

# Segment Reports

## Corporate Customers

The development of corporate customers servicing and financing remained one of Raiffeisenbank's priorities during 2005. The Bank again confirmed its reputation as a reliable partner in providing high quality banking services to Russian and Western companies operating in Russia.

The Bank's corporate loan portfolio as at the end of 2005 was RUB 77.3 bln, a 57.3% increase from RUB 49.2 bln as at the end of 2004. The overall increase of this indicator among the top 100 banks in Russia was 32% (according to Raiffeisenbank's estimate prepared based on data provided by CEA Interfax). The Bank increased the number of corporate clients by 41% to more than 4 700 companies (including brokerage and insurance companies as well as SME) at the end of 2005. Deposits and balances of Raiffeisenbank's corporate customers increased by 35% on 2004.

As in previous years, the Bank continued to work with a wide range of companies from various industries, including trade, metals, telecommunications, mining, oil and gas, chemicals, construction and transport.

Analyzed by industry diversification, the Bank's loan portfolio did not see any big changes during 2005. Similar to 2004, in 2005 the metals industry was the leader in the volume of issued loans (16% as at the end of 2005).

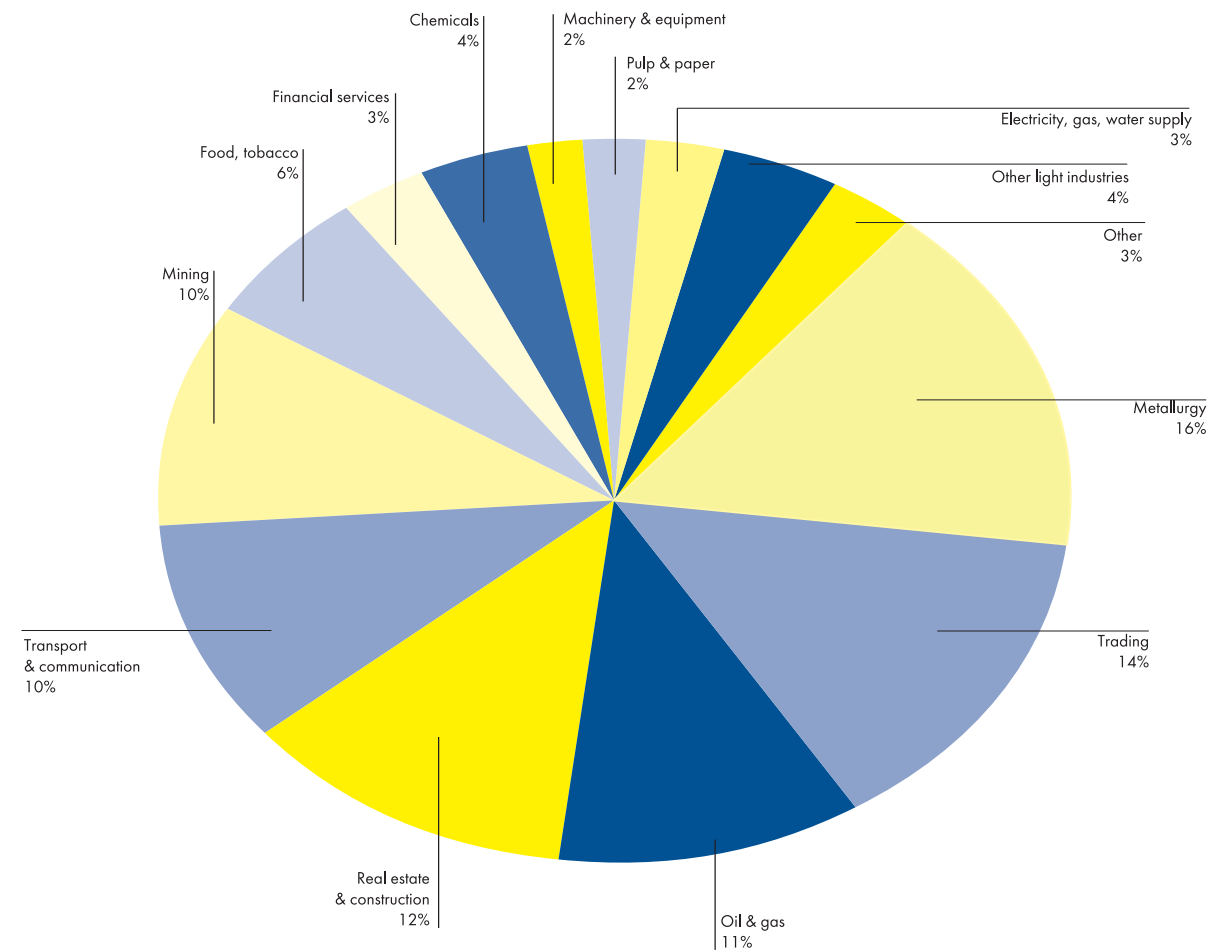
Of special note, the portfolio of loans issued in the oil and gas industry increased 38% during 2005, which reflects the active working relationship between the Bank and leading Russian extracting and trade companies.

In 2005 the share of loans to trade companies increased from 12% to 14%. The portfolio in this sector includes loans to companies in various diversified areas within the sector.

In the transport sector, Raiffeisenbank was active not only in providing finance, but also in developing and implementing several programs relating to cash flow management in order to optimize settlements for a number of large Russian transport companies, both within their groups and with their counterparties. The Bank continued to successfully develop car dealer financing programs with a focus on regional companies.



Industry Diversification of the Bank's Corporate Loan Portfolio as of the end of 2005



Source: Raiffeisenbank.

A positive sign of further credit portfolio optimization is the continuing fall in the share of the Bank's largest 10 borrowers from 25% as at the end of 2004 to 19% as at the end of 2005.

In 2005 the Bank continued to actively develop and improve corporate finance programs. The Bank began issuing rouble loans linked to the MosPrime rate, which is an important practical step towards satisfying the growing customer demand for rouble financing. The introduction of a floating rate also makes it possible to provide rouble loans for 3-5 years or longer.

One of the priority areas for the Bank's development continues to be supporting medium-sized enterprises. As at the end of 2005, medium-sized companies accounted for 24.4% of the loan portfolio.



From left to right: Sergei Montin, Pavel Gourine, Eugene Touklevitch, Alexandre Ouchakov, Johann Jonach.



