



Raiffeisenbank

Gzhel

Icy white and hot blue, the light flit of pale blue petals, and the joy that comes from seeing the first flowers among the banks of snow that has not yet melted: this is Gzhel. Gzhel, an old pottery-ware region not far from Moscow, has long been famous for its clays. Until the beginning of the 19th century, dishes, bricks, tiles, and toys typical of the time were made here and painted in every colour of the rainbow. In the 19th century, Gzhel's artisans began to produce semifaience, faience, and porcelain. Kvass and beer vessels, decorative platters, original home decorations, and figurines of people and animals appeared. Now the items were painted mostly with a dark blue paint, and natural motifs, scenes from everyday life, and the subjects of fairy tales and epics were employed. The Gzhel painting technique is unique. When covered with a transparent glaze, the cobalt-based paintings retain their charm for many years and do not fade or disappear.

Russia: Economic Prospects

In 2008 Russia's economic environment deteriorated substantially, primarily due to the growing momentum of the world financial crisis. While in the first half of the year the country's main problems were closing of foreign debt markets and to refinance foreign loans, in the second half of the year the crisis affected nearly all segments of the economy and the financial market.

The Financial Sector

In August and September of 2008, amid negative news from the U.S. and Europe, falling oil prices, and a military conflict in South Ossetia, Russia witnessed a massive outflow of capital and a slump in the stock market. This, in turn, resulted in a chain of non-payments under REPO deals and a near-total halt of the interbank market in mid-September, which triggered a state of default in several banks. News of troubles in the banking sector led to mass withdrawals from individual deposits and additional liquidity problems.

To avoid a large-scale crisis in the banking sector, the Russian government and the Central Bank took steps to provide the banking sector with additional rouble liquidity worth tens of billions of U.S. dollars. Government-owned companies promptly acquired or merged with a number of seriously troubled banks. Thereafter the Deposit Insurance Agency received the substantial financial resources required to re-organise troubled banks. All of these measures helped to reduce tension in the banking sector and stabilise the situation.

Currency Market

While in the first half of 2008 Russia experienced a substantial inflow of capital primarily due to the expected strengthening of rouble, in September the market made a sharp U-turn. The main reason for this abrupt change in the currency market was the fall in world oil prices from USD 120 per barrel in early August to USD 35 in late December. In addition, the world market of ferrous and non-ferrous metals crashed. These were blows to Russia's export, where hydrocarbon resources accounts for 65% and metals for 10%, triggering mass purchases of foreign currency amid expectations of rouble devaluation. In November the Bank of Russia gave up supporting a fixed rouble rate and started a smooth weakening of the Russian currency: by the end of 2008 the rouble's rate relative to the dual-currency basket (USD 0.55/euro 0.45) fell by 19%. From September to December 2008, the Russian Central Bank sold USD 170 billion to support its rouble-rate policy.

Money Market

Outflow of capital and household deposits led to a substantial deterioration in banking liquidity in the second half of 2008. In general, additional rouble liquidity provided by monetary authorities helped prevent uncontrolled growth in short-term rates, though interest rates occasionally spiked nonetheless. At the same time, in an attempt to fight inflation and capital outflow, the Bank of Russia raised interest rates on its loans more than once in 2008: the overnight REPO rate rose from 6% to 9%, and currency swaps from 8% to 13%. Along with these measures aimed at preventing the capital outflow, in October 2008 the Russian Central Bank applied limitations on currency swap transactions. In November and December it recommended that banks refrain from increasing their foreign assets and net currency position relative to previous months. These steps facilitated a sharp growth in rouble rates on the currency swap market and pushed interbank market rates upward.

In the second half of 2008 long-term rates (1 month and more) on the money market were growing much faster than short-term ones. At first this was triggered by diminished trust among interbank market players, and later by expectations of rouble devaluation.

Economic Growth

Though in the first half of 2008 the Russian economy continued to demonstrate high growth rates, in the third quarter, as long-term money grew scarce and problems arose in the banking sector, economic development slowed substantially, resulting primarily in the decline in growth rates in investment and construction. In the fourth quarter, the banking crisis led to a downswing in loan resources: many companies were unable to obtain even the short-term loans required to continue their operations. Measures taken by the government to support the banking sector, recommendations to state-owned banks to provide loans to certain companies, and refinancing of foreign corporate debt through VEB helped prevent a non-payment crisis but still failed to completely restore the economy's credit mechanism.

Problems on the loan market were aggravated by a fall in oil and metal prices. A sharp downswing in oil prices led to a substantial reduction in tax revenues and a reduction of the financial resources needed by the government to support the economy; furthermore, it formed expectations of rouble devaluation, which diverted significant resources from the economy. Low metal prices brought many companies from metallurgical sector, which makes up approximately one-quarter of all manufacturing industries, to the brink of collapse.

All these factors triggered a sharp decline in industrial production and investment in the fourth quarter. In December the growth rate of industrial output fell to -10.3% year-on-year, while growth in investments fell to -2.3%. In the fourth quarter the annual GDP growth rate was 1.2% , while overall economy grew by 5.6% in 2008.

