %	55.6%	55.8%	(0.3) PP	55.6%	56.2%	(0.6) PP
hereof foreign currency %	11.7%	7.1%	4.6 PP	11.7%	9.4%	2.3 PP
Deposits from customers	5,757	6,319	(8.9)%	5,757	5,804	(0.8)%
Loan/deposit ratio	104.5%	101.0%	3.6 PP	104.5%	108.3%	(3.8) PP
Equity	705	737	(4.4)%	705	777	(9.2)%
Return on equity before tax	7.6%	16.3%	(8.7) PP	–	9.4%	–
Return on equity after tax	6.5%	12.8%	(6.4) PP	–	6.9%	–
Cost/income ratio	71.9%	60.0%	11.9 PP	102.1%	72.2%	29.9 PP
Net interest margin (average interest-bearing assets)	3.00%	3.14%	(0.14) PP	2.90%	2.93%	(0.03) PP
Employees as of reporting date	2,773	3,066	(9.6)%	2,773	2,832	(2.1)%
Business outlets	129	132	(2.3)%	129	130	(0.8)%
Customers	486,909	486,261	0.1%	486,909	483,302	0.7%

Hungary

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	196	239	(17.9)%	48	48	(0.1)%
Net fee and commission income	118	77	53.4%	34	30	13.3%
Net trading income	1	(62)	–	17	2	>500.0%
Other net operating income	(48)	(12)	305.4%	(16)	(12)	29.1%
Operating income	**268**	**243**	**10.4%**	**82**	**68**	**21.3%**
General administrative expenses	(185)	(197)	(6.2)%	(48)	(45)	7.1%
Operating result	**83**	**45**	**83.3%**	**34**	**23**	**49.7%**
Net provisioning for impairment losses	(152)	(241)	(36.9)%	(55)	(25)	122.6%
Other results	(41)	34	–	(12)	5	–
Profit/loss before tax	**(110)**	**(162)**	**(31.8)%**	**(33)**	**3**	**–**
Income taxes	(6)	(12)	(53.5)%	(3)	(1)	109.9%
Profit/loss after tax	**(116)**	**(174)**	**(33.3)%**	**(35)**	**2**	**–**
Assets	6,230	7,155	(12.9)%	6,230	6,270	(0.6)%
Loans and advances to customers	4,990	5,231	(4.6)%	4,990	5,161	(3.3)%
hereof corporate %	52.5%	55.8%	(3.3) PP	52.5%	53.0%	(0.5) PP
hereof retail %	36.0%	37.9%	(1.9) PP	36.0%	36.0%	0.0 PP
hereof foreign currency %	60.5%	63.3%	(2.8) PP	60.5%	61.7%	(1.1) PP
Deposits from customers	4,163	4,927	(15.5)%	4,163	4,082	2.0%
Loan/deposit ratio	119.9%	106.5%	13.4 PP	119.9%	126.4%	(6.5) PP
Equity	402	373	7.8%	402	371	8.5%
Return on equity before tax	–	–	–	–	–	–
Return on equity after tax	–	–	–	–	–	–
Cost/income ratio	69.1%	81.4%	(12.3) PP	58.7%	66.6%	(7.8) PP
Net interest margin (average interest-bearing assets)	3.18%	3.43%	(0.25) PP	3.24%	3.24%	0.00 PP
Employees as of reporting date	2,603	2,865	(9.1)%	2,603	2,715	(4.1)%
Business outlets	122	125	(2.4)%	122	124	(1.6)%
Customers	606,021	622,990	(2.7)%	606,021	604,565	0.2%

Poland

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	312	269	15.7%	78	82	(4.9)%
Net fee and commission income	161	154	4.2%	38	42	(9.7)%
Net trading income	7	19	(64.6)%	(1)	1	–
Other net operating income	25	17	45.9%	2	3	(31.1)%
Operating income	**504**	**460**	**9.6%**	**117**	**129**	**(9.2)%**
General administrative expenses	(362)	(329)	10.0%	(96)	(87)	10.7%
Operating result	**142**	**131**	**8.7%**	**21**	**42**	**(50.4)%**
Net provisioning for impairment losses	(86)	(127)	(32.2)%	(12)	(30)	(59.6)%
Other results	(2)	2	–	0	0	66.0%
Profit before tax	**54**	**6**	**>500.0%**	**9**	**12**	**(27.9)%**
Income taxes	(14)	(5)	161.2%	(3)	(3)	(12.6)%
Profit after tax	**41**	**1**	**>500.0%**	**6**	**9**	**(32.8)%**
Assets	12,881	13,428	(4.1)%	12,881	12,708	1.4%
Loans and advances to customers	9,744	10,451	(6.8)%	9,744	9,832	(0.9)%
hereof corporate %	33.5%	32.3%	1.2 PP	33.5%	33.0%	0.5 PP
hereof retail %	66.4%	67.6%	(1.2) PP	66.4%	66.8%	(0.4) PP
hereof foreign currency %	55.4%	54.0%	1.4 PP	55.4%	55.6%	(0.2) PP
Deposits from customers	7,280	7,901	(7.9)%	7,280	7,053	3.2%
Loan/deposit ratio	133.8%	132.3%	1.6 PP	133.8%	139.4%	(5.6) PP
Equity	1,475	1,470	0.3%	1,475	1,446	2.0%
Return on equity before tax	3.7%	0.6%	3.2 PP	2.5%	3.5%	(1.0) PP
Return on equity after tax	2.8%	0.1%	2.7 PP	1.8%	2.7%	(0.9) PP
Cost/income ratio	71.8%	71.6%	0.3 PP	82.2%	67.4%	14.8 PP
Net interest margin (average interest-bearing assets)	2.54%	2.53%	0.01 PP	2.62%	2.72%	(0.10) PP
Employees as of reporting date	5,985	6,656	(10.1)%	5,985	6,124	(2.3)%
Business outlets	370	416	(11.1)%	370	371	(0.3)%
Customers	776,917	871,102	(10.8)%	776,917	806,789	(3.7)%

Slovakia

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	308	291	5.8%	80	79	0.8%
Net fee and commission income	135	132	1.9%	34	34	0.8%
Net trading income	5	6	(25.0)%	1	1	(0.5)%
Other net operating income	26	22	19.1%	7	7	(4.2)%
Operating income	**474**	**452**	**4.9%**	**122**	**122**	**0.5%**
General administrative expenses	(251)	(250)	0.6%	(68)	(63)	8.3%
Operating result	**222**	**202**	**10.2%**	**54**	**59**	**(7.9)%**
Net provisioning for impairment losses	(48)	(41)	18.7%	(19)	(11)	70.2%
Other results	(41)	(27)	49.0%	(8)	(9)	(6.3)%
Profit before tax	**134**	**134**	**(0.3)%**	**27**	**39**	**(30.1)%**
Income taxes	(31)	(28)	9.0%	(8)	(8)	(4.4)%
Profit after tax	**103**	**106**	**(2.8)%**	**19**	**31**	**(37.2)%**
Assets	10,009	9,667	3.5%	10,009	9,769	2.5%
Loans and advances to customers	6,879	6,645	3.5%	6,879	6,911	(0.5)%
hereof corporate %	46.7%	49.3%	(2.6) PP	46.7%	47.3%	(0.6) PP
hereof retail %	53.0%	50.5%	2.6 PP	53.0%	52.5%	0.6 PP
hereof foreign currency %	0.6%	0.9%	(0.2) PP	0.6%	0.6%	0.0 PP
Deposits from customers	7,320	7,233	1.2%	7,320	7,321	0.0%
Loan/deposit ratio	94.0%	91.9%	2.1 PP	94.0%	94.4%	(0.4) PP
Equity	1,028	1,075	(4.3)%	1,028	1,012	1.6%
Return on equity before tax	14.1%	14.2%	(0.1) PP	11.9%	17.0%	(5.1) PP
Return on equity after tax	10.8%	11.2%	(0.4) PP	8.4%	13.3%	(5.0) PP
Cost/income ratio	53.1%	55.3%	(2.3) PP	55.6%	51.6%	4.0 PP
Net interest margin (average interest-bearing assets)	3.38%	3.18%	0.20 PP	3.39%	3.47%	(0.08) PP
Employees as of reporting date	3,853	3,827	0.7%	3,853	3,844	0.2%
Business outlets	165	163	1.2%	165	163	1.2%
Customers	895,376	840,728	6.5%	895,376	889,023	0.7%