### Acquisition Finance

The year 2005 has posted a record on the Russian M&A market with total value of transactions reached USD 58.9 bln or over 200% above the previous year's level. The number of cross-boarder deals has grown substantially. Nine out of 20 largest M&A transactions were sponsored by foreign corporations. In 2005 in-bound foreign M&A investments made USD 7.4 bln vs. USD 2.3 bln in 2004. Similarly, Russian companies have more than doubled their investments abroad to the total of USD 6.5 bln (USD 3 bln in 2004). Increasing number of acquisition are being financed with debt as appreciation of the leveraged financing grows among the corporate sector and proves being an effective tool to make M&A investment strategies more efficient.

Following the market trends and the growing demand from the corporate sector, Raiffeisenbank was actively expanding product and services offering to the participants of the M&A market. Our equity financing experts have been involved in structuring and executing a number of M&A deals that assumed debt financing from Raiffeisenbank in various forms including loans, bridge facilities, bank guarantees or L/Cs.

High quality of work and effectiveness in executing leveraged finance transactions by the Bank's experts have also been ensured by close interaction with Raiffeisen Group's M&A and Equity Markets units — Raiffeisen Centrobank and Raiffeisen Investment AG — who offer unlimited information support, experience and expertise earned for years on M&A markets in CEE countries. This cooperation and knowledge sharing allow us to design, offer and execute a comprehensive range of versatile financial solutions for both local and cross-boarder M&A transactions. Solutions are always focused at Clients' needs and expectations regarding transaction risk management and reliability, meeting the deadlines and schedules, competitive pricing-to-scope/quality approach.

### Structured Trade and Project Finance

In 2005 Raiffeisenbank continued to actively develop and strengthen its position in structured trade and project finance.

The Bank offers structured trade finance to manufacturing, oil, gas, petrochemical, metals, coal, wood processing and pulp industries. These services include pre-export financing, financing of raw material and equipment imports using various financial instruments (letters of credit, bank guarantees, etc.), financing of domestic products sales and loans for production needs. The Bank also arranges structured investment loans for major transport and industrial companies. In 2005 the Bank's loan portfolio in this segment grew by 44.5%.

Raiffeisenbank continued to develop the project financing segment to confirm its leading position in the Moscow real estate market. The Bank is steadily increasing its loan portfolio in this segment, which at the end of 2005 reached RUB 11 bln, a 50% increase in one year.

The demand for project finance products is steadily growing, as are individual transaction volumes. In 2005 the Bank increased the credit line provided to OOO Parus Estate by USD 18 mln for the financing of construction of an office centre.

Syndicated loans in project finance is another business area where Raiffeisenbank is one of the leaders in the Russian market. In particular, financing was provided for the construction of a large shopping and entertainment centre for a total of USD 140 mln.

### Range of Services and Regional Development

As a universal bank, Raiffeisenbank continued to improve its cash flow management programs for corporate clients. The Bank offers customised solutions that allowed it to expand its business relationships with a number of Russian corporate groups in 2005.

Raiffeisenbank expanded extensively in the regions in 2005, with a special focus on the range of services to regional corporate clients. The training programs delivered by Raiffeisenbank for regional staff enabled them to quickly establish the corporate lending process in the regions. The new branches opened in Ekaterinburg, Samara and Novosibirsk contributed to the impressive growth of the corporate banking business in 2005. The Bank forecasts a significant increase of the corporate loan portfolio by developing working relationships with regional clients.

### Documentary Business

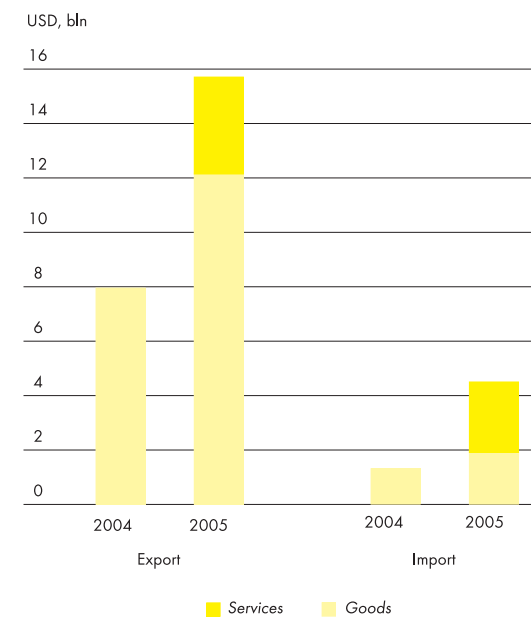
During 2005 Raiffeisenbank signed 3 710 new import passports for a total value of USD 4.8 bln. The total value of import passports in the Bank's books as at 31 December 2005 was USD 18 bln. Payments under import contracts executed through Raiffeisenbank amounted to USD 5.9 bln, 2.9 times more than in 2004, representing 3.6% of Russia's total imports<sup>1</sup>.

The total value of export contracts in the Bank's books as at 31 December 2005 was USD 79 bln. In 2005 export proceeds credited to Raiffeisenbank client accounts were USD 16 bln or 5.9% of Russia's total exports.

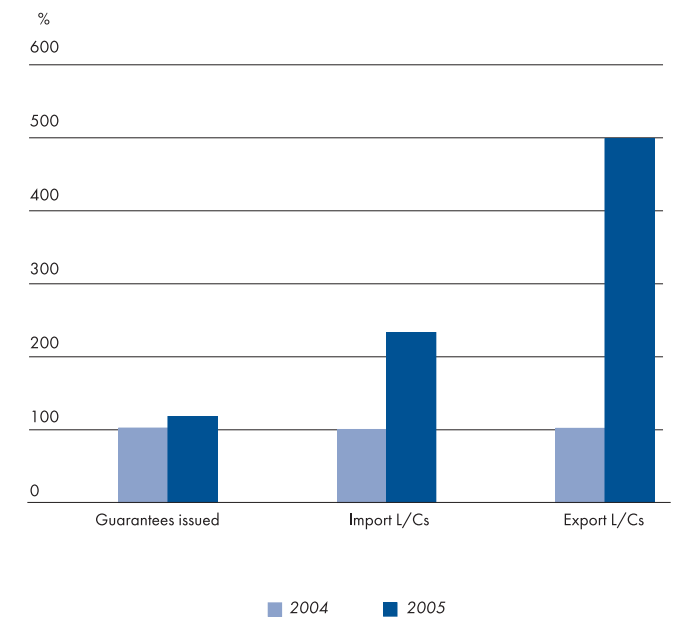
Another fast-growth area where the Bank provides services to corporate customers is documentary business. The total amount of export letters of credit increased fourfold, the total amount of import letters of credit increased more than twofold and the amount of guarantees issued increased by 19%. International and Documentary Business Department revenues increased by 28% in 2005.