Outlook for 2009

We expect 2009 to be the most difficult year for the Russian economy in the last decade. Most economists agree that a recession awaits Russia this year.

The state of the Russian economy and of the banking sector will to a large extent depend on the situation on international markets, primarily on commodity markets, and on the success of the government's measures to stimulate the economy. The government allocated substantial resources to support the banking system and the real sector as tax revenues from oil producers plummeted. This led to a record-high deficit of the federal budget, which is estimated to be 8% to 9% of the GDP in 2009. To finance the budget deficit, the government will use the resources of the Reserve Fund, the Future Generations Fund, and loans on domestic and international markets. Thus in 2009 the public sector will be an important contributor to the stability of the financial sector and the entire economy. Yet in the mid-term, government spending on this scale combined with continued reduction in the Central Bank's currency reserves may lead to a further decline in Russia's international rating and an imbalanced national budget system.

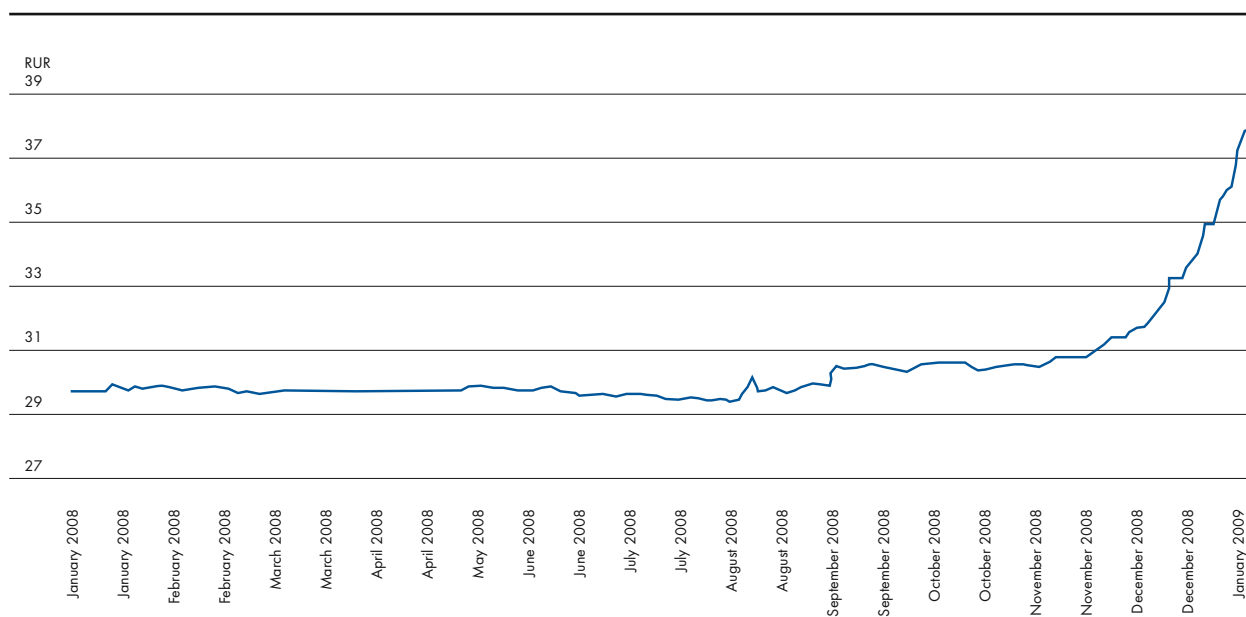
In January 2009 the Central Bank announced it would end its policy of smooth rouble devaluation and fixed the upper limit of the dual-currency basket at RUR 41. Thus, relative to November 2008 the rouble weakened by nearly 25%. The Bank of Russia insists that this rouble rate will balance the current account at oil prices of USD 40 per barrel. However, it is still unclear to what extent the end of the smooth rouble devaluation will reduce expectations of rouble weakness and, consequently, how soon interest rates will go down and the lending mechanism will revive. Generally, the rouble's weakening should have a positive effect on Russia's trade balance and create the conditions required to restore economic growth in future.