Slovenia

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	19	25	(21.9)%	4	5	(10.8)%
Net fee and commission income	8	8	(1.5)%	2	2	5.3%
Net trading income	1	1	20.5%	0	0	(22.7)%
Other net operating income	(3)	0	–	(3)	(1)	392.5%
Operating income	**25**	**34**	**(25.2)%**	**4**	**6**	**(42.2)%**
General administrative expenses	(22)	(24)	(7.5)%	(6)	(5)	21.2%
Operating result	**3**	**9**	**(70.8)%**	**(3)**	**1**	**–**
Net provisioning for impairment losses	(65)	(34)	92.9%	(31)	(19)	66.5%
Other results	(1)	0	>500.0%	0	0	21.9%
Loss before tax	**(63)**	**(24)**	**157.9%**	**(34)**	**(18)**	**91.3%**
Income taxes	0	(1)	(54.1)%	(1)	0	–
Loss after tax	**(63)**	**(25)**	**149.9%**	**(35)**	**(18)**	**95.3%**
Assets	1,341	1,612	(16.8)%	1,341	1,339	0.2%
Loans and advances to customers	1,051	1,225	(14.3)%	1,051	1,097	(4.2)%
hereof corporate %	60.9%	62.4%	(1.5) PP	60.9%	61.1%	(0.3) PP
hereof retail %	31.8%	31.2%	0.5 PP	31.8%	31.8%	(0.1) PP
hereof foreign currency %	4.2%	4.9%	(0.7) PP	4.2%	4.3%	0.0 PP
Deposits from customers	423	495	(14.6)%	423	397	6.5%
Loan/deposit ratio	248.4%	247.6%	0.9 PP	248.4%	276.1%	(27.7) PP
Equity	33	56	(41.9)%	33	27	18.7%
Return on equity before tax	–	–	–	–	–	–
Return on equity after tax	–	–	–	–	–	–
Cost/income ratio	89.1%	72.0%	17.1 PP	171.2%	81.6%	89.6 PP
Net interest margin (average interest-bearing assets)	1.43%	1.57%	(0.14) PP	1.36%	1.42%	(0.05) PP
Employees as of reporting date	245	310	(21.0)%	245	253	(3.2)%
Business outlets	16	17	(5.9)%	16	17	(5.9)%
Customers	65,441	68,593	(4.6)%	65,441	65,719	(0.4)%

Southeastern Europe

In Southeastern Europe, profit before tax fell 8 per cent to € 277 million year-on-year as a result of higher net provisioning for impairment losses. Return on equity before tax declined 1.0 percentage point to 13.7 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income	1,285	1,281	0.3%	321	329	(2.4)%
General administrative expenses	(698)	(702)	(0.5)%	(184)	(172)	6.7%
Operating result	**587**	**579**	**1.3%**	**137**	**157**	**(12.4)%**
Net provisioning for impairment losses	(326)	(287)	13.4%	(107)	(70)	51.6%
Other results	16	11	51.6%	1	6	(81.4)%
Profit before tax	**277**	**303**	**(8.4)%**	**31**	**92**	**(65.7)%**
Assets	21,160	21,346	(0.9)%	21,160	21,358	(0.9)%
Net interest margin (average interest-bearing assets)	4.37%	4.21%	0.16 PP	4.42%	4.46%	(0.04) PP
Return on equity before tax	**13.7%**	**14.7%**	**(1.0) PP**	**6.2%**	**17.9%**	**(11.7) PP**

Operating income

The segment's net interest income fell 1 per cent to € 862 million year-on-year. This was largely attributable to declines in Romania and Bulgaria. Lower market interest rates and falling interest income from securities were responsible for the fall in Romania. In Bulgaria, lower lending volumes in the retail and corporate business, and clearly lower market interest rates, led to a drop in net interest income. In contrast, net interest income in Serbia increased due to reduced interest expenses for customer deposits. The segment's net interest margin rose 16 basis points to 4.37 per cent. Total assets, however, decreased 1 per cent year-on-year to € 21.2 billion, while credit risk-weighted assets also declined 5 per cent to € 12.5 billion.

Net fee and commission income was up 9 per cent, or € 29 million, to € 348 million. Income from payment transfer business increased 7 per cent year-on-year, again delivering the largest contribution with € 191 million – above all in Romania and Serbia. Income from loan and guarantee business, which increased mainly in Romania due to higher volumes, rose 35 per cent to € 28 million. Increases of € 4 million each were reported in net income from the sale of own and third party products, as well as in income from securities business – predominantly the result of the development in Romania and Croatia.

Net trading income for the Southeastern Europe segment was virtually unchanged year-on-year at € 53 million. A decline in income from interest-based transactions was largely offset by higher net income from currency-based transactions. The reduction in income from interest-based transactions was mainly the result of business performance in Croatia, where lower spreads led to higher valuation gains from bonds in the trading portfolio in the previous year. During the reporting period, changes in the market environment caused RBI to pursue a more defensive strategy. The rise in net income from currency-based transactions, in 2013, was largely the result of positive market valuations of forward exchange contracts following currency appreciation in Romania and Serbia.

Other net operating income fell € 17 million to € 22 million year-on-year. Allocations to other provisions and losses on the sale of tangible and intangible fixed assets in some of the region's countries weighed on the result. Income from operating leasing business also decreased – above all in Croatia.

General administrative expenses

General administrative expenses fell 1 per cent to € 698 million year-on-year. Staff expenses declined € 2 million to € 302 million as a result of lower bonus payments. The € 5 million rise in other administrative expenses to € 309 million was primarily due to higher expenses for deposit insurance fees, increased advertising, PR and promotional, as well as higher IT expenses. Depreciation decreased 7 per cent, or € 7 million, to € 87 million, mainly as a result of lower depreciation on tangible fixed assets in Croatia and Romania, as well as leased assets in Croatia. The cost/income ratio improved 0.4 percentage points to 54.3 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses in the Southeastern Europe segment increased 13 per cent, or € 38 million, to € 326 million year-on-year. Net allocations for individual loan loss provisions increased 10 per cent, or € 29 million, to € 335 million. All countries except for Bosnia and Herzegovina contributed to the rise. The largest increases were reported in Bulgaria and Croatia. In Bulgaria, this was due to higher direct write-downs of loans to major customers, while in Croatia higher provisions were required in the leasing business and for loans to private customers (home and car loans, overdrafts). In the case of portfolio-based loan loss provisions, there were net releases of € 7 million in the reporting year – predominantly in Bulgaria, Croatia and Serbia. However, they were € 9 million lower than in the previous year. The share of non-bank non-performing loans in the segment's loan portfolio increased 1.4 percentage points to 13.9 per cent, while the NPL coverage ratio improved 0.9 percentage points to 62.9 per cent.

Other results and taxes

Other results in the segment increased from € 11 million to € 16 million year-on-year. Primarily positive valuation results from interest rate swaps in Croatia, led to a result of € 8 million from derivative financial instruments, after valuation losses of € 6 million had been reported in the previous year.