During 2006 the Bank expects further growth of transactions from servicing its clients' foreign trade activities. This is due to an increased client base and new products with a guaranteed highly professional level of service.

Payments under import/export passport executed through Raiffeisenbank



International and Documentary Business growth



Source: Raiffeisenbank.

<sup>1</sup> Russia's total annual imports and exports are based on the Central Bank estimates.

## Corporate Finance and Investment Banking

Corporate finance and investment banking includes finance arrangement services on international and Russian capital markets.

### Corporate Bonds

The Bank has been very successful in the thriving market of rouble corporate bonds. It was the leader by the number of organized issues in 2005. According to the information agency Cbonds, the Bank won its top rating by organizing 15 transactions for a total value of RUB 36 bln.

Among these transactions were several placements of significance for the entire market. For example, the first placement of bonds in the history of the Russian market by a leading international financial organization, the European Bank for Reconstruction and Development. This issue was not only the first «foreigner» in the market, proving that the Russian bond market is a fully-fledged member of the international market, but it was also the first issue of bonds in Russia with a floating rate linked to the money market index.

In October 2005 one of the major banks of Kazakhstan, TuranAlem Bank, became the first CIS issuer to attract finance in the rouble bond market. Raiffeisenbank acted as the arranger of this three billion-rouble bond issue.

Raiffeisenbank was also the arranger of the first ever rouble bond issue for a record five-year term by a private Russian company, Pyaterochka, a major Russian supermarket chain. After the placement of the first non-government five-year securities in May, the Bank organized two more five-year issues — another Pyaterochka bond and a bond to Wimm-Bill-Dann Foods OJSC — a major food producer in Russia.

Among the Bank's other major transactions in the bond market, the most noteworthy were two three billion-rouble bonds to major tube-rolling plants: JSC United Metallurgical Company and OJSC Chelyabinsk Tube Rolling Plant, as well as the issue for the same value by the leader in the consumer loan market, LLC Home Credit and Finance Bank.



### Syndicated Loans

In 2005 the Bank strengthened its leading position in the Russian syndicated loans market, acting as the arranger of 16 loans for a total of over RUB 37.4 bln. The Bank works jointly with the parent bank of Raiffeisen Group, Raiffeisen Zentralbank Österreich AG (RZB), in the international market and independently arranges all transactions in the Russian market.

Raiffeisenbank and RZB's joint success made the group a leader by number of syndicated loans arranged for Russian borrowers in 2005 (according to Dealogic research company) and earned it the title of Best Syndicated Loans Arranger 2005 in Russia awarded by Global Finance magazine.

The Bank's success in arranging syndicated loans for Russian banks deserves a special mention. Overall during the year, Raiffeisenbank arranged 13 syndicated loans for banks worth a total of USD 700 mln. The largest amounts were attracted for OJSC URALSIB BANK, OJSC Industry & Construction Bank (Saint Petersburg) and NOMOS-BANK (ZAO).

Among transactions arranged for Russian corporate borrowers, a syndicated loan of USD 350 mln for Rolf Group stands out. This loan was arranged by Raiffeisenbank jointly with RZB and a group of Russian and western banks and consisted of term and revolver tranches over three years. This transaction was the largest in the Russian auto dealer sector and one of the largest in the Russian retail sector.

In anticipation of considerable growth in the demand from potential borrowers for rouble resources, the Bank was the first to focus seriously on the rouble syndicated loans market. In the second half of 2005 Raiffeisenbank acted as the arranger of three syndicated rouble loans for Russian regional banks. Each loan was issued for 6 months. The total amount of loans exceeded RUB 1.8 bln. The loans to JSC Krasnodar regional Investment Bank was the first loan issued based on an indicative MosPrime rate, a new market index proposed by the National Currency Association.

### Other Activities

In addition to arranging bond issues and syndicated loans, Raiffeisenbank also provided advisory services on mergers and acquisitions and their financing to clients. Advisory services were provided in close cooperation with Raiffeisen Investment AG, a specialized company and a member of Raiffeisen Group.

## Treasury Operations

In 2005 Raiffeisenbank was highly active in nearly all segments of the Russian finance market, including currency and money markets, stock and bond markets. An increased range of finance products combined with high quality services stimulated the activity of the Bank's clients and further raised the volume of client transactions.

During the year Raiffeisenbank continued to focus on trade activities in the domestic debt instrument market, considerably strengthening its leading position in this market.

Other evidence of Raiffeisenbank's key role in the money market is its active participation in the establishment and further support of the MosPrime index, which has by now become one of the most important indicators of the cost of short term rouble borrowings in the Russian market.

Future plans include further development and expansion of transactions with derivatives and various structured products.

Broker and market-making services, active participation in arranging and underwriting bonds of Russian issuers, together with a broad base of large corporate clients, create the prerequisites and a powerful impetus for continued development of treasury products designed to satisfy clients' needs in financial services.



## Correspondent Banking — Financial Institutions

In 2005 Raiffeisenbank strengthened its working relationships with financial institutions of Russia, the CIS and other countries.

### Russian Banks

ZAO Raiffeisenbank Austria works jointly with Russian banks in money and securities markets, provides brokerage and depository services and organizes structured financing.

In particular, during 2005 the Bank acted as arranger of 13 syndicated loans and two corporate bond issues for Russian credit institutions for a total of USD 1.1 bln.

Raiffeisenbank was a major participant in establishing a new segment of the Russian inter-bank market — syndicated rouble loans. The Bank arranged three transactions for leading regional banks: OJSC Bank Center-invest, JSC Krasnodar regional Investment bank and OJSC Uralvneshtorgbank. Additionally, Raiffeisenbank was a party to syndicated loans to OJSC Russian Agricultural Bank and JSC Russian Standard Bank.