Macroeconomic indices, results and forecasts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 forecast	2010 forecast
GDP, bln euros	280.8	342.1	364.4	383.3	476.3	614.8	779.9	920.6	1129.6	870.7	1043.9
GDP annual growth rate, %	10.0	5.1	4.7	7.3	7.2	6.4	7.4	8.1	5.6	-3.5	0.5
Industrial output, % yoy	11.9	4.9	3.1	8.9	8.0	5.1	6.3	6.3	2.6	-4.0	1.5
Unemployment rate, average %	10.6	8.9	8.0	8.6	8.2	7.6	7.2	6.2	6.1	7.7	8.2
Nominal wages, average % yoy	46.0	45.7	34.6	26.1	24.3	25.2	25.5	26.0	25.9	4.2	12.8
Producer prices, average % yoy	46.9	18.2	10.5	16.5	23.4	20.7	12.4	14.2	23.8	3.9	9.4
Inflation, average % yoy	20.8	21.6	16.0	13.6	11.0	12.5	9.8	9.1	14.1	12.0	10.0
Consolidated budget surplus, % of GDP	1.9	3.0	0.9	1.3	4.5	8.1	8.4	6.1	3.8	-8.1	-2.0
Current account position, % of GDP	18.1	11.1	8.4	8.2	10.0	11.0	9.6	6.2	5.9	2.7	1.0
CBR's international reserves, bln euro	25.8	36.6	42.0	58.0	88.9	149.1	223.7	318.0	268.0	225.3	279.1
Foreign debt, % of GDP	61.6	47.8	44.2	43.1	36.0	33.7	31.6	36.7	28.9	37.2	37.8
RUR/USD rate at year end	28.5	30.5	31.9	29.2	27.7	28.7	26.3	24.6	29.4	34.3	34.3
RUR/EUR rate at year end	26.8	27.1	33.5	36.9	37.7	33.9	34.7	35.8	41.4	51.4	48.0

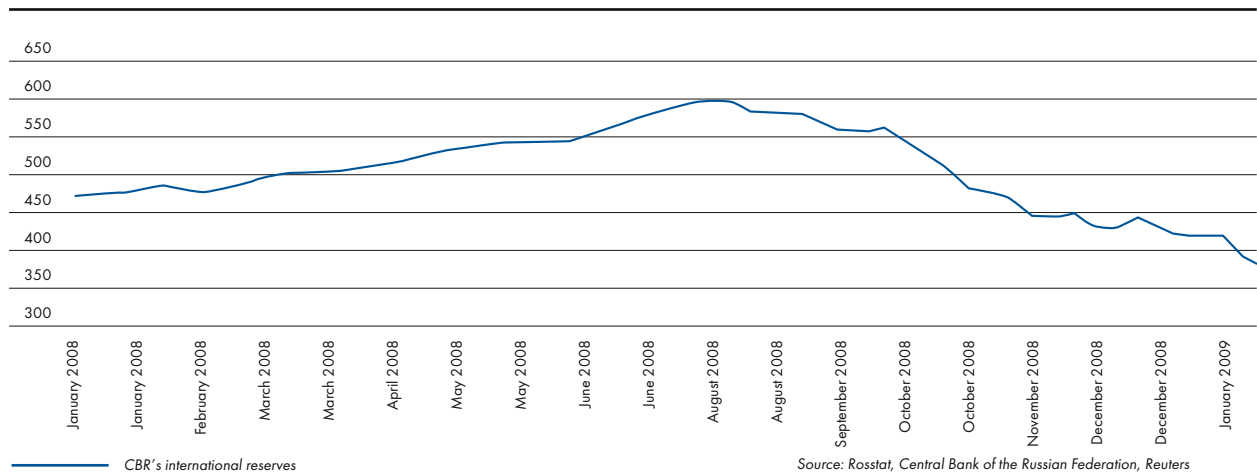
Source: Thomson Financial Datastream, Raiffeisen Group's estimates