Net income from financial investments fell € 9 million to € 9 million. On the one hand, net proceeds from the sale of equity participations declined € 7 million after prior year gains had been reported from the sale of VISA shares in Croatia, Serbia, as well as Bosnia and Herzegovina. On the other hand, securities valued at fair value through profit and loss declined € 2 million to € 8 million. The valuation result contained therein fell from plus € 3 million in the previous year to minus € 3 million in the reporting year, as a result of a changed statement of interest in Serbia. Net proceeds were up € 4 million to € 11 million, mostly as a result of the sale of government bonds in Romania.

In the reporting year, the deconsolidation of a subsidiary in Southeastern Europe led to a loss of € 2 million.

Income taxes for the region declined 19 per cent to € 29 million year-on-year, largely as a result of a one-off effect, due to the release of a deferred tax liability in the amount of € 12 million in Romania. In contrast, a higher income tax rate resulted in a rise in tax expense in Albania. The tax rate in the Southeastern Europe segment fell 1 percentage point to 11 per cent.

Detailed results of individual countries:

Albania

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	77	77	(0.2)%	21	19	7.5%
Net fee and commission income	9	8	11.6%	1	3	(52.0)%
Net trading income	21	19	11.0%	5	6	(19.3)%
Other net operating income	(1)	(1)	44.4%	(2)	0	–
Operating income	**106**	**103**	**2.4%**	**24**	**28**	**(13.4)%**
General administrative expenses	(42)	(42)	(0.3)%	(12)	(10)	13.3%
Operating result	**63**	**61**	**4.3%**	**12**	**17**	**(29.5)%**
Net provisioning for impairment losses	(29)	(20)	43.7%	(11)	(7)	67.2%
Other results	0	0	–	0	0	–
Profit before tax	**35**	**41**	**(14.8)%**	**1**	**11**	**(88.6)%**
Income taxes	(3)	(3)	(7.5)%	0	(1)	–
Profit after tax	**32**	**37**	**(15.5)%**	**2**	**10**	**(83.1)%**
Assets	2,084	2,289	(9.0)%	2,084	2,161	(3.5)%
Loans and advances to customers	916	974	(6.0)%	916	899	1.9%
hereof corporate %	69.7%	68.7%	1.0 PP	69.7%	69.4%	0.3 PP
hereof retail %	30.3%	31.3%	(1.0) PP	30.3%	30.6%	(0.3) PP
hereof foreign currency %	68.5%	64.6%	3.9 PP	68.5%	65.5%	3.1 PP
Deposits from customers	1,758	2,037	(13.7)%	1,758	1,856	(5.3)%
Loan/deposit ratio	52.1%	47.8%	4.3 PP	52.1%	48.4%	3.7 PP
Equity	220	227	(3.3)%	220	217	1.4%
Return on equity before tax	18.3%	22.7%	(4.4) PP	2.6%	21.5%	(18.9) PP
Return on equity after tax	16.6%	20.8%	(4.1) PP	3.4%	19.2%	(15.8) PP
Cost/income ratio	39.8%	40.9%	(1.1) PP	49.1%	37.5%	11.6 PP
Net interest margin (average interest-bearing assets)	4.23%	3.91%	0.33 PP	4.70%	4.30%	0.41 PP
Employees as of reporting date	1,371	1,388	(1.2)%	1,371	1,389	(1.3)%
Business outlets	104	105	(1.0)%	104	105	(1.0)%
Customers	719,949	712,875	1.0%	719,949	724,770	(0.7)%

Bosnia and Herzegovina

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	74	72	1.8%	19	19	(2.0)%
Net fee and commission income	33	31	4.9%	10	9	11.0%
Net trading income	1	1	1.0%	(1)	1	–
Other net operating income	1	0	>500.0%	(1)	0	–
Operating income	**109**	**105**	**3.6%**	**27**	**29**	**(7.6)%**
General administrative expenses	(65)	(63)	2.4%	(19)	(17)	13.0%
Operating result	**44**	**42**	**5.5%**	**8**	**12**	**(36.0)%**
Net provisioning for impairment losses	(15)	(21)	(28.2)%	(8)	(1)	>500.0%
Other results	(1)	2	–	0	0	(43.8)%
Profit before tax	**29**	**23**	**25.9%**	**0**	**11**	**–**
Income taxes	(3)	(3)	(21.9)%	0	(1)	–
Profit after tax	**26**	**19**	**34.2%**	**0**	**10**	**(95.8)%**
Assets	2,022	1,983	2.0%	2,022	2,013	0.4%
Loans and advances to customers	1,223	1,259	(2.9)%	1,223	1,258	(2.8)%
hereof corporate %	35.8%	39.5%	(3.7) PP	35.8%	37.1%	(1.3) PP
hereof retail %	63.7%	59.8%	3.9 PP	63.7%	62.1%	1.6 PP
hereof foreign currency %	73.4%	73.5%	(0.1) PP	73.4%	74.6%	(1.2) PP
Deposits from customers	1,567	1,526	2.7%	1,567	1,556	0.7%
Loan/deposit ratio	78.1%	82.5%	(4.4) PP	78.1%	80.9%	(2.8) PP
Equity	269	258	4.2%	269	268	0.2%
Return on equity before tax	12.0%	9.6%	2.4 PP	–	18.4%	–
Return on equity after tax	10.9%	8.1%	2.7 PP	0.7%	16.2%	(15.6) PP
Cost/income ratio	59.4%	60.1%	(0.7) PP	70.9%	58.0%	12.9 PP
Net interest margin (average interest-bearing assets)	3.91%	3.72%	0.19 PP	3.89%	3.99%	(0.10) PP
Employees as of reporting date	1,491	1,561	(4.5)%	1,491	1,504	(0.9)%
Business outlets	98	98	0.0%	98	98	0.0%
Customers	496,690	496,107	0.1%	496,690	496,807	0.0%

Bulgaria

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	129	136	(5.3)%	31	34	(10.2)%
Net fee and commission income	38	37	1.2%	10	10	(0.5)%
Net trading income	3	5	(43.7)%	1	1	121.6%
Other net operating income	(3)	(1)	481.7%	(4)	0	>500.0%
Operating income	**166**	**178**	**(6.7)%**	**38**	**44**	**(14.3)%**
General administrative expenses	(92)	(93)	(0.5)%	(25)	(23)	7.9%
Operating result	**74**	**85**	**(13.4)%**	**14**	**22**	**(37.6)%**
Net provisioning for impairment losses	(91)	(76)	20.4%	(37)	(22)	71.3%
Other results	(1)	1	–	0	0	–
Profit/loss before tax	**(18)**	**11**	**–**	**(24)**	**0**	**>500.0%**
Income taxes	2	0	–	2	0	>500.0%
Profit/loss after tax	**(15)**	**10**	**–**	**(21)**	**0**	**>500.0%**
Assets	3,203	3,486	(8.1)%	3,203	3,409	(6.0)%
Loans and advances to customers	2,526	2,883	(12.4)%	2,526	2,629	(3.9)%
hereof corporate %	44.0%	45.9%	(1.9) PP	44.0%	44.4%	(0.4) PP
hereof retail %	55.5%	53.5%	2.0 PP	55.5%	55.1%	0.4 PP
hereof foreign currency %	67.2%	75.0%	(7.7) PP	67.2%	71.6%	(4.3) PP
Deposits from customers	2,133	2,156	(1.0)%	2,133	2,157	(1.1)%
Loan/deposit ratio	118.4%	133.7%	(15.3) PP	118.4%	121.9%	(3.5) PP
Equity	472	500	(5.7)%	472	505	(6.6)%
Return on equity before tax	–	2.2%	–	–	–	–
Return on equity after tax	–	2.1%	–	–	–	–
Cost/income ratio	55.5%	52.1%	3.4 PP	64.5%	51.3%	13.3 PP
Net interest margin (average interest-bearing assets)	3.93%	3.92%	0.01 PP	3.81%	4.18%	(0.37) PP
Employees as of reporting date	2,965	3,119	(4.9)%	2,965	3,029	(2.1)%
Business outlets	168	183	(8.2)%	168	178	(5.6)%
Customers	740,812	791,751	(6.4)%	740,812	738,588	0.3%