In order to further develop this area the Bank developed a strategy for the search and selection of potential borrowers for syndicated loans among the leading banks in the regional markets.

During the year, Raiffeisenbank expanded the group of counterparties with whom it works under unsecured inter-bank limits. It currently has unsecured limits for 41 Russian counterparties.

The Bank is looking for new structured opportunities to finance partner banks by using the loan portfolios of Russian banks as collateral. In 2005 Raiffeisenbank arranged one of Russia's first refinancing of a Russian bank's mortgage portfolio by issuing a USD 25 mln loan secured by a mortgage portfolio.

### **Foreign Banks and International Financial Institutions**

Consolidating partnerships with foreign banks and international financial institutions enables Raiffeisenbank to not only support its core activities and satisfy growing client needs, but also provides significant financing opportunities.

Raiffeisenbank attracted a ten-year loan of USD 130 mln from the International Finance Corporation. This loan is the largest financing transaction of IFC for a Russian bank.

Being one of the largest Russian banks with 100% foreign capital, Raiffeisenbank provides the services of a clearing bank in Russian roubles for major foreign banks. In 2005 a number of the world's largest financial institutions opened rouble accounts with the Bank. By the end of 2005, 14 foreign banks had selected Raiffeisenbank to act as their clearing bank.

Raiffeisenbank has correspondent relations with 324 banks in 57 countries.

### **Non-banking Financial Institutions**

In 2005 Raiffeisenbank began to actively increase its portfolio of funding non-banking financial institutions. It provided a one-year loan to OOO National Factoring Company.

However, the most significant transaction in this segment was provision of a loan to OOO Reso-Leasing, a subsidiary of Reso-Garantia insurance company. This loan was secured with a pledge of rights for an asset transferred by Reso-Garantiya in management to Raiffeisen Capital Asset Management Company. This scheme enables the Bank to provide finance to this segment within the scope of its credit policy.

### **Depository Services**

Raiffeisenbank continued to grow its business in the depository services market during 2005. It significantly increased the number of corporate and individual clients — Russian and foreign investors that used the services of the Bank's depository. The total volume of the securities portfolio in custody with the Bank's depository grew by more than 30%. Further improvement in banking and information technologies enabled the Bank to improve automation of settlements on the security stock market and over-the-counter trading and also to optimize the mechanisms of structured transactions, including delivery against multicurrency payments.

In 2005 the Bank enhanced its investment fund administration, one of the most promising areas of Raiffeisenbank's activities in Russia. Under this project, which included attracting management companies for complex services, Raiffeisenbank created and offered collective investment market participants a number of new products that included, along with traditional banking products, the services of a specialized depository, a broker, a clearing bank and a specialized registrar. Unlike other companies in the collective investment market offering services that specialized depositories and registrars tender in various combinations on their websites or in marketing materials, Raiffeisenbank offers an established infrastructure that enables the customer to delegate the burden of administrative issues and thus transfer a portion of its operating risk to the Bank.

Through further implementation of advanced technology, improved interaction with clients and a heightened use of the regional branch network, Raiffeisenbank in the near future will be able to significantly expand its services in the securities market. The Bank will be able to offer a new level of high quality services, competitive prices and new IT solutions and business technologies, which in turn will enable the Bank's clients to improve the efficiency of their operations in the security market.

## Retail Customers

Raiffeisenbank became the first foreign bank servicing retail customers whose two principal indicators in this area surpassed the USD 1 bln (RUB 28.8 bln) mark in 2005: by October 2005, Raiffeisenbank had attracted USD 1 bln from retail customers, and in November 2005, the total loans issued to individuals since the foundation of the Bank also exceeded USD 1 bln.

In 2005 Raiffeisenbank exceeded annual budget indicators both in individuals' deposits and in the size of its retail loans portfolio. Last year the retail loans portfolio increased from RUB 10.4 bln to RUB 19.8 bln. The amount of cash deposited by individuals in 2005 grew by 65.3% and reached RUB 35.2 bln.

### Customer Communication Channels

#### Branches

Raiffeisenbank continues to successfully develop and improve its banking service channels.

In 2005 the Bank opened four new branches in Moscow: Leningradsky prospekt, Leninsky 32, Tishinskoe and Krylatskie Kholmy. All branches offer the full range of banking services, and Tishinskoe branch has a depository with individual safe boxes and offers the services of consultants skilled in mortgage lending and real estate transactions.

The Bank opened its second Saint Petersburg branch and completed the construction of a third branch.

The Bank raised its presence in other regions of Russia by opening regional branches in Ekaterinburg, Samara and Novosibirsk, and also began construction of six branches in large Russian cities.

#### Corporate Sales Department

Last year Raiffeisenbank's Corporate Sales Department continued to attract new clients for payroll services. This group of clients includes many international and Russian companies with over 500 employees.

The Department is responsible for attracting potential payroll project clients and supporting the Bank's branches in implementing payroll projects, for selling credit banking products and other retail services to the staff of its corporate customers, as well as for development of the ATM network.

In 2005 about 400 companies with a total headcount of 42 000 employees signed payroll agreements with the Bank for transfer of salaries to employees' accounts and plastic cards. At the end of 2005, the Bank was providing payroll services to over 1 200 companies with a total headcount of over 100 000 employees — a 70% increase on 2004.

Of these clients, 1 000 companies with a total headcount of about 90 000 are customers of the Bank's Moscow branches, and 200 companies with total headcount of over 11 000 are the customers of the Bank's regional branches (Saint Petersburg, Ekaterinburg, Samara, Novosibirsk).



### ATMs

The Bank started to actively develop its ATM network in large Russian cities in 2005. It installed ATMs in Ekaterinburg, Krasnodar, Nizhny Novgorod, Samara, Togliatti and Novosibirsk. By the end of the year, customers had access to 300 ATMs within Russia. The Bank also installed ATMs in hypermarkets Metro Cash & Carry, Real-Hypermarket, as well as in other major retail networks and centres.

Raiffeisenbank customers use ATMs more and more frequently for telephone and TV service charge payments. In 2005 the number of these transactions grew by 215%, from 16 500 as at the end of 2004 to 52 000 as at the end of 2005.

