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es. To this end, two divisions – Treasury and Investment Banking – have pooled their efforts to establish Raiffeisenbank Austria on Russia's fledgling corporate bond market.

In maintaining daily contact with investors and the most promising prospective issuers as well as developing effective procedures for origination, servicing and distribution of corporate bonds in Russia, Raiffeisenbank Austria believes it has prepared the ground for future leadership in this market. From early 2000, the Treasury division – together with Investment Banking – initiated an extensive marketing and investment information campaign, establishing regular contact with domestic bond issuers and investors, and creating sales and customer information support systems. We are in the process of building a distribution base for corporate bonds, and this is set to continue into 2001.

These client-oriented services have enabled the Bank to participate directly in nearly all major domestic bond issues by Russian corporate issuers. To name a few, the Magnitogorsk Iron & Steelworks – one of Russia's largest steel companies – nominated Raiffeisenbank Austria as settlement agent; the Bank has acted as market maker for Vneshtorgbank bonds; and we have been actively involved in the domestic placements of Unified Energy Systems, MDM-Bank and Vneshtorgbank bonds. As a result, Raiffeisenbank Austria is now widely recognised as being among the most reliable and consistent service and information providers in this market segment.

## **Investment Banking**

The major focus of Raiffeisenbank Austria's Investment Banking team in 2000 was to provide our clientele with new instruments of external financing. The Bank was very active in the newly emerging markets for Russian corporate bonds and loan syndication, securing leading positions in both of these areas.

The syndicated loans market was another area targeted by Raiffeisenbank Austria and one in which we have attained a leading position. The Bank's solid relationship with the majority of Russian banks, combined with the renowned expertise of Raiffeisen Zentralbank Österreich AG in the loan syndications market in Europe, enabled the Investment Banking team to create a successful business which is providing our clientele with additional sources of external financing. As of year-end 2000, several mandates for syndicated loans with a combined value exceeding USD 100 mn had been awarded to Raiffeisenbank Austria by existing clients.

Along with the major lines of business, the Investment Banking division continued to carry out several projects related to equity financings for small and medium-sized Russian companies. Raiffeisenbank Austria also provided advisory services for the Bank's clients assisting them with customised solutions in various business areas.



## Research

Consistent with its client-oriented approach to service, Raiffeisenbank Austria's Research team places special emphasis on providing a high standard of professional research in equities, fixed income, and macroeconomic and political analysis. Our regular research products, available in both English and Russian, quickly adapt market information to clients' investment needs while highlighting new investment opportunities. Existing research products are produced on a daily, weekly and monthly basis. In addition, Raiffeisenbank Austria produces occasional reports on topics of current market interest – i.e. political change and economic reform, macroeconomic analysis, corporate news and sector coverage – and boasts a recognised local expertise in oil & gas, telecommunications and utilities stocks.



In tandem with the Treasury Department's overall strategy, the Research team recently launched a new product to provide regular coverage of the Russian corporate bond market, in Russian and English. The research materials produced by Raiffeisenbank Austria's Moscow-based team have proven extremely popular among the Bank's clients worldwide.





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## Operations

### General

During 2000, Raiffeisenbank Austria continued to increase its already-considerable share of the market for cash management and settlement services for corporate clients and financial institutions. The number of transactions processed by the Operations Department has nearly doubled compared with the results for 1999. Cash management and settlement services are considered as a long-term priority business area of the Bank.

### Superior Quality Service

As a result of the Superior Quality Service Policy Raiffeisenbank Austria offers its clientele, we are continuously attracting new large and medium-sized Russian and multinational companies and financial institutions into our network, as well as successfully retaining our existing clients.

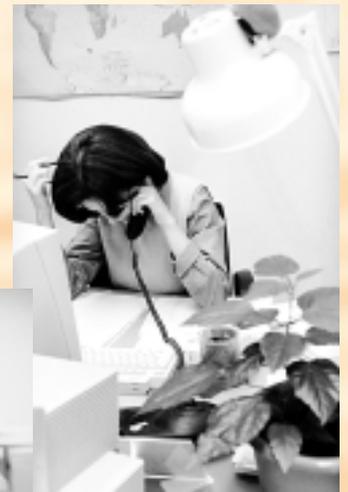
The Superior Quality Service Policy, continuously refined by our staff, is based on:

- Extensive product line of transaction services, both regional and cross-border
- Competitive terms and conditions
- Customised solutions developed together with clients
- Strong IT support, Straight-Through-Processing (STP) cycles – allowing cash management products to become customer-friendly
- Technological superiority provides clients with high-quality and speedy service, and the "comfort factor" of strong in-house preventative measures relating to operational risk, which have resulted in a virtual absence of settlement discrepancies in executing client orders.



## IT Support

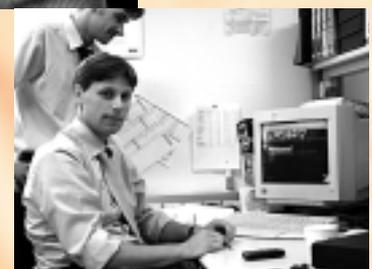
The continuous development of Raiffeisenbank Austria's IT infrastructure is of key importance. The Bank uses comprehensive up-to-date western banking technologies as well as proprietary software systems which, on the one hand, allows us to match local requirements and, on the other, considerably increases processing automation, making the introduction of a number of important STP cycles possible. The most recent examples are: scanning/fine-reading technologies fully integrated into the Bank's operational system; new software programs capable of automatic recognition, reformatting and auto-routing of financial messages through all existing channels of communications (benefits include the elimination of manual input of transactions into the Bank's operational systems, real time Dr/Kr advising of Loro correspondents, and so on.



Combined with the high professionalism of our staff, Raiffeisenbank Austria is able to offer settlement and clearing services of excellent quality.

## Cross-border settlements

As part of the RZB Group, which is itself a major player in the operations and cash management services market in Central and Eastern Europe and participates in a number of European and international banking alliances, our clients also benefit from the same high global standards of service locally, on an RZB-network wide basis and internationally. Raiffeisenbank Austria offers unique opportunities to utilise various regional/global products, such as Cross-Border Cash Pooling-Notional Pooling and Pan-European Regional Cash Management.





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## Custody

### **New services**

The global experience of RZB's Custody Network and profound local expertise in Russian realities lead to the launch of custody services in Russia in 2000. The challenging and highly competitive market for custody services in Russia requires that market players provide services of the highest quality. Raiffeisenbank Austria positions itself as a reliable partner, providing tailor-made services of superior quality.

### **Background**

The custody service is not an entirely new product that Raiffeisenbank Austria offers to existing and potential clients. When, in 1998, Raiffeisenbank Austria obtained a securities license from the Central Bank of Russia and became an authorized broker/dealer on the Moscow International Currency Exchange (MICEX), the custody business was considered as little more than a "backwater" service offered to support clearing and settlement via MICEX. However, market conditions as well as legislative changes that have made rules governing the activity of professional market participants stricter, have forced the Bank to channel its custody business into a separate structure – the Securities Operations and Custody Services department.

### **Development**

Great effort has been made to implement modern technologies and create a team of professionals that are capable of meeting clients' needs for high quality, reliable service. At present, Raiffeisenbank Austria has a custodial facility which – along with support and settlement of MICEX trading – allows for the safe-keeping of clients' securities in physical and/or book-entry form, complementary value-added services, extended reporting, and supporting technology. Raiffeisenbank Austria also provides its



clients with cross-border services through the Raiffeisen Zentralbank Custody Network, bringing clients closer to foreign securities markets.

## **Future prospects**

Prospects for the near future include the further development of accounting systems for comprehensive reporting, allowing clients to carry out effective portfolio management activities, so that they may make investment decisions based on on-line information. Raiffeisenbank Austria will continue to invest in, and upgrade its technology in order to improve straight-through processing and to eliminate breakdowns in information flows and settlement failures. Looking to the future, Raiffeisenbank Austria believes that continued investment in technology combined with strong systems of internal control, as well as promoting standardized practices in Russia's custody market, will satisfy clients' needs relating to their securities operations.





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## Risk Management

### **General overview**

Raiffeisenbank Austria's development in 2000 was characterised by substantial growth in the Bank's activities and the launch of new products. For the Credit & Risk Management division this has also meant an increased workload in controlling the risks involved. However, already-established and improved risk management procedures, as well as the Bank's organisational structure, internal procedures, tools and proper employee training guaranteed an optimal risk/return relationship in our operations.

### **Credit & settlement risks**

The principal task of the Credit and Risk Management division was the control of credit and settlement risks in the areas of Corporate Banking and Correspondent Banking/Treasury. A continued emphasis on the careful selection of banks and corporate borrowers, credit analysis, strong collateral and structural requirements helped to maintain the Bank's high quality credit portfolio and to avoid credit losses, despite a substantial increase in lending activity. All interbank activities with Russian banks (with the exception of Russian subsidiaries of foreign banks) are performed mostly on a credit risk-free basis. Master netting agreements were obtained for risk reduction.

### **Consumer lending risk**

The procedures and conditions for the consumer mortgage lending and car loan programs launched in 2000 were developed in close cooperation with Risk Management, which extended our high credit quality standards to Consumer Banking as well. Eligible borrowers have to meet strict credit criteria and the loans are fully secured by a pledge on the assets financed.



## Market risk

In addition to controlling credit risks, the Bank has followed clear guidelines for limiting the market risks inherent in its trading activities. In 2000, the Bank began proprietary trading in selected equities and fixed income bonds with small risk limits. Raiffeisenbank Austria, as all the banks within the RZB Group, uses Bloomberg as the trading system and tool for risk monitoring. Adherence to market, liquidity and interest rate risk limits were strictly monitored.

## Card business risk

Risks relating to Raiffeisenbank Austria's expanding card business were monitored by the Credit & Risk Management division in close cooperation with the Card Systems department. Daily monitoring of card activities helped to keep card-related losses, due to fraud, to a minimum for the Bank and its clients.