Croatia

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	153	152	0.3%	41	39	3.9%
Net fee and commission income	56	57	(1.3)%	13	17	(20.4)%
Net trading income	11	18	(39.5)%	4	1	301.6%
Other net operating income	24	28	(15.2)%	5	6	(6.3)%
Operating income	**243**	**255**	**(4.6)%**	**63**	**63**	**0.7%**
General administrative expenses	(130)	(137)	(5.1)%	(32)	(32)	0.5%
Operating result	**114**	**119**	**(4.0)%**	**31**	**31**	**0.9%**
Net provisioning for impairment losses	(58)	(52)	12.2%	(10)	(7)	40.1%
Other results	0	(10)	–	(2)	0	>500.0%
Profit before tax	**56**	**56**	**(0.9)%**	**19**	**23**	**(17.6)%**
Income taxes	(11)	(11)	1.2%	(4)	(5)	(17.4)%
Profit after tax	**45**	**45**	**(1.4)%**	**15**	**19**	**(17.6)%**
Assets	4,749	5,097	(6.8)%	4,749	4,948	(4.0)%
Loans and advances to customers	3,436	3,525	(2.5)%	3,436	3,468	(0.9)%
hereof corporate %	41.8%	39.7%	2.2 PP	41.8%	41.5%	0.3 PP
hereof retail %	48.9%	49.4%	(0.6) PP	48.9%	49.0%	(0.2) PP
hereof foreign currency %	68.8%	61.2%	7.6 PP	68.8%	67.0%	1.8 PP
Deposits from customers	2,863	3,040	(5.8)%	2,863	3,012	(5.0)%
Loan/deposit ratio	120.0%	116.1%	3.8 PP	120.0%	115.9%	4.0 PP
Equity	750	761	(1.4)%	750	736	2.0%
Return on equity before tax	7.9%	7.7%	0.2 PP	10.9%	13.1%	(2.2) PP
Return on equity after tax	6.3%	6.2%	0.1 PP	8.7%	10.5%	(1.7) PP
Cost/income ratio	53.2%	53.5%	(0.3) PP	50.4%	50.5%	(0.1) PP
Net interest margin (average interest-bearing assets)	3.58%	3.18%	0.40 PP	3.99%	3.64%	0.35 PP
Employees as of reporting date	2,036	2,066	(1.5)%	2,036	2,040	(0.2)%
Business outlets	76	79	(3.8)%	76	76	0.0%
Customers	475,838	479,399	(0.7)%	475,838	474,668	0.2%

Kosovo

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	39	38	1.6%	9	10	(5.7)%
Net fee and commission income	8	8	1.9%	2	2	(8.0)%
Net trading income	0	0	(30.3)%	0	0	–
Other net operating income	0	0	104.9%	0	0	30.0%
Operating income	**46**	**46**	**1.1%**	**11**	**12**	**(7.3)%**
General administrative expenses	(25)	(27)	(5.1)%	(7)	(6)	13.4%
Operating result	**21**	**19**	**9.5%**	**4**	**6**	**(28.9)%**
Net provisioning for impairment losses	(4)	(5)	(6.5)%	(1)	(1)	(1.2)%
Other results	1	0	–	0	0	48.0%
Profit before tax	**18**	**15**	**20.8%**	**4**	**5**	**(31.1)%**
Income taxes	(2)	(2)	14.1%	0	(1)	(41.6)%
Profit after tax	**16**	**13**	**21.6%**	**3**	**5**	**(29.8)%**
Assets	699	629	11.2%	699	654	6.9%
Loans and advances to customers	458	428	6.9%	458	454	0.9%
hereof corporate %	39.4%	37.7%	1.7 PP	39.4%	39.4%	0.1 PP
hereof retail %	60.6%	62.3%	(1.7) PP	60.6%	60.6%	(0.1) PP
hereof foreign currency %	0.0%	0.0%	0.0 PP	0.0%	0.0%	0.0 PP
Deposits from customers	558	514	8.5%	558	515	8.2%
Loan/deposit ratio	82.1%	83.3%	(1.2) PP	82.1%	88.0%	(5.9) PP
Equity	108	100	8.3%	108	105	3.1%
Return on equity before tax	19.6%	16.8%	2.9 PP	15.4%	21.4%	(6.1) PP
Return on equity after tax	17.6%	14.9%	2.7 PP	13.9%	19.1%	(5.1) PP
Cost/income ratio	54.4%	57.9%	(3.5) PP	62.5%	51.1%	11.4 PP
Net interest margin (average interest-bearing assets)	6.07%	5.96%	0.10 PP	5.69%	6.26%	(0.56) PP
Employees as of reporting date	699	688	1.6%	699	701	(0.3)%
Business outlets	54	52	3.8%	54	51	5.9%
Customers	251,035	273,486	(8.2)%	251,035	246,190	2.0%

Romania

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	281	303	(7.2)%	69	71	(2.0)%
Net fee and commission income	168	143	18.0%	51	42	20.4%
Net trading income	14	9	50.8%	3	4	(21.8)%
Other net operating income	2	3	(35.0)%	(1)	(1)	39.8%
Operating income	**465**	**458**	**1.7%**	**122**	**116**	**5.3%**
General administrative expenses	(271)	(263)	2.7%	(71)	(66)	7.5%
Operating result	**195**	**194**	**0.2%**	**51**	**50**	**2.3%**
Net provisioning for impairment losses	(106)	(99)	6.8%	(31)	(28)	10.7%
Other results	16	6	153.4%	2	7	(70.2)%
Profit before tax	**104**	**101**	**3.1%**	**23**	**29**	**(22.5)%**
Income taxes	(4)	(15)	(70.0)%	(4)	(5)	(23.0)%
Profit after tax	**100**	**86**	**15.8%**	**19**	**25**	**(22.4)%**
Assets	6,528	5,982	9.1%	6,528	6,315	3.4%
Loans and advances to customers	4,266	4,226	1.0%	4,266	4,396	(3.0)%
hereof corporate %	32.8%	35.3%	(2.4) PP	32.8%	34.1%	(1.3) PP
hereof retail %	64.3%	61.9%	2.3 PP	64.3%	62.7%	1.5 PP
hereof foreign currency %	54.3%	51.8%	2.4 PP	54.3%	52.5%	1.7 PP
Deposits from customers	4,344	3,781	14.9%	4,344	4,144	4.8%
Loan/deposit ratio	98.2%	111.8%	(13.6) PP	98.2%	106.1%	(7.9) PP
Equity	674	595	13.3%	674	654	3.2%
Return on equity before tax	19.2%	20.5%	(1.3) PP	15.8%	20.5%	(4.7) PP
Return on equity after tax	18.4%	17.5%	0.9 PP	13.4%	17.3%	(3.9) PP
Cost/income ratio	58.2%	57.6%	0.6 PP	58.0%	56.8%	1.2 PP
Net interest margin (average interest-bearing assets)	4.61%	5.08%	(0.47) PP	4.47%	4.65%	(0.17) PP
Employees as of reporting date	5,308	5,486	(3.2)%	5,308	5,383	(1.4)%
Business outlets	530	527	0.6%	530	529	0.2%
Customers	2,077,912	1,974,315	5.2%	2,077,912	2,009,889	3.4%