Deposit ATMs are easy to use, conveniently located and work 24-hours a day, which makes them extremely popular among the Bank's customers. Customers can use deposit ATMs to replenish their current accounts and repay their loans at a convenient time. The number of cash deposit transactions conducted via ATMs increased from 7 000 per month in December 2004 to 15 000 per month in December 2005. In 2005, 30% of cash deposit transactions were conducted via ATMs with other cash transactions processed in the Bank's cash offices.

### Call Centre

The Bank's Call Centre was established in 2001 and provides round-the-clock assistance to Raiffeisenbank clients.

In 2005 the Call Centre processed 1.2 mln calls and over 11 700 written requests. By this indicator 2005 growth was 69%.

A rate of 68% answered calls in 2004 reached 91% at the end of 2005.

In 2005 the service level increased from 54% to 75% of calls being answered within the minimum waiting threshold (15 seconds).

Based on research of the independent company Finist, ZAO Raiffeisenbank Austria's Call Centre was rated first among Moscow banking call services in terms of the First Call Resolution indicator at 94%.

In 2005, to enhance the promptness and quality of services, the Bank created two new Call Centre divisions — SME Customer Service and Credit Card Service Group — and more than doubled the number of operators. Apart from this, the Bank developed and implemented a performance evaluation system for Call Centre staff, created a knowledge base, and installed on-line call statistic monitors for increasing the processed calls rate.

## Internet Banking

Raiffeisenbank's main website, [www.raiffeisen.ru](http://www.raiffeisen.ru), provides information on products, services, terms, fees, exchange rates and other information. The site is updated several times a day. The completeness and accuracy of the data make the site attractive to the Bank's clients.

The Raiffeisen CONNECT e-banking site [www.connect.raiffeisen.ru](http://www.connect.raiffeisen.ru) provides the Bank's clients with the basic set of services, including account scanning, cash transfers and conversion.

A simple navigation technique combined with the completeness and accuracy of data and fail-safe operation enhanced the popularity of these e-resources. In 2005 the [www.raiffeisen.ru](http://www.raiffeisen.ru) site had over 200 000 hits a month. The number of clients with access to Raiffeisen CONNECT increased from 38 000 to 78 000 over the year.

In 2005 the Bank introduced a new remote private banking channel — SMS — and a new SMS-alerting service, which has proved to be very popular with clients.

The successful development of Raiffeisenbank's sites was highly rated by Global Finance magazine, which rated it as the Best Consumer Internet Bank 2005.

## Service Quality

Raiffeisenbank has always placed special attention on the quality of service in branches and its Call Centre. The Bank continued to work on Superior Customer Service Quality in 2005, creating a Service Quality Management Department in November 2005. The main aim of Service Quality Management Department remains efficient quality control based on client and employee satisfaction surveys and working with clients' complaints and preferences.

Service quality is generally evaluated on the basis of «mystery client» and «mystery caller» surveys. Client satisfaction surveys are generally carried out by special survey companies which organize and implement quantity and quality surveys. These surveys help Raiffeisenbank eliminate shortcomings and resolve misunderstandings before they affect the client, and also to adjust requirements for employees with due consideration of clients' complaints and wishes.

Working with clients' complaints and wishes is the other side of service quality management. It is important for all client requests to be heard. Though this quality control method addresses the problems that have already occurred, it still remains one of the most efficient methods.

The Service Quality Management Department plans to create a single client complaint tracking database for Moscow and the regions in 2006. It also plans to modify the training program for new and existing employees with due consideration of survey results and statistical data based on client letters processing.

## Products

By the beginning of 2005 Raiffeisenbank already had a full list of key products and services accessible for private clients in the Russian market, in particular:

- car loans (including motorcycle loans);
- mortgage loans;
- unsecured consumer loans;
- credit cards;
- current accounts;
- term deposits;
- debit cards;
- individual safe boxes;
- cash transfers;
- currency exchange, sale and purchase of travellers' checks;
- investment products (UIFs, pension plans, broker services and trust management);
- VIP client services.

In 2005 Raiffeisenbank improved its existing products and increased its loan and deposit portfolio for individuals.

Despite the active development of competitors with branch networks several times bigger, the Bank managed to hold one of the leading positions in Russia's retail banking sector.

The development of all retail lending areas was a priority for Raiffeisenbank in 2005. The Bank achieved a stable portfolio growth for all key credit products — car, mortgage and unsecured loans. As in prior years, car loans still accounted for the main portion in the retail loans portfolio. Mortgages and unsecured loans took second and third place respectively.

During 2005 the Bank's portfolio of car loans increased by RUB 5.8 bln to RUB 12 bln. A stronger relationship with partners and an increased number of points of sale ensured ongoing stable growth and retention of leading positions in this market.

*The largest Russian banks  
in terms of consumer lending as of the end of 2005*

	<b>Bank</b>	<b>RUB mln</b>
1	Sberbank	471 389.3
2	Russian Standard	93 249.7
3	Rosbank	43 916.5
4	Home Credit & Finance Bank	24 826.1
5	Uralsib	23 994.3
<b>6</b>	<b>Raiffeisenbank</b>	<b>19 615.9</b>
7	MDM-Bank	13 740.9
8	Bank of Moscow	13 665.0
9	Impexbank	12 436.4
10	Citibank	10 320.7