Dual-Currency Basket

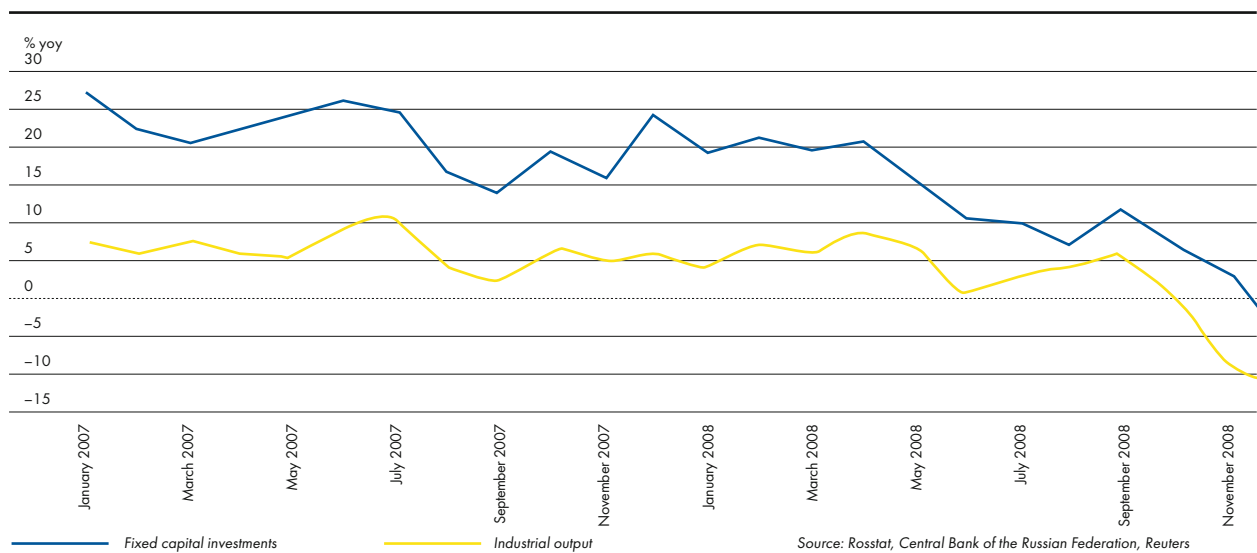


Source: Rosstat, Central Bank of the Russian Federation, Reuters

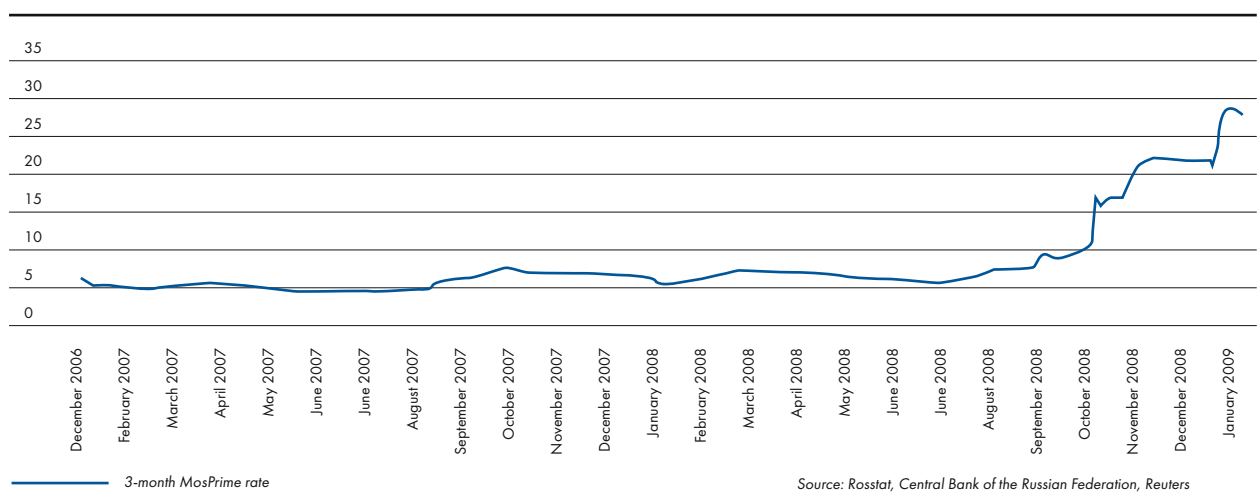
International Reserves of the Central Bank of the Russian Federation



Real Sector



MosPrime 3M Rate





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Khokhloma

Khokhloma, blazing with rubies and gold, is a bright, striking phenomenon of Russian folk painting. As a craft, Khokhloma painting appeared in the 17th century in the Nizhniy Novgorod province and was named after Khokhloma, a large village. Exquisitely beautiful wooden cups, vases, spoons, and ladles decked out in paintings that livened up beloved nature-based motifs were brought by artisans from the Volga villages to the fairs here. The dishes were painted with traditional black and red designs on a golden background using the most delicate of squirrel-fur brushes. The old technique of gilding wooden items had originated with icon painting and has been preserved nearly unchanged to this day. The painted items are covered in a special lacquer and are hardened in an oven until a golden film is formed. This is how the famous "golden Khokhloma" is made.

Raiffeisen International and the RZB Group at a glance

ZAO Raiffeisenbank is a subsidiary of Raiffeisen International Bank-Holding AG, which in turn is a fully consolidated subsidiary of Vienna-based Raiffeisen Zentralbank Österreich AG (RZB). RZB is the parent company of the RZB Group and the central institution of the Austrian Raiffeisen Banking Group, the country's largest banking group by total assets with the widest local distribution network.

RZB and Raiffeisen International have time and again underpinned their reputation as early movers and pioneers in CEE, having founded the first subsidiary bank in Hungary already in 1986, three years prior to the fall of the Iron Curtain. In more than 20 years of market presence, ten banks were founded and another ten were acquired. The resulting network covers the region with universal banks in the following 15 markets, servicing more than 14.7 million customers in over 3 200 business outlets.

- Albania Raiffeisen Bank Sh.a.
- Belarus Priorbank, OAO
- Bosnia and Herzegovina Raiffeisen Bank d.d. Bosna i Hercegovina
- Bulgaria Raiffeisenbank (Bulgaria) EAD
- Croatia Raiffeisenbank Austria d.d.
- Czech Republic Raiffeisenbank a.s. and eBanka, a.s.
- Hungary Raiffeisen Bank Zrt.
- Kosovo Raiffeisen Bank Kosovo J.S.C.
- Poland Raiffeisen Bank Polska S.A.
- Romania Raiffeisen Bank S.A.
- Russia ZAO Raiffeisenbank
- Serbia Raiffeisen banka a.d.
- Slovakia Tatra banka, a.s.
- Slovenia Raiffeisen Banka d.d.
- Ukraine VAT Raiffeisen Bank Aval

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Raiffeisen International acts as these banks' steering company, owning the majority of shares (in most cases 100 or almost 100%). Furthermore, many finance leasing companies (including one in Kazakhstan and in Moldova) are part of the Raiffeisen International Group. RZB owns about 70% of Raiffeisen International's common stock. The balance is free float, owned by institutional and retail investors. The company's shares are traded on the Vienna Stock Exchange.

Raiffeisen International achieved another record result for the full year 2008: the group's consolidated profit (after tax and minorities) rose by 17% to EUR 982 million (compared with the same

period in 2007). The balance sheet total was EUR 85.4 billion at year-end, also up 17%. On the balance sheet date, nearly 63 400 employees serviced more than 14.7 million customers in over 3 200 business outlets.

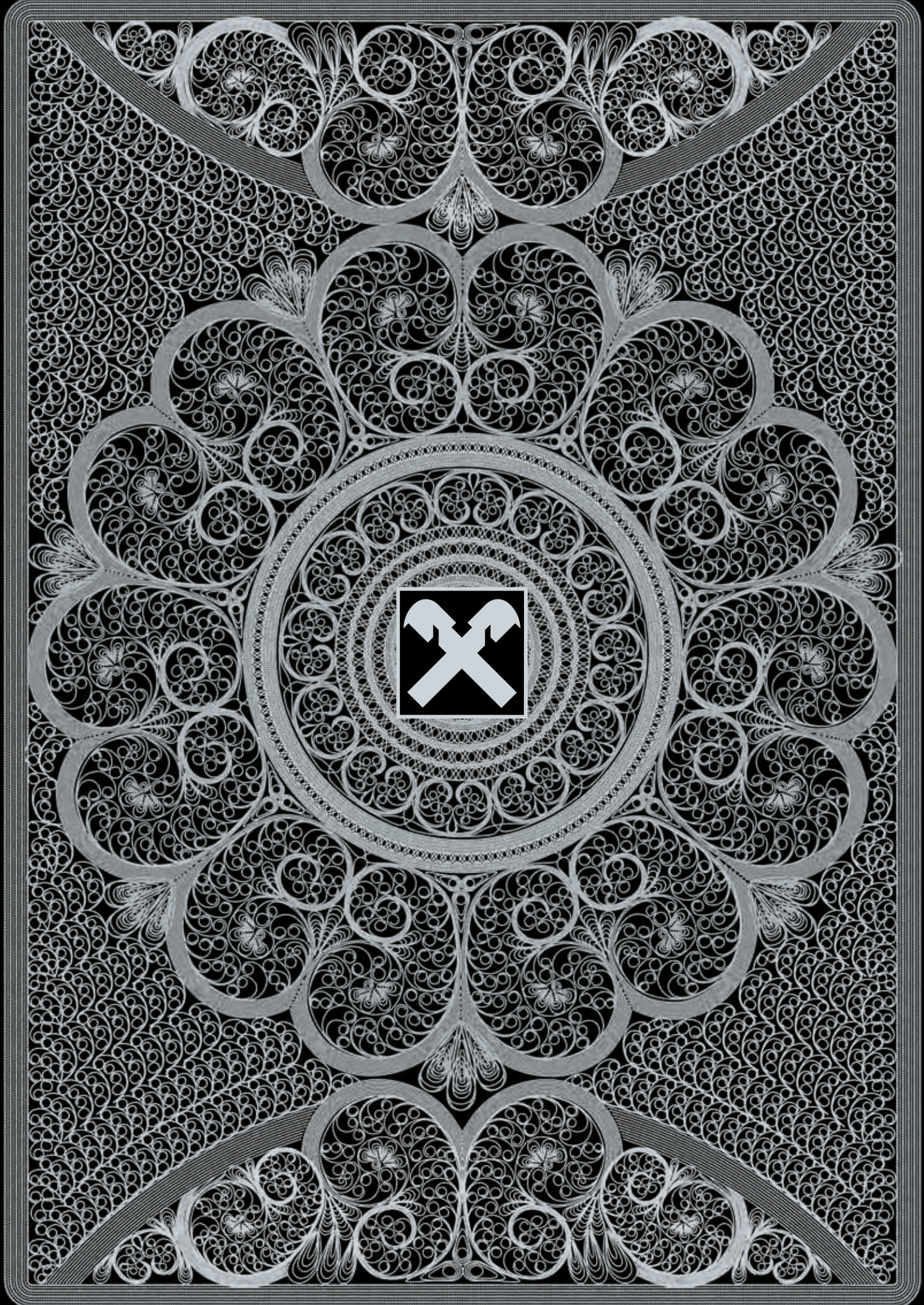
Founded in 1927, RZB provides the full range of commercial and investment banking services. It is Austria's third largest bank. As of 31 December 2008, the RZB Group's balance-sheet total amounted to EUR 156.9 billion, up 14% compared with year-end 2007. While the operating result hit another record high, the effects of the financial market and bank crisis brought about a decrease in profits. Consequently, profit before tax declined by 60% to EUR 597 million. On the reporting date, the Group employed a staff of 66 650 worldwide.

In addition to its banking operations — which are complemented by a representative office in Russia (Moscow) — RZB runs several specialist companies in CEE offering solutions, among others, in the areas of M&A, real estate development, fund management and mortgage banking.

In Western Europe and the USA, RZB operates a branch in London and representative offices in Brussels, Frankfurt, Madrid, Milan, Paris, Stockholm, and New York. A finance company in New York (with representative offices in Chicago and Houston) and a subsidiary bank in Malta complement the scope. In Asia, RZB runs branches in Beijing (with representative offices in Harbin and Zhuhai), Xiamen and Singapore as well as representative offices in Ho Chi Minh City, Hong Kong, Mumbai and Seoul. This international presence clearly underlines the bank's emerging markets strategy.

RZB is rated as follows (as of April 2009):

- Standard & Poor's Short term A-1
 Long term A
- Moody's Short term P-1
 Long term A1



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Cossack Filigree

Cloisonné, or filigree, is an ancient artistic metalworking method. In Rus (ancient Russia), this craft was long famous, but it has become a rarity today. In the Nizhniy Novgorod Region's village of Kazakovo, this jewellery technique is preserved to this day. Here, making use of the old masters' unique experience, artists "twist" vases and cups, boxes and cup holders, women's jewellery and chalices, and lamps and cases for icons out of metal. Cossack filigree is distinguished by its cleanliness of line and elegance of workmanship. The design is created from smooth or twisted copper wire according to a drawing on paper, to which separate details of the design are glued. Then the object is sprinkled with silver soldering alloy and hard-soldered. The paper burns away during the soldering, and the openwork strands are soldered to each other, turning into strong, decorative lace. Finally, the ornament is silvered. When working on the decoration, the artists pay attention not only to the beauty of the curves, but also to the design made by the gaps in the wire: the ornament must not be overloaded with details; it must remain light and airy.

Vision and Mission

Vision

We are the leading universal bank across Russia for all customers caring for quality.

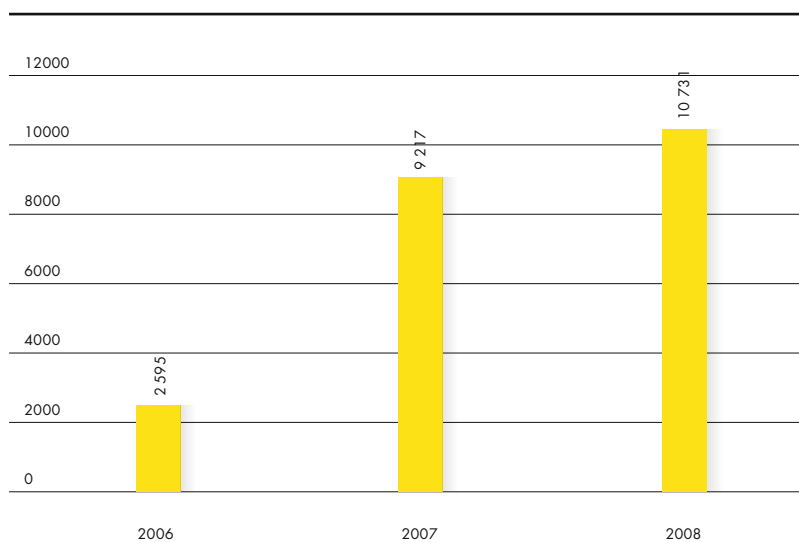
Mission

- We seek long-term customer relationships.
- We provide a full range of high quality financial services throughout Russia.
- We co-operate closely with all members of RZB Group.
- We achieve sustainable and above-average return on equity.
- We empower our employees to be entrepreneurial and foster their development.

Human Resources Policy

Fast Business growth and expansion of the sales network confirmed the Human Resources strategy of Raiffeisenbank to focus on attraction and retention of high performers. HR concentrated therefore in 2008 on new recruitment approaches, effective retention measures and new ways to enhance engagement and loyalty of employees.

Number of Employees



Source: Raiffeisenbank

A record number of new employees were hired for retail client service during 2008 due to the rapid development of the retail banking area. In order to attract young professionals, Raiffeisenbank continued to use a special training program for retail business for university graduates. During 2008 142 probationers who successfully passed all trainings were permanently hired by Raiffeisenbank.

In 2008 the hiring process for a new call center in Krasnogorsk was successfully completed, 119 additional Call Center agents started their work with Raiffeisenbank and effectively and quickly provide remote service to the bank's clients.

In 2008 Raiffeisenbank continued with internship programs preparing junior professional staff for positions in Risk and

Credit Management, Corporate Banking & Corporate Finance as well as Internal Audit. By the end of the year the Bank signed permanent labour contracts with 12 successful participants of these programs.

A new transparent program for internal job rotation offers high performing employees the possibility to continue their career in different areas of the bank.

During 2008 the regional headcount of Raiffeisenbank increased 20%. An affiliate in Bashkortostan and more than 20 additional offices opened their doors to the public, amongst them also in new cities, where the Bank was not present before, such as Petrozavodsk, Ufa, Chita, Angarsk and Gubkin. The most significant event was the restructuring of regional branches: as a result all affiliates work under one identical organizational structure, which streamlines business processes.

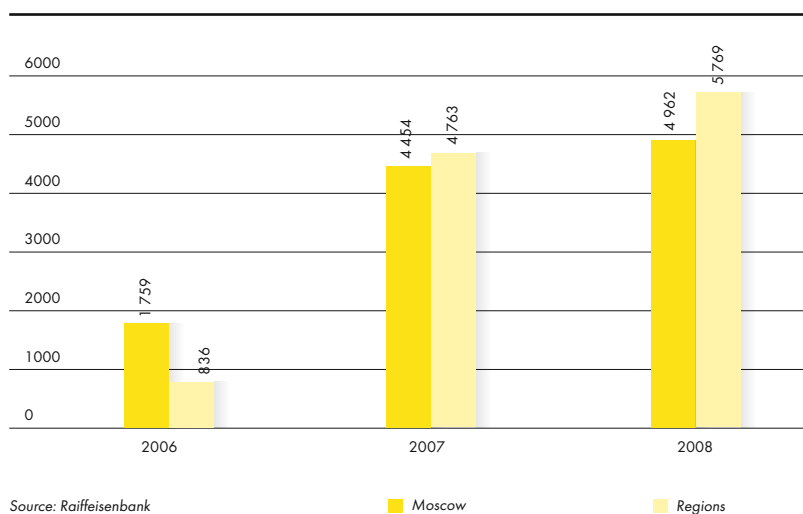
The introduction of a common HR information system as well as a common Regional Recruitment Database has helped to improve administrative as well as recruitment processes throughout the regions.

In June 2008 the first HR conference in the history of ZAO Raiffeisenbank was held in Sochi, where HR representatives of the Bank exchanged experience, information and took the chance to elaborate plans for future development.

"Pay for performance" — under this theme in 2008 new incentive schemes were developed and existing schemes were reviewed for their effectiveness to motivate employees to top performance and achieve business results.

The compensation system, which is based on an internal job classification system and employment market data, was developed already in 2007, and implemented in 2008 in Moscow and the regions. Continuous

Number of Employees in Moscow and in the Regions



Source: Raiffeisenbank

monitoring of labour market developments not only helps Raiffeisenbank to offer competitive remuneration within market realities, but also serves as an important basis for the budgeting process.

At the beginning of the year a tender was held to review three types of insurance provided to employees. As a result Raiffeisenbank employees benefit from professional insurance support throughout all regions, where Raiffeisen offices are represented.

In personnel development main focus areas in 2008 were: performance management process introduction for management (Moscow and regions); executive and middle management development. Before the beginning of the given projects, criteria were specified according to which the success of the events held could be evaluated.

In performance management RI cultural competencies were introduced as the integral part of the process and basis for leadership competencies development. Approximately 30% of top executives have started execution of their development plans based on individual needs and competencies. Over 250 middle managers of the bank participated in a middle management modular development program. Besides providing a full spectrum of managerial techniques, participation in the program enables Managers to have common understanding of management, speak one language and contribute to enhancement of corporate culture in the bank.

In 2009 in the area of personnel development the strategic focus will stay the same though different tools and techniques may be applied (i.e. more focus on on-line learning, instructional design and internal workshops versus external delivery of training).

In the year 2008 the Training centre, created in the middle of the 2007, continued its development: 2 employees were certified by Raiffeisen International as master trainers, which gave them the right to certify internal trainers for conducting standard trainings, including RI sales trainings; a team of part-time trainers was set up and educated. There are now more than 110 part-time trainers who combine their current responsibilities with delivering training for their colleagues. Three fully equipped training centers were opened in the regions.

Special attention was given to distance learning — in October the new training portal successfully started to function. On the portal every employee of the Bank may find all the information regarding in-class and distance trainings, registration rules and training centre team. Nowadays more than 5 500 employees in Moscow and the regions are active users of the portal. In 2008 27 new eLearning courses and tests were created and launched.

In the last year one of the priorities was building up an education system for retail employees. Obligatory newcomers' training programs for front-office employees and for direct sales agents were designed and implemented throughout all Russia; Account Managers in Moscow and all cities where the Bank is represented attended a two-day training "Sales is the best service"; the project of coaching and sales management trainings for retail managers of all levels was started.

Also the work of creating internal training programs for other divisions begun (such as SME, cash operations, retail lending etc.).

Overall in 2008 the training center team created more than 30 new product and soft skills trainings, designed and published the training catalogue on the portal. More than 5 000 employees participated in about 1 200 training events delivered by internal trainers. More than 1 000 employees attended 720 external trainings in Russia and abroad.

With the changed situation on financial markets in the last quarter of the year the HR approach was redirected from mass recruitment to internal reallocation of resources according to business volumes.

The year 2008 was characterized by restructuring and reorganisation efforts as well as by a strengthening of Raiffeisen corporate culture. Raiffeisenbank relies on an atmosphere of mutual trust and support among employees to see future challenges as a chance for improvement.



Raiffeisenbank

Northern Russian Embroidery

The embroidery of the Russian North is not simply a very rich part of the culture of the Russian people. It is a genuine treasure trove for the study of the Slavs' myths and religion, their history and ceremonies. In old pieces of embroidery, we can see the world-view of our ancestors, their beliefs and cults, their prayers for happiness, good crops, and help with life's difficulties. One of the functions of the designs was to give magical protection from evil spirits. This is why every picture has its own interpretation and every sign and symbol has a certain meaning. The Syrinx, a bird from fairy tales, symbolizes the desire for goodness and prediction of the future; a many-branched tree with fruits depicts a life of paradise. A cock indicates the arrival of morning and the rising of the sun, which, aided by a swan, travels its nightly path under the earth through the other-worldly sea. The designs made use of plant, geometric, and cult designs as well as depictions of animals. They were used to decorate garments, head-dresses, towels, aprons, and table runners. The most-used colour in the embroidery was red; the word "red" carried the connotation of "pretty" in older forms of the Russian language.

Anti-Money Laundering Policy

Throughout its history, ZAO Raiffeisenbank has treated its reputation as one of its most valuable assets, and therefore has taken all the necessary measures to protect the business reputation of the Bank and of its clients.

The Bank's policies on counteracting the legitimisation of criminal proceeds (money laundering) and the financing of terrorism pursue the following aims in order to reduce potential risks of compliance*:

- Preventing any use of the Bank's products and services as an instrument for criminal activities, including money laundering, the financing of terrorism, fraud and corrupt practices;
- Protecting the business reputation of the Bank and its customers.

At Raiffeisenbank, the system of measures aimed at counteracting the legitimisation of criminal proceeds (money laundering) and the financing of terrorism are among the most important components of its internal control. This system has been developed in accordance with Federal Law No. 115-FZ of 7 August 2001, "Concerning the Counteraction of the Legitimation (Laundering) of the Proceeds of Crime and the Financing of Terrorism" as per the latest amendment to the law, corresponding regulations of the Bank of Russia, the Bank's own standards and RZB Group standards.

* The notion "compliance risk" is understood in accordance with the Basel Committee's requirements as a risk of legal or political sanctions, financial losses, or damage to business reputation, which the bank may incur as a result of a failure to comply with the relevant laws, guidelines, rules, standards or codes of conduct established by self-regulating organizations and applied to banking transactions.

As required by the applicable laws of the Russian Federation and its own internal procedures, the Bank has developed a set of measures to control compliance risks and implement a programme of the following actions to counteract money laundering and the financing of terrorism:

- Approving and implementing rules and programmes of internal control for the purposes of counteracting the legitimisation of criminal proceeds (money laundering) and identifying beneficiaries;
- Unifying approaches to the structuring of control in branches and internal subdivisions of the Bank;
- Ensuring the involvement of all Bank employees in counteracting the legitimisation of criminal proceeds (money laundering) and terrorist financing;
- Improving relevant software for the timely identification of transactions subject to mandatory control, as well as other suspicious transactions;
- Conducting regular compliance trainings using state-of-the-art technologies, including multimedia and Internet, for the Bank's employees.

We put into practice relevant procedures and the "know your client" principle in strict adherence with regulator requirements, Russian and Western confidentiality standards, and the rules of non-disclosure of banking secrets.

The Compliance Control Department is responsible for the development and implementation of the Rules of Internal Control for the purposes of counteracting the legitimisation of criminal proceeds (money laundering) and the financing of terrorism, special control programmes, other internal measures required to achieve the said purposes, and for filing the information required by Federal Law No. 115-FZ and regulations of the Bank of Russia with the competent authorities.

The Bank operates in accordance with the applicable laws of the Russian Federation, regulator requirements, regulatory norms internal to the Bank, instructions of the RZB Group, guidelines of the Association of Russian Banks, with a special focus on

- Developing and improving computerised storage and processing of client forms, automated detection of transactions subject to mandatory or additional control;
- Improving the automated data collection system;
- Improving the system for detecting insincere customers, both private and corporate;
- Continuing to train our personnel, as the awareness of every individual employee is of primary importance for the success of this effort.

One of the top priorities of the compliance control system in the years to come will be meeting the requirements of Federal Law No. 115-FZ regarding the identification of clients and the detection of transactions subject to mandatory or additional control for the purposes of counteracting the legitimisation of criminal proceeds and the financing of terrorism.