Serbia

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	110	91	21.9%	27	28	(3.4)%
Net fee and commission income	36	35	1.4%	9	9	(2.4)%
Net trading income	3	1	393.0%	1	1	(27.1)%
Other net operating income	1	5	(73.3)%	(1)	(1)	2.1%
Operating income	**150**	**132**	**14.3%**	**36**	**37**	**(3.9)%**
General administrative expenses	(75)	(78)	(4.1)%	(19)	(19)	1.0%
Operating result	**75**	**53**	**41.4%**	**17**	**19**	**(8.8)%**
Net provisioning for impairment losses	(23)	(15)	47.7%	(8)	(5)	66.5%
Other results	1	13	(93.9)%	0	(1)	(99.3)%
Profit before tax	**54**	**51**	**5.5%**	**9**	**13**	**(32.4)%**
Income taxes	(7)	(4)	106.0%	(1)	(2)	(22.9)%
Profit after tax	**46**	**47**	**(2.3)%**	**7**	**11**	**(34.1)%**
Assets	1,875	1,883	(0.4)%	1,875	1,862	0.7%
Loans and advances to customers	1,105	1,204	(8.2)%	1,105	1,167	(5.3)%
hereof corporate %	47.9%	53.1%	(5.2) PP	47.9%	49.3%	(1.4) PP
hereof retail %	49.9%	44.4%	5.5 PP	49.9%	48.1%	1.8 PP
hereof foreign currency %	69.8%	66.6%	3.2 PP	69.8%	67.0%	2.8 PP
Deposits from customers	1,119	1,139	(1.8)%	1,119	1,119	0.0%
Loan/deposit ratio	98.8%	105.7%	(7.0) PP	98.8%	104.3%	(5.6) PP
Equity	498	496	0.4%	498	491	1.4%
Return on equity before tax	11.9%	10.8%	1.1 PP	7.5%	10.6%	(3.1) PP
Return on equity after tax	10.2%	10.0%	0.2 PP	6.2%	9.0%	(2.8) PP
Cost/income ratio	49.9%	59.5%	(9.6) PP	52.7%	50.1%	2.6 PP
Net interest margin (average interest-bearing assets)	6.23%	4.77%	1.46 PP	6.26%	6.33%	(0.07) PP
Employees as of reporting date	1,602	1,769	(9.4)%	1,602	1,666	(3.8)%
Business outlets	85	85	0.0%	85	84	1.2%
Customers	604,122	550,790	9.7%	604,122	586,174	3.1%

Russia

In Russia, profit before tax was up 3 per cent to € 615 million year-on-year, due to an increased operating result. Net income from financial investments based on the sale of participations partly offset the rise in net provisioning for impairment losses. Return on equity before tax fell 0.5 percentage points to 38.7 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income	1,186	1,098	8.0%	292	318	(8.2)%
General administrative expenses	(552)	(511)	8.1%	(161)	(127)	26.5%
Operating result	**634**	**587**	**7.9%**	**132**	**191**	**(31.2)%**
Net provisioning for impairment losses	(48)	16	–	(29)	(27)	7.8%
Other results	29	(5)	–	5	(3)	–
Profit before tax	**615**	**599**	**2.7%**	**108**	**162**	**(33.1)%**
Assets	15,555	15,635	(0.5)%	15,555	15,796	(1.5)%
Net interest margin (average interest-bearing assets)	4.80%	5.29%	(0.49) PP	4.79%	4.64%	0.15 PP
Return on equity before tax	**38.7%**	**39.2%**	**(0.5) PP**	**27.0%**	**39.7%**	**(12.7) PP**

Operating income

Net interest income in Russia declined 4 per cent, or € 26 million, year-on-year to € 722 million. Interest income from derivative financial instruments used for foreign currency denominated loan exposure hedges decreased € 108 million as a result of the reclassification of the interest portion in new business to the trading book. Increased expenses for customer deposits also had a negative effect. In contrast, interest income from loans rose as a result of higher volumes in new business. The segment's net interest margin fell 49 basis points to 4.80 per cent year-on-year, mainly due to lower income from derivative financial instruments. Total assets remained relatively stable year-on-year at € 15.6 billion. Despite increased lending in the retail business (credit cards and consumer loans), credit risk-weighted assets fell 10 per cent to € 9.2 billion as a consequence of a sharp drop in lending in non-retail business. The retail business share of the total lending volume rose considerably from 36 to 44 per cent.

Net fee and commission income rose 8 per cent, or € 23 million, year-on-year to € 308 million. Income from loan and guarantee business increased € 17 million to € 93 million, due mainly to higher volumes in new retail business. Income from payment transfer business was up € 12 million to € 113 million, driven primarily by volume-related higher revenues in the credit card business. In contrast, net income from the sale of own and third party products declined € 4 million, as did net income from the management of investment and pension funds.

Net trading income amounted to € 156 million (up € 86 million), which was well above the comparable prior year figure. Net income from currency-based transactions markedly increased € 90 million to € 147 million as a result of higher gains from foreign currency derivatives carried out for hedging purposes. By contrast, net income from interest-based transactions was down € 4 million to € 9 million as a result of valuation losses. The main reason for the rise in currency-based transactions was a reclassification of the interest portion of foreign currency derivatives from net interest income to net trading income.

The segment's other net operating income improved € 5 million to break-even. In the previous year, the disposal of assets led to a negative result.

General administrative expenses

The segment's general administrative expenses increased 8 per cent, or € 42 million, to € 552 million. This was mainly attributable to a rise in staff expenses (up € 16 million) as a result of salary increases at year-end 2012. Other administrative expenses increased € 14 million due to higher advertising and IT expenses. However, savings were achieved in communications, legal, advisory, and consulting expenses. Depreciation expenses were up € 12 million, attributable to impairments in respect of branch buildings. The number of business outlets rose by 9 to 195 year-on-year. The cost/income ratio increased 0.1 percentage points to 46.6 per cent.

Net provisioning for impairment losses

In the reporting year, net provisioning for impairment losses in Russia totaled € 48 million, which compared to a net release of € 16 million in the previous year. The increase was, first and foremostly, due to higher net allocations to individual loan loss provisions for major customers and non-performing loans to retail customers. A net release of € 13 million was posted in portfolio-based loan loss provisions; however, it was € 3 million below the comparable figure in the previous year. The decline was mainly due to the introduction of a new rating model for major customers. The share of non-performing loans in the credit portfolio fell 0.2 percentage points to 4.8 per cent year-on-year. The NPL coverage ratio fell to 77.8 per cent (2012: 100.0 per cent) as a result of sales and the writing off of impaired loans and releases of portfolio-based loan loss provisions.

Other results and taxes

Other results in the Russia segment improved from minus € 5 million in the previous year to plus € 29 million in the reporting year. Net income from derivative financial instruments increased € 13 million to € 4 million, as a result of the improved valuation of interest rate swaps carried out to mitigate interest rate structure risk. Net income from financial investments increased € 20 million to € 25 million. It included net proceeds of € 24 million from the sale of VISA shares. The valuation results and net proceeds from the sale of securities in the fair value portfolio fell € 4 million year-on-year.

The segment's income taxes rose 16 per cent to € 146 million, as a result of higher non-deductible expenses, while the tax rate increased 3 percentage points to 24 per cent.