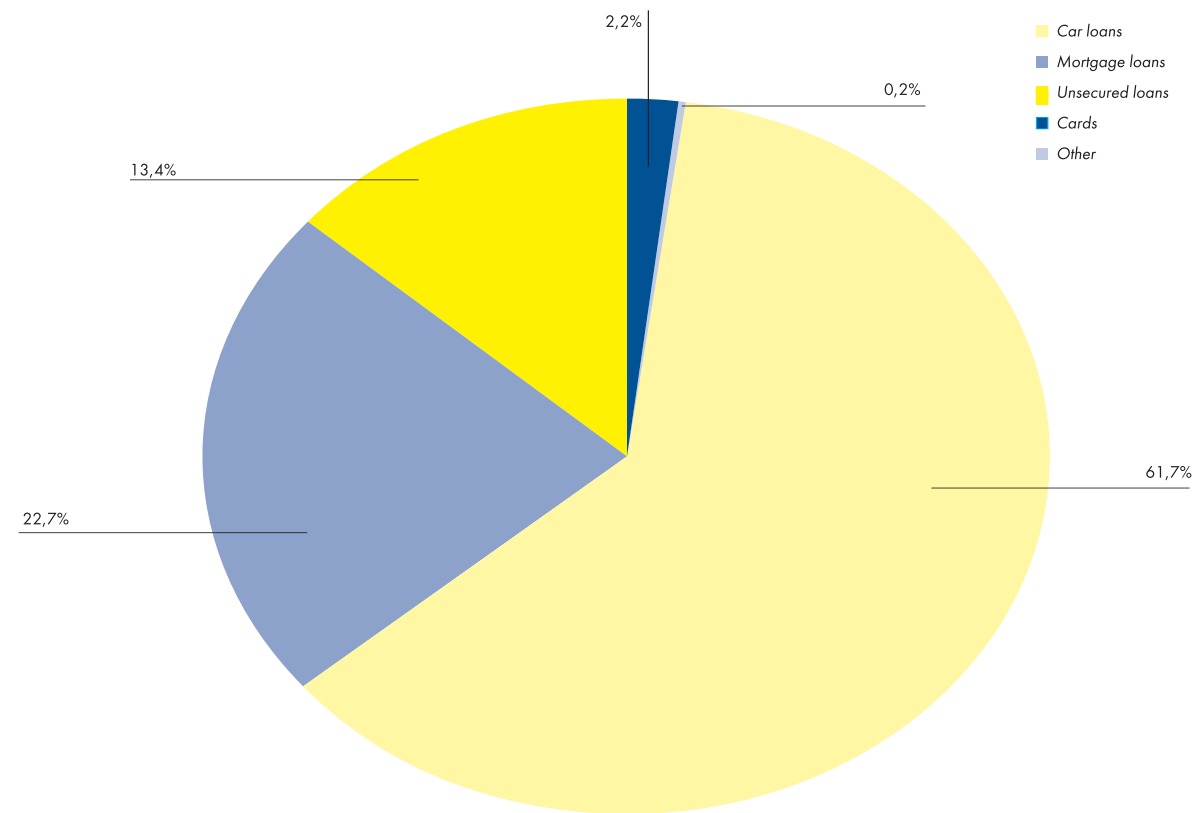
Source: CEA Interfax.

Since the beginning of 2005 Raiffeisenbank has opened 24 remote credit offices in Toyota dealerships and two in Rolf Holding dealerships. The Bank worked with the following main car brands: Audi, Honda, Mercedes, BMW, Toyota/Lexus, Ford, General Motors, Daimler Chrysler Automotive Russia, Peugeot; and the following holdings: Musa Motors, Rolf, Kuntsevo Trading Centre, Nezavisimost, Major, Gensor, Gemma, Inkom-Auto, Clarus, Avtomir, Atlant-M.

The Bank signed general agreements stipulating exclusive lending terms with the following brands: Peugeot, Audi, SoKIA (distributor of KIA), Honda and Ford.

The following partners used Raiffeisenbank as a financial operator to promote car loans on their own behalf (white-label program); Toyota/Lexus, Rolf, Mercedes, BMW, Kuntsevo Trading Centre, Audi, Honda, Musa Motors.

Different types of retail loans in the Bank's portfolio as of the end of 2005



Source: Raiffeisenbank.

The Bank has launched the following special lending programs together with its partners: buy-back lending together with Peugeot, Audi, BMW, Musa Motors, Mercedes (Panavto), Nissan (Autocentre in Taganka); subsidised interest rates on loans together with Ford, Peugeot, Audi, BMW, General Motors, Musa Motors.

The number of insurers with which the Bank interacts nationwide within the car lending program has increased to seven companies. This assists private clients to find the optimal insurance company for them.

Similar to car lending, the Bank has achieved stable growth in the mortgage area. During 2005 the mortgage portfolio increased by RUB 2.1 bln to RUB 4.6 bln. Raiffeisenbank signed another purchase agreement with the City Mortgage Bank for a mortgage portfolio totalling USD 3.9 mln (the first deal with the City Mortgage Bank was set in late 2004 for USD 3.3 mln). The Bank acquired more partners within the residential construction program.

During 2005 the unsecured loans portfolio increased by RUB 1.2 bln to RUB 2.7 bln. Unsecured lending was among the most popular products and approached car loans by number of customers.



## Bank Cards

As at the end of 2005 the number of Visa and MasterCard payment cards issued by Raiffeisenbank had increased to 290 000 and the monthly transaction volume totalled USD 1 60 mln (compared to 1 60 000 cards and the corresponding transaction volume of USD 100 mln as at the end of 2004). Visa Classic cards account for the biggest percentage of the cards issued.

The Bank issued its first credit card at the end of 2003 and during 2004 it formed a small portfolio of credit cards to analyze consumer behaviour. At the beginning of 2005 changes in the legislation of the Russian Federation allowed the Bank to start issuing cards with an interest-free grace period. As a result, in November 2005, the Bank launched a renewed product — a revolving credit card with a grace period. Having examined the demands of the existing client base, the Bank gave its clients a chance to choose the type of card (Visa or MasterCard) and currency (RUB or USD). At this early stage the Bank is focusing on its existing client base. To improve efficiency of sales to its own customers, the Bank offers them pre-approved credit limits which ensure a high percentage of client response to a credit card offering.

Raiffeisenbank is successful in arranging acceptance of bank cards at trade points (acquiring). In 2005 the number of terminals grew from 250 to 562. The volume of acquiring transactions is approximately USD 6 mln on a monthly basis. In 2005 the Bank expanded its list of partners that already included supermarkets chain Perekrestok, with the supermarkets chain OBI. Having started in 2004 in Moscow, last year the Bank started to render acquiring services in regions of the Russian Federation, Saint Petersburg and Ekaterinburg. Acquiring services allow the Bank to render a wider range of banking services to large corporate clients.

## Products for Small Business

In 2005 Raiffeisenbank began offering services to the small business sector comprising two segments — micro business and small business.

In 2005 Raiffeisenbank achieved the following goals:

- created a team of managers and specialists in charge of sales and services to small business;
- introduced a new position of micro business specialist at most branches in Moscow;
- finalized the organizational structure of the small business department;
- developed standardized products for micro business and small business; and revised lending policy with due consideration for small business issues in Russia.

The product line developed for small business in 2005 included:

- various types of finance for a term from 6 months to 7 years (including commercial mortgage, equipment, working capital and business development loans);
- cash-settlement services;
- term deposits;
- remote banking system;
- organized payroll payments through Visa and MasterCard cards.



