





Correspondent Banking

Treasury

Corporate Banking

Consumer Banking

Settlements

Risk Management

Personnel Policy



Correspondent Banking

The August 1998 financial crisis undoubtedly strengthened the competitive position of foreign banks in the Russian market. Foreign banks currently boast an important share of this market. Raiffeisenbank Austria was among the first foreign banks to concentrate its business activities on small and medium-sized commercial banks, which have become the most active market participants. During 1999, Raiffeisenbank Austria also began to build up its correspondent local banking network.

Within a relatively short period of time, Raiffeisenbank Austria earned a reputation as 'the banker's bank' and, by the end of the year, was servicing over 200 Russian financial institutions. Of these, 65% of our client base consists of Moscow-based banks, with regional and foreign banks making up 25% and 10%, respectively. There are also a number of non-banking financial institutions which have Loro accounts with Raiffeisenbank Austria.

The breadth of services on offer in 1999 consisted of basic banking products such as FX spot conversions, brokerage operations through MICEX, short-term deposits, RUR/foreign currency settlements and banknote transactions. Raiffeisenbank Austria became one of the largest and most active players in the Russian foreign exchange market and easily one of the largest foreign banks in Russia. Raiffeisenbank Austria's Forex trading comprises 15% of total turnover in the Russian Forex market.

The dramatic cuts in Forex and Money Market lines in the Russian financial markets led to the marginalisation of Russian banks from the interbank market, which itself came to be dominated by foreign financial institutions. Raiffeisenbank Austria rapidly understood that small and medium-sized banks – still our main customers – needed the financial tools to help them borrow RUR funds from cash-rich institutions as well as to avoid pre-delivery of

funds in the case of Forex operations. A special triple scheme has been created to meet these market requirements under the condition that sufficient cash collateral is placed by the local bank with Raiffeisenbank Austria's head office.

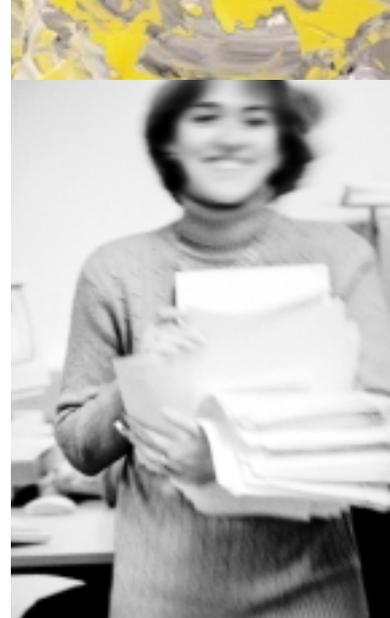
During 1999, Raiffeisenbank Austria conducted marketing trips to Russia's regions and approached over 90 regional banks in 17 economically-significant Russian regions. Correspondent banking relationships have been es-



established with local banks from Nizhny Novgorod, St. Petersburg, Tatarstan, Novosibirsk, Kaliningrad, Vladivostok, Tyumen, Ekaterinburg, Cheliabinsk, Samara and Togliatti, to name a few.

Despite the crisis, many foreign banks and companies continue to demonstrate an interest in Russia and believe that the country has enormous long-term potential. With the liberalizing of the regime for non-resident RUR correspondent accounts in the summer of 1999, Raiffeisenbank Austria actively increased its marketing of RUR correspondent accounts to non-resident banks and visited banking institutions with Russian activities in a number of CIS and European countries. Raiffeisenbank Austria's Loro correspondent bank list increased with additional partner banks from Italy, Finland, Sweden, Azerbaijan, Kazakhstan and Ukraine.

Other activities intended to nurture and develop Raiffeisenbank Austria's banking relationships included the organization of a banking conference dedicated