Russia

The table below provides an overview of the country results for Russia. Any discrepancies with regard to values specified for the Russia segment are the result of equity being allocated differently: The figures in the country overview are based on equity reported on the statement of financial position, while at the segment level equity is based on the actual equity used.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	722	749	(3.5)%	181	176	2.7%
Net fee and commission income	308	285	8.2%	77	76	1.8%
Net trading income	156	69	124.7%	34	66	(48.1)%
Other net operating income	0	(5)	(93.1)%	0	0	96.6%
Operating income	**1,186**	**1,098**	**8.0%**	**292**	**318**	**(8.2)%**
General administrative expenses	(552)	(511)	8.1%	(161)	(127)	26.5%
Operating result	**634**	**587**	**7.9%**	**132**	**191**	**(31.2)%**
Net provisioning for impairment losses	(48)	16	–	(29)	(27)	7.8%
Other results	29	(5)	–	5	(3)	–
Profit before tax	**615**	**599**	**2.7%**	**108**	**162**	**(33.1)%**
Income taxes	(146)	(126)	16.2%	(22)	(37)	(41.2)%
Profit after tax	**469**	**473**	**(0.9)%**	**87**	**125**	**(30.8)%**
Assets	15,555	15,635	(0.5)%	15,555	15,796	(1.5)%
Loans and advances to customers	9,967	9,669	3.1%	9,967	10,173	(2.0)%
hereof corporate %	55.6%	64.1%	(8.5) PP	55.6%	57.0%	(1.5) PP
hereof retail %	44.4%	35.9%	8.5 PP	44.4%	43.0%	1.5 PP
hereof foreign currency %	33.5%	44.2%	(10.7) PP	33.5%	34.3%	(0.9) PP
Deposits from customers	9,924	9,609	3.3%	9,924	10,329	(3.9)%
Loan/deposit ratio	100.4%	100.6%	(0.2) PP	100.4%	98.5%	1.9 PP
Equity	2,360	2,460	(4.1)%	2,360	2,351	0.4%
Return on equity before tax	31.7%	31.9%	(0.2) PP	22.4%	32.3%	(9.9) PP
Return on equity after tax	24.2%	25.2%	(1.1) PP	18.0%	25.0%	(7.0) PP
Cost/income ratio	46.6%	46.5%	0.0 PP	55.0%	39.9%	15.1 PP
Net interest margin (average interest-bearing assets)	4.80%	5.29%	(0.48) PP	4.79%	4.64%	0.15 PP
Employees as of reporting date	8,542	8,155	4.7%	8,542	8,572	(0.3)%
Business outlets	195	186	4.8%	195	192	1.6%
Customers	2,617,291	2,288,175	14.4%	2,617,291	2,523,700	3.7%

CIS Other

In the CIS Other segment profit before tax doubled year-on-year to € 217 million mainly due to the significant increase in operating income in Belarus, as well as higher income from financial investments in Ukraine. The segment's return on equity before tax increased 12.4 percentage points to 26.1 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income	638	602	6.0%	171	175	(2.1)%
General administrative expenses	(358)	(384)	(6.9)%	(89)	(89)	0.8%
Operating result	**281**	**218**	**28.7%**	**82**	**86**	**(5.1)%**
Net provisioning for impairment losses	(108)	(89)	21.3%	(14)	(37)	(63.4)%
Other results	44	(21)	–	0	5	(94.8)%
Profit before tax	**217**	**108**	**100.7%**	**68**	**54**	**26.4%**
Assets	5,809	6,324	(8.1)%	5,809	5,981	(2.9)%
Net interest margin (average interest-bearing assets)	7.60%	7.12%	0.48 PP	8.59%	8.08%	0.51 PP
Return on equity before tax	**26.1%**	**13.7%**	**12.4 PP**	**32.7%**	**25.5%**	**7.2 PP**

Operating income

The segment's net interest income increased 1 per cent, or € 5 million, to € 422 million. This was mainly attributable to the development in Belarus, where higher lending volumes and margins led to a 36 per cent increase in net interest income to € 88 million. In Ukraine, in contrast, net interest income fell 5 per cent to € 332 million due to lower lending volumes and declining interest income from securities. The segment's net interest margin improved 48 basis points to 7.60 per cent. The segment's total assets decreased 8 per cent year-on-year to € 5.8 billion. Credit risk-weighted assets declined 2 per cent to € 5.0 billion due to the discontinuation of largely impaired loans.

The segment's net fee and commission income increased 1 per cent year-on-year to € 210 million, with net income from the payment transfer business, which increased 3 per cent to € 158 million, still representing the largest contribution. The increase was achieved mainly as a result of a higher number of transactions in Belarus. Net income from the foreign currency, notes/coins and precious-metals business developed conversely, declining 10 per cent to € 37 million, predominantly due to lower transaction volumes in Ukraine. The sale of own and third party products generated net income growth of € 2 million, mainly in Ukraine, while net income from other banking services declined to the same extent.

Net trading income improved year-on-year from minus € 19 million to plus € 12 million. Net income from currency-based transactions benefited from significantly lower valuation losses on a strategic currency position in Belarus, held to hedge equity, and from positive effects from foreign currency positions in Ukraine. Additionally, valuation gains from bonds in Ukraine led to an increase of € 2 million in net income from interest-based transactions. As in the previous year, the application of hyperinflation accounting in Belarus had an almost unchanged strain of € 22 million on net trading income.

Other net operating income in the segment reported a slight year-on-year decline of € 1 million to minus € 6 million, the bulk of which was due to non-income-related taxes.

General administrative expenses

General administrative expenses declined 7 per cent year-on-year to € 358 million. Cost savings were achieved in Ukraine due to a slight depreciation of the US dollar and the Ukrainian hryvna. Staff expenses fell € 6 million to € 148 million as a result of staff reductions. Other administrative expenses declined € 3 million to € 89 million and involved almost all expenses categories. The biggest decrease of € 23 million related to depreciation of intangible and tangible fixed assets, and was mainly the result of higher depreciation charges on software in Ukraine in the previous year. In Belarus, in contrast, general administrative expenses increased € 7 million to € 74 million due to higher inflation-index-based staff expenses, as well as salary increases agreed in the previous year. The cost/income ratio improved 7.7 percentage points to 56.0 per cent.

Net provisioning for impairment losses

The region's net provisioning for impairment losses rose 21 per cent, or € 19 million, to € 108 million year-on-year, with net allocations to individual loan loss provisions increasing € 10 million to € 120 million. Portfolio-based loan loss provisions reported a net release at € 11 million, albeit € 9 million lower than in the previous year. At € 121 million, the overall impairment requirement in Ukraine was € 14 million higher than in 2012. This was mainly due to the lower valuation of retail customers' collateral. In Belarus, in contrast, net releases declined to € 13 million (2012: € 18 million). This was mainly due to portfolio-based loan loss provisions, due to lower default rates.

The share of non-performing loans in the segment's total loan portfolio fell 3.8 percentage points. This development was supported by the writing off of foreign currency loans in the Ukranian retail customer business. At 24.4 per cent it was still high compared to the other segments, whereby at 0.6 per cent the NPL ratio in Belarus was the lowest in the Group. The NPL coverage ratio improved 2 percentage points to 72.2 per cent.

Other results and taxes

Other results improved year-on-year from minus € 21 million to plus € 44 million. This was mainly due to net income from financial investments. A narrowing of the yield spreads of the portfolio of fixed-income Ukrainian government bonds carried at market values led to valuation gains of € 23 million after valuation losses of € 21 million in the previous year. In addition, the sale of VISA and MasterCard shares in Ukraine resulted in a profit of € 20 million in the reporting period.

The segment's income taxes remained, despite a doubling of net income, unchanged at € 47 million, and the tax rate was halved to 22 per cent. This was essentially due to lower statutory income tax rates in Ukraine and Belarus, as well as a lower tax rate on income from securities in Ukraine.