## Raiffeisen-Leasing

Raiffeisen-Leasing was one of the leaders in the Russian leasing market in 2005. The Company invested EUR 70 mln to purchase new items for leasing.

Assets as at the end of 2005 were EUR 169 mln and 2005 net profit was EUR 1.4 mln. The Company has a diversified portfolio, which includes various equipment, cars, railcars and other wheeled machinery. It has a high-quality leasing portfolio. As at the end of 2005, provisions for doubtful loans were only 0.7% of the leasing portfolio.

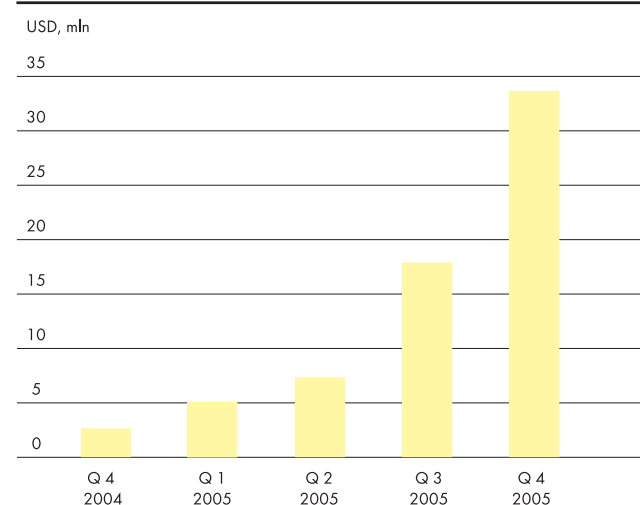
In 2005 the Company put great effort into developing a corporate computer program. A sales support unit was also put into operation. In 2006 the program will be completely operative and it will ensure an even higher quality of services and will enable the Company to rapidly increase the volume and profitability of its transactions.

The Company's plans for 2006 include entering the mass consumer market. This niche will allow Raiffeisen-Leasing to significantly increase the rate of growth and profitability of its leasing portfolio.

## Raiffeisen Capital Asset Management Company

In 2005 Raiffeisen Capital Asset Management Company was rated as one of the most dynamic asset managers in the Russian market (sixth place, according to Vedomosti, in terms of capital attracted by unit investment funds (UIFs)). During the year, the volume of assets under management increased 10.2 times and the total number of clients increased 6.5 times.

Assets under management of Raiffeisen Capital Asset Management Company



In 2005, UIF assets under the management of Raiffeisen Capital Asset Management Company increased more than 10 times and their market share increased from 0.3% to 2.1%. UIF Raiffeisen-Equity was rated among the top-ten equity UIFs in terms of yield (according to www.investfunds.ru) and was included in the first three candidates for RBC reward UIF of the Year.

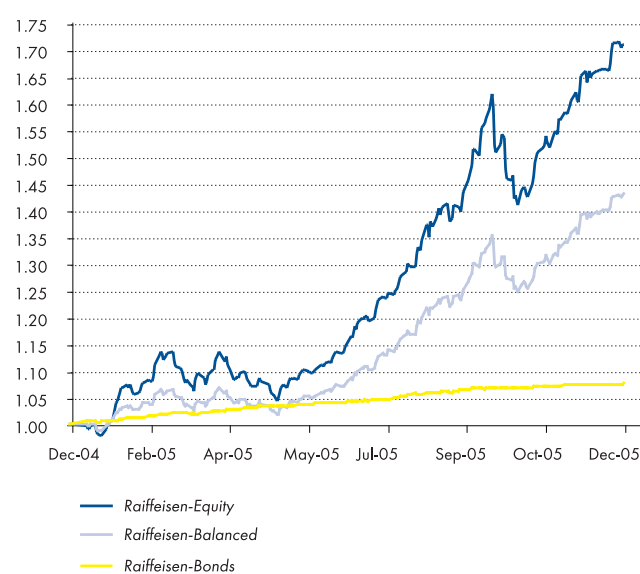
In 2006 Raiffeisen Capital Asset Management Company plans to more than double its assets under management mainly through increasing retail sales and expanding the product line (it plans to create two new UIFs and further promote investment banking products).

Investment unit funds became one of the most attractive financial instruments for private investors in 2005. This is illustrated by a more than ten-fold increase in the value of UIF net assets managed by Raiffeisen Capital Asset Management Company. While maintaining an optimal risk level, Raiffeisen Capital Asset Management Company achieved a yield\* of 70.81% p.a. for Raiffeisen-Equity, 7.56% p.a. for Raiffeisen-Bonds, and 42.99% p.a. for Raiffeisen-Balanced unit holders.

An important event in 2005 was Raiffeisenbank's combining the functions of an agent, specialised registrar and specialized depository for funds managed by Raiffeisen Capital Asset Management Company. This close integration made it possible to provide prompt and high quality services to investors.

Raiffeisen Capital Asset Management Company offered constant proportion portfolio insurance products (CPPI) to Raiffeisenbank clients in 2005 — an innovative product for the Russian stock market.

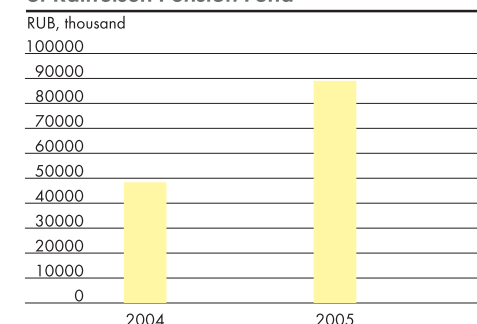
Cumulative funds performance



\*unit value increase in 2005

## Non-State Pension Fund Raiffeisen

Total Assets under Management of Raiffeisen Pension Fund



In 2005 assets under management of Raiffeisen Pension Fund increased by 83% and reached RUB 87.9 mln. A further nine corporate clients were added to the client portfolio of Raiffeisen Pension Fund during the year. The total number of corporate clients of Raiffeisen Pension Fund was 69, and the number of individual participants exceeded 22 000 as at the end of 2005. Today, Raiffeisen Pension Fund pays pensions to 258 retirees residing in Russia and the former USSR republics.

Raiffeisen Pension Fund is currently negotiating the development of corporate employee pension plans with several major companies. Considering the preliminary arrangements, it is expected that the Raiffeisen Pension Fund's pension reserves will increase more than threefold in 2006.

### ZAO Raiffeisenbank Austria Guarantee

Another important event in 2005 was the development of a unique instrument in the non-state pension security market — guaranteeing the safety of Raiffeisen Pension Fund's pension reserves. This guarantee is issued by the founder, ZAO Raiffeisenbank Austria, for pension reserves under the management of Raiffeisen Capital Asset Management Company. The guarantee ensures the safety of participants' contributions and investment income accrued on an annual basis.

### Operational Innovations

In 2005 Raiffeisen Pension Fund resolved to implement a new software product providing for end-to-end servicing of the participants' and the insureds' pension accounts. It is planned to implement this software by the end of 2006, and it will ensure remote access to the fund's operating system, which in turn will provide maximum comfort for major corporate clients and expand the regional presence of the fund in Russia.

### Mandatory Pension Insurance

Raiffeisen Pension Fund continued to participate in pension reform in 2005. More than 2 500 individuals entrusted the fund to manage their accumulated pension funds. Contracts for the transfer of accumulated pensions were executed both in corporate clients' offices and ZAO Raiffeisenbank Austria branches.

In 2006 Raiffeisen Pension Fund plans to strengthen its positions in the non-state pension and mandatory pension insurance market. In close cooperation with ZAO Raiffeisenbank Austria, the fund will expand its presence in major Russian regional centres, such as Saint Petersburg, Ekaterinburg, Samara, Krasnoyarsk, Chelyabinsk, Krasnodar, Novosibirsk and Nizhny Novgorod. The fund's operating system will be further integrated with Raiffeisenbank's banking technologies to ensure the highest level of service.

## Regional Development

In accordance with the regional development program approved by the Bank's shareholders, in 2005 the Bank opened branches in Ekaterinburg, Samara and Novosibirsk. These branches are universal and provide a full range of services both to private and corporate clients. The average number of new branches' employees is about 45. All are highly qualified specialists who passed a multilevel selection process within the regional recruitment programs and had successful secondments in Moscow branches and operating divisions.

The Bank carried out extensive work on opening branches in other major cities in Russia. As a result, as early as March 2006, the branch in Chelyabinsk started to provide services to clients.

### Northern Capital Branch in Saint Petersburg

The branch was founded in 2001 and has worked with individual clients since 2002. As at the end of 2005 the client base counted more than 32 000 private and more than 450 corporate clients.

The branch's highlights in 2005 include the following: opening of Sennaya Ploshchad branch (Ul. Efimova, 4a) in March — by the end of the year, the branch's client base counted more than 4 500 clients, and the loan volume reached RUB 748 mln. In September, an additional office Volynsky, equipped with 1 356 safe boxes, began operations; by the end of the year, the Bank's ATM network comprised 66 units, which is 2.5 times more compared to 2004. The Bank's staff gave advice to borrowers and accepted loan requests in over 80 dealer centres. The Bank also expanded its list of car dealerships with on-site car loan consultants. The Bank launched a joint mortgage program with ZAO Stroyontazh (newly-built real estate market) in autumn 2005. Being one of the leaders in the mortgage market, the branch was an official sponsor of a key event in the mortgage market in Saint Petersburg, the XI Municipal Real Estate Fair.

As at the end of 2005, the branch's total loan portfolio was RUB 6.6 bln in terms of corporate clients, and RUB 5.4 bln in terms of private clients. The branch's assets amounted to RUB 13 bln, or almost 10% of ZAO Raiffeisenbank Austria's assets.



## Uralsky Branch of ZAO Raiffeisenbank Austria in Ekaterinburg

The branch began operations in March 2005 and from the very beginning offered a full range of banking services to corporate and individual clients. As at the end of 2005, the branch's client base included more than 4 000 clients, the retail loan portfolio was RUB 670 mln, the corporate loan portfolio was RUB 2.8 bln; the branch provided unsecured letters of credit in the amount of USD 4 mln and implemented nine payroll projects. Uralsky branch has 10 ATMs, operates three car loan outlets in Toyota showrooms, and has cooperation agreements with all major autodealers of Ekaterinburg (35 firms).

Having spent several months on secondment in Moscow and completing professional training in Vienna, the branch's staff fully demonstrates and complies with Raiffeisen Group's corporate culture.

## Samarsky Branch of ZAO Raiffeisenbank Austria in Samara

The Samarsky branch has become the Bank's third regional branch in Russia and was officially opened in September 2005. Under the branch network development concept of ZAO Raiffeisenbank Austria, the Samarsky branch is geared to provide a full range of services both to corporate and private clients. Intensive preliminary work prior to the opening of the branch primed the client base and permitted full operations at the start of activity in Samara. In 2005 the branch's client base included largest regional companies.

The branch is geared to win leading positions in the region in the retail banking segment. The volume of individual loans was RUB 149 mln as at the end of 2005 (of which RUB 115 mln accounts for car loans). The branch has cooperation contracts with 14 major showrooms in Samara. Individuals' current and deposit account balances were RUB 145 mln as of the end of 2005.





## **Sibirsky Branch of ZAO Raiffeisenbank Austria in Novosibirsk**

The Sibirsky branch started operations at the end of November 2005. The opening ceremony was attended by His Excellence Austrian Ambassador in Russia Mr. Martin Vukovich. Within a short period of time to the end of 2005, the branch achieved good results: the branch's assets were RUB 3.6 bln as at the end of the year; the corporate loan portfolio was RUB 3.1 bln. The total of deposits of individuals was RUB 314 mln; individual loan portfolio was RUB 15 mln; 10 ATMs were installed. Cooperation contracts were signed with all official car dealers in the city; the whole retail product line of ZAO Raiffeisenbank Austria was launched; the branch actively participated in the region's cultural and business life. The branch was awarded a Successful Initiative Diploma by the Kommersant Publishing House.

The branch works with the Bank's corporate clients not only in the Novosibirsk Region, but also in the Sibir Federal District in general, including the Kemerovo, Tomsk and Omsk Regions, and Altaysky Krai, thus creating favourable conditions for further development of Raiffeisenbank's business in the Russian Far East and Eastern Siberia in the near future.

The branch's team consists of young specialists with practical experience in banking who were on secondment in Moscow, Saint Petersburg and Ekaterinburg.