



Custody

During 2003, Raiffeisenbank's Custody department continued to position itself as one of the leading providers of custody services on the domestic market. The Bank's credentials have appeared in the Euromoney Global Custody Handbook for the year 2003/2004. This recognition has become a solid contribution to strengthening of Raiffeisen Group's Custody Network in Western and Central Europe.

Ongoing reinforcement of business technology and software allowed the Bank to expand its client base by penetrating into the retail sector. The benefits for big corporate clients were significantly enhanced due to the continued development of tailored solutions for structured transactions.

In the autumn of 2003, the Bank obtained a Federal Securities Commission's license to act as a specialized depository. This step was undertaken in anticipation of a boom in the mutual investments industry and pension reform. The Bank's management is confident that the significant investments made into the market demand analysis, education of the workforce and technological know-how will make Raiffeisenbank a reliable partner for its new rapidly growing client group — non-state pension and mutual investment funds.

Plans in this area for the near future include further expansion of the range of services, quality enhancement, and the creation of the most efficient and professional custodian in Russia.

Custody

Operations

Cash Management and Transactions Services

Cash management services remain among the top priority areas for Raiffeisenbank's operations, and 2003 was marked with continued increases in the Bank's share in the market of cash management and settlement services for corporate customers and financial institutions. The number of transactions processed by the Bank's Operations division in 2003 approximated 2 million, which represents a significant (150%) increase over the previous year.

Raiffeisenbank is now widely marketing a highly developed regional cash management product line, which is now being utilised by a number of the largest Russian and international corporates/ groups. The service includes various sophisticated products in the field of regional cash/ liquidity and interest rate management for corporates.

The regional cash/ liquidity management systems/ solutions offered by Raiffeisenbank, which include offline as well as internet-based options allow the Bank's clients to achieve:

- real time and complete control over all payments made by subsidiaries and remote offices, including authorization/ cancellation opportunities and remote access to the systems;
- centralized management of funds from one financial centre – optimal use of cash;
- protection of corporate cash flow from unauthorized actions by remote affiliates;
- "filter" options for granting access rights to subsidiaries and remote offices;
- high level of security;
- extensive account information services including a number of intra-day/ real-time options, covering accounts of a corporate group.

Raiffeisenbank offers a variety of pooling options, including, amongst others, "Notional Cash Pooling" and "Zero-Balancing".

As cash management services are a long-term priority of the Bank, product lines are under constant and "tailor made" revision according to the specific requirements of the Bank's clients. Raiffeisenbank's IT specialists also have solid experience in integration of the Bank's systems with accounting systems of corporate clients.

Superior Quality Service

As the Bank's volumes of activity in this area increase, focus on maintaining service quality becomes of increased importance. Raiffeisenbank offers its clientele a "Superior Quality Service Policy", which serves to ensure the retention of valued clients and constantly stimulates the acquisition of new large and medium-sized Russian and multinational companies and banks into the Raiffeisenbank network.



The Bank's Superior Quality Service Policy is based on:

- extensive product line of transaction services, both regional and cross-border;
- competitive terms and conditions;
- "tailor made" solutions developed together with the Bank's customers;
- strong IT support which makes cash management products customer friendly;
- supremacy in technology, giving clients high quality and timely service, enhanced by robust internal operational risk management procedures.

IT Support

The constant development of Raiffeisenbank's IT infrastructure is of key importance, and the Bank utilises comprehensive state-of-the-art Western banking technologies supplemented, where necessary by the Bank's internally developed software systems. These systems enable the Bank to considerably increase the level of automation of processing and facilitate various important Straight-Through Processing ("STP") cycles.

Cross-border Settlements

Raiffeisen Banking Group is a major player on the market of operational and cash management services in Central and Eastern Europe. As a member of this Group and as a participant in a number of international banking alliances, Raiffeisenbank is able to offer its clients the same high level of internationally accepted standards of service, both locally, Raiffeisen-network wide, and internationally.

Raiffeisenbank is fully integrated into various Raiffeisen Group regional and global products, including cross-border margin pooling, a tool aimed at interest income optimisation on a region wide basis, and regional cash management, an instrument for regional cash and liquidity management for large corporations and their affiliates.



"Northern Capital" Branch in Saint Petersburg

As a result of continuous and intensive marketing efforts, the corporate and trade finance teams have acquired a number of new large and medium-sized local customers and established promising contacts with potential clients interested in the Bank's services. The Branch's customers today represent a wide range of industries including food and beverages, printing, mining, pulp and paper, timber, warehousing and transportation, real estate development, motorcar dealership, retail trade, etc. The Branch's corporate loan portfolio increased 4 times to reach USD 100 million by the end of 2003.

In order to broaden Raiffeisenbank's presence in Saint Petersburg, the Bank plans to open additional offices in the city. The "Model Branch" concept and design used in all Moscow offices, as well as in "Northern Capital" Branch, will be applied to the new Branches and will allow our customers to experience a consistent level of quality service in any Raiffeisenbank office all over the country.

During the year, the Branch's headcount increased from 40 to 75 employees, Consumer Lending and Cash Office being the fastest growing units. Additional space was leased for the Branch premises and a remote cash desk was opened within a new retail center on Murmanskoye highway (Leningrad Oblast).

2003 was a very successful year for Consumer Banking in such areas as account opening, card issuance and lending activities. The number of private customers more than tripled during the year to reach 5.300, the consumer loans portfolio exceeded USD 22 million as at the end of 2003 and is steadily growing. The increase of our ATM network remains an important support for our activity. During 2003, 12 ATMs have been installed all over the city.

The enormous success of Raiffeisenbank's car loan programme attracted all major Saint Petersburg car dealers, the number of which has reached 48. In order to provide our customers and partners with efficient and quality service, a new Consumer Lending office was set up within the Branch and further expansion is contemplated.

To promote Raiffeisenbank's brand and products the Branch joined several associations during the year. The Bank's membership and active participation in such organizations as the Association of Banks of the North-West, the Association of Joint Ventures, the American Chamber of Commerce, and the Saint Petersburg International Business Association (SPIBA) undoubtedly supports the Bank's image and facilitates marketing activity among the most prospective enterprises in the Region.

In order to add value to Raiffeisenbank products, several special loyalty programmes have been launched with the assistance of our partners, including VIP cards for Laverna stores (home appliances and decoration materials), discounts at SunCity Health Center, and a partnership programme with Rolf (car dealership).



"Northern Capital" Branch in Saint Petersburg

The Branch actively participates in the social life of the city, acting as sponsor of the Arts Square International Festival, one of the brightest cultural events in the city, the Saint Petersburg Open, international tennis tournament from ATP series, a high profile sport event in the Northern Capital.



Asset Management and Pension Reform

The long-awaited reform of the obligatory pension system in Russia took place in 2003. The reforms taking place in Russia follow closely to those of a number of countries in the CEE and of some of the CIS countries, moving from soviet-type distributive pension systems (pay-as-you-go) towards the Western practice of a cumulative/voluntary pension insurance system. More than 42 million Russian citizens can choose to invest their 2nd pillar (obligatory) pension savings with the State Pension Fund of Russia (PFR) and/or with private financial institutions, that is, asset management companies (AMCs) or non-state pension funds (NPFs) starting from 2003 and 2004 correspondingly.

Raiffeisen Group has substantial experience in the area of asset management and pension funds management in Austria as well as in the Eastern Europe. The pension reform in the Russian Federation only emphasized significance of Raiffeisen Group's intention to launch a portfolio of more diversified asset management and pension products in Russia.

As part of its first steps in this area Raiffeisenbank signed an agency agreement for the distribution of Mutual Investment Funds (MIFs) with Deutscher Investment Trust (a subsidiary of Dresdner Allianz). The project successfully started on the 1st of January 2004 and has already attracted significant interest of private investors with respect to the asset management products offered. On the basis of the strong level of interest in this area, the Bank has already scheduled to establish an asset management company that will offer a wide range of products including open and interval MIFs; trust asset management for non-state pension funds, and trust asset management for private individuals in the first yearhalf of 2004.

In addition to asset management products, Raiffeisenbank plans to participate actively in the pension reform process in Russia and become one of the most significant market players in this sector. Pension products will be offered to the Bank's corporate customers and individuals. Raiffeisenbank also plans to develop a private banking concept to satisfy the needs of private individuals who have more sophisticated requirements for financial products, complementing such service with a personalized approach.

The outlook for the development of the asset management industry in Russia for the period of five to ten years is positive and optimistic. Plans for the implementation of such projects is a clear demonstration of the commitment of Raiffeisen Group to the Russian market, as well as a clear illustration of its ability to respond immediately to current market opportunities.