Below please find the detailed results of the individual countries in the segment:

Belarus

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	88	65	35.9%	23	23	1.7%
Net fee and commission income	62	60	4.0%	15	16	(2.1)%
Net trading income	(1)	(26)	(97.4)%	0	4	(97.1)%
Other net operating income	(1)	(3)	(74.5)%	0	0	–
Operating income	**149**	**95**	**56.4%**	**39**	**43**	**(8.2)%**
General administrative expenses	(74)	(67)	9.8%	(19)	(18)	7.2%
Operating result	**75**	**28**	**169.9%**	**20**	**25**	**(19.5)%**
Net provisioning for impairment losses	13	18	(30.8)%	13	0	–
Other results	0	0	–	0	0	–
Profit before tax	**87**	**46**	**89.8%**	**33**	**24**	**36.7%**
Income taxes	(20)	(20)	0.5%	(9)	(5)	59.8%
Profit after tax	**67**	**26**	**159.7%**	**24**	**19**	**30.0%**
Assets	1,446	1,355	6.8%	1,446	1,450	(0.3)%
Loans and advances to customers	910	869	4.8%	910	1,013	(10.1)%
hereof corporate %	72.3%	73.8%	(1.5) PP	72.3%	73.9%	(1.7) PP
hereof retail %	27.7%	26.2%	1.5 PP	27.7%	26.1%	1.7 PP
hereof foreign currency %	72.4%	70.9%	1.5 PP	72.4%	70.6%	1.8 PP
Deposits from customers	842	872	(3.4)%	842	857	(1.7)%
Loan/deposit ratio	108.1%	99.6%	8.5 PP	108.1%	118.2%	(10.1) PP
Equity	270	213	26.6%	270	246	9.6%
Return on equity before tax	44.7%	25.8%	19.0 PP	64.7%	46.3%	18.3 PP
Return on equity after tax	34.3%	14.4%	19.9 PP	47.6%	35.9%	11.7 PP
Cost/income ratio	49.8%	70.9%	(21.1) PP	49.5%	42.4%	7.1 PP
Net interest margin (average interest-bearing assets)	6.68%	5.46%	1.21 PP	7.00%	6.84%	0.16 PP
Employees as of reporting date	2,216	2,190	1.2%	2,216	2,228	(0.5)%
Business outlets	100	100	0.0%	100	100	0.0%
Customers	719,919	691,925	4.0%	719,919	707,229	1.8%

Ukraine

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Net interest income	332	350	(5.2)%	91	89	1.9%
Net fee and commission income	148	150	(1.1)%	39	39	0.0%
Net trading income	12	7	83.6%	3	4	(19.4)%
Other net operating income	(5)	(2)	157.0%	(2)	(1)	66.6%
Operating income	**487**	**505**	**(3.5)%**	**132**	**131**	**0.1%**
General administrative expenses	(283)	(316)	(10.4)%	(70)	(70)	(0.9)%
Operating result	**204**	**189**	**8.2%**	**62**	**61**	**1.1%**
Net provisioning for impairment losses	(121)	(107)	13.5%	(27)	(36)	(26.7)%
Other results	44	(22)	–	0	5	(99.3)%
Profit before tax	**127**	**60**	**109.7%**	**35**	**30**	**18.0%**
Income taxes	(26)	(27)	(3.4)%	(7)	(7)	(3.4)%
Profit after tax	**101**	**33**	**201.0%**	**29**	**23**	**24.3%**
Assets	4,327	4,922	(12.1)%	4,327	4,495	(3.7)%
Loans and advances to customers	3,599	3,715	(3.1)%	3,599	3,619	(0.6)%
hereof corporate %	56.6%	52.0%	4.6 PP	56.6%	54.0%	2.6 PP
hereof retail %	43.4%	48.0%	(4.6) PP	43.4%	46.0%	(2.6) PP
hereof foreign currency %	46.9%	51.6%	(4.7) PP	46.9%	48.0%	(1.1) PP
Deposits from customers	2,433	2,646	(8.0)%	2,433	2,652	(8.3)%
Loan/deposit ratio	147.9%	140.4%	7.5 PP	147.9%	136.5%	11.4 PP
Equity	878	834	5.3%	878	867	1.3%
Return on equity before tax	16.1%	7.5%	8.6 PP	17.9%	14.7%	3.2 PP
Return on equity after tax	12.8%	4.1%	8.6 PP	14.6%	11.4%	3.2 PP
Cost/income ratio	58.1%	62.6%	(4.5) PP	53.0%	53.5%	(0.5) PP
Net interest margin (average interest-bearing assets)	7.92%	7.58%	0.34 PP	9.15%	8.53%	0.62 PP
Employees as of reporting date	13,053	13,849	(5.7)%	13,053	13,324	(2.0)%
Business outlets	798	825	(3.3)%	798	818	(2.4)%
Customers	3,062,204	3,029,424	1.1%	3,062,204	3,084,830	(0.7)%

Group Corporates

Profit before tax in the Group Corporates segment decreased 46 per cent year-on-year to € 174 million. This was primarily due to the higher net provisioning for impairment losses on loans and advances to large corporate customers. The return on equity before tax declined 8.4 percentage points to 9.6 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income	622	595	4.5%	153	152	0.4%
General administrative expenses	(191)	(177)	7.8%	(49)	(46)	5.1%
Operating result	**431**	**418**	**3.1%**	**104**	**106**	**(1.6)%**
Net provisioning for impairment losses	(258)	(113)	128.2%	(50)	(105)	(51.9)%
Other results	1	14	(92.5)%	3	(2)	–
Profit/loss before tax	**174**	**319**	**(45.5)%**	**57**	**(1)**	**–**
Assets	20,812	18,997	9.6%	20,812	21,667	(3.9)%
Net interest margin (average interest-bearing assets)	2.34%	1.93%	0.40 PP	2.34%	2.25%	0.09 PP
Return on equity before tax	**9.6%**	**18.0%**	**(8.4) PP**	**12.6%**	**–**	**–**

Operating income

The segment's net interest income increased 18 per cent year-on-year to € 478 million. A further increase in asset margins, as well as in the lending volume in the Corporate Customers profit center of Group head office (Austrian and multinational corporate clients serviced from Vienna) contributed to an improvement of 16 per cent in net interest income to € 193 million. In the Network Corporate Customers & Support profit center (predominantly international corporate customers with a CEE relationship) net interest income also increased 5 per cent to € 80 million. In Asia higher interest income from loans and advances to customers led to an increase in net interest income. The segment's net interest margin rose 40 basis points to 2.34 per cent. The segment's total assets increased 10 per cent year-on-year to € 20.8 billion due to an increased volume of lending to Western European corporate customers. The acquisition of a loan portfolio from Österreichische Volksbanken-AG accounted for around € 0.7 billion of this. Credit risk-weighted assets, in contrast, decreased 2 per cent to € 12.9 billion due to rating changes.

Net fee and commission income declined € 3 million year-on-year to € 159 million. While net fee and commission income declined in business outlets in Asia, Group head office reported an increase based on higher net fee and commission income from bond issues by Austrian, and by Western and Eastern European corporate customers, as well as on the lending and project-financing business.

The segment's net trading income declined from plus € 16 million in the previous year to minus € 16 million in the reporting period. This was mainly attributable to the valuation loss from a swap transaction in Group head office in the fourth quarter. In addition, a decline in net income from derivatives was reported within interest rate and currency hedges following weaker demand, as well as reduced income from structured investment and finance products due to lower margins and spreads.

The segment's other net operating income fell € 11 million and was thus balanced. The main reason for this was improved net income in the previous year due to the release of provisions in connection with a legal dispute at the Group unit in Malta.

General administrative expenses

The segment's general administrative expenses increased € 14 million, or 8 per cent, year-on-year to € 191 million – predominantly as a result of higher overhead costs that were allocated to the segment. The segment consisted of 9 business outlets at the end of the reporting period. The cost/income ratio rose 0.9 percentage points to 30.7 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses increased € 145 million year-on-year to € 258 million. This increase was primarily the result of high individual loan loss provisioning. Individual loans to large corporate customers in Group head office, and in Asia, led to higher risk costs. The share of non-performing loans in the segment's loan portfolio rose 1.9 percentage points to 6.7 per cent.

Other results and taxes

The segment's other results decreased year-on-year from € 14 million to € 1 million. This decline was primarily due to a € 14 million lower valuation result of securities. In the previous year a positive result of € 15 million was reported due to a one-off effect resulting from the sale of shares.

In line with the decline in profits, income taxes halved year-on-year to € 36 million, and the tax rate declined 1 percentage point to 21 per cent.

Group Markets

Profit before tax in the Group Markets segment fell 52 per cent year-on-year to € 125 million. The main reason for the decline was lower net income from financial investments due to a positive one-off effect in the previous year. The segment's return on equity before tax thus decreased 5.7 percentage points to 18.9 per cent.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income[1]	375	356	5.3%	94	88	6.5%
General administrative expenses	(253)	(256)	(1.4)%	(60)	(65)	(6.8)%
Operating result	**123**	**100**	**22.5%**	**34**	**24**	**42.6%**
Net provisioning for impairment losses	(15)	(18)	(13.3)%	(22)	5	–
Other results[2]	18	176	(89.7)%	6	5	7.7%
Profit before tax	**125**	**258**	**(51.5)%**	**17**	**34**	**(48.6)%**
Assets	20,271	20,243	0.1%	20,271	20,778	(2.4)%
Net interest margin (average interest-bearing assets)	0.74%	0.85%	(0.11) PP	0.95%	0.94%	0.01 PP
Return on equity before tax	**18.9%**	**24.6%**	**(5.7) PP**	**10.6%**	**20.8%**	**(10.2) PP**

1 Operating income excl. impairment on goodwill and bank levies.
2 Other results incl. impairment on goodwill and bank levies.

Operating income

The segment's net interest income fell 7 per cent year-on-year to € 148 million. In the second half of the year, the bank started with the set-up of a high-quality securities portfolio. As a result of the year-on-year decline in holdings of securities, the net interest margin decreased 11 basis points to 0.74 per cent. In contrast, the segment's total assets remained relatively constant at € 20.3 billion. Credit risk-weighted assets increased 18 per cent to € 3.9 billion, mainly due to the renewed increase in securities exposures.

In contrast, net fee and commission income was up 15 per cent to € 121 million year-on-year. In particular, the Financial Institutions profit center – benefiting from the improved situation in the financial markets – significantly raised income from cash management, custody and fund services. Whereas, income generated from the securities business in the private banking and asset management business declined.

The segment's net trading income increased 7 per cent to € 84 million. This was mainly the result of volume-related higher interest income and valuation results from fixed income securities.

Other net operating income, consisting of diverse smaller expenses and income items, improved 59 per cent to € 22 million.

General administrative expenses

General administrative expenses of the Group Markets segment fell 1 per cent to € 253 million year-on-year. One reason was the declining business volume which led to lower cost allocation at Group head office to this segment. The cost/income ratio improved 4.6 percentage points to 67.3 per cent.

Net provisioning for impairment losses

Net provisioning for impairment losses was € 2 million lower than in the previous year at € 15 million and related above all to the Financial Institutions & Sovereigns profit center at Group head office. Non-performing loans accounted for 1.7 per cent of the segment's total credit exposure.

Other results and taxes

The segment's other results fell from € 176 million to € 18 million year-on-year. The main reason for the decline was a one-off effect in net income from financial investments. In the previous year, the high-quality securities portfolio at Group head office was sold and further securities portfolios were reduced. Net income from derivatives, on the other hand, improved due to valuation results at Group head office.

The segment's income taxes declined from € 68 million to € 23 million as a result of the aforementioned sale of securities in the previous year, while the tax rate dropped 8 percentage points to 19 per cent.

Corporate Center

The Corporate Center segment's loss before tax, for the reporting period, reduced two-thirds to € 130 million. This was possible due to significantly improved net interest and dividend income, despite high valuation losses from derivatives.

in € million	2013	2012	Change	Q4/2013	Q3/2013	Change
Operating income[1]	774	569	35.9%	48	135	(64.4)%
General administrative expenses	(329)	(328)	0.3%	(87)	(87)	0.1%
Operating result	**445**	**241**	**84.5%**	**(39)**	**48**	**–**
Net provisioning for impairment losses	6	(1)	–	11	(6)	–
Other results[2]	(580)	(640)	(9.4)%	(199)	(121)	64.4%
Profit/loss before tax	**(130)**	**(399)**	**(67.6)%**	**(227)**	**(79)**	**186.7%**
Assets	34,716	47,341	(26.7)%	34,716	34,496	0.6%
Net interest margin (average interest-bearing assets)	–	–	–	–	–	–
Return on equity before tax	**–**	**–**	**–**	**–**	**–**	**–**

1 Operating income excl. impairment on goodwill and bank levies.
2 Other results incl. impairment on goodwill and bank levies.

Operating income

The segment's net interest income increased 33 per cent to € 665 million year-on-year. The improvement was mainly due to higher intra-Group dividend income. Higher income from optimized liquidity management and lower refinancing costs also had a positive impact on net interest income. In contrast, interest expenses for the subordinated capital of RBI AG was higher, at € 60 million (2012: € 38 million), owing to higher spreads for new issues. The segment's total assets declined 27 per cent to € 34.7 billion compared to the same period last year, due especially to the optimization of the liquidity position. Credit risk-weighted assets contracted 18 per cent to € 15.6 billion.

Net fee and commission income improved 4 per cent to minus € 40 million year-on-year, and was primarily possible due to higher fee and commission income from intra-Group securitization transactions and the acceptance of guarantees.

The segment's net trading income increased € 46 million to € 10 million year-on-year. This was mainly due to significantly lower valuation losses on various foreign currencies and interest rate-based instruments held for management purposes.

Other net operating income declined € 7 million to € 139 million. This was mainly the result of a bad debt loss from the commodity trading activities of F. J. Elsner Trading GmbH.

General administrative expenses

General administrative expenses totaled € 329 million and thus remained on the previous year's level.

Net provisioning for impairment losses

Net provisioning for impairment losses generally plays a minor role in this segment due to the intra-Group nature of its business activities. Special Customers business recorded a net release of € 6 million in the reporting year.

Other results and taxes

Other results improved € 60 million to minus € 580 million year-on-year. Although net income from financial investments contained therein remained strongly negative, at minus € 213 million, it improved year-on-year due to lower impairments on intra-Group participations. Valuation result on securities held-to-maturity declined € 32 million to minus € 106 million.

Net income from derivatives decreased € 132 million to minus € 265 million. On the one hand, the decline in net income was due to valuation losses on other derivatives; on the other, the partial repurchase of hybrid bonds resulted in a gain (€ 113 million) in the same period in the previous year. This contrasted with an improvement in net income from liabilities designated at fair value, with increases in interest rates leading to a positive valuation result on own issues. In addition, the credit spread resulted in a lesser negative effect on valuation (minus € 126 million) compared to the same period in the previous year (minus € 145 million).

The Austrian bank levy had a negative impact of € 103 million on net income, unchanged from the previous year. This was due to the fact that RBI AG's 2010 total assets had to be used for the calculation.

Tax income of € 108 million (2012: € 132 million) was recorded in the reporting year. This was, on the one hand, the result of the € 45 million in tax allocation received by RZB AG, and, on the other, the result of the deferred tax on valuation result related to liabilities measured at fair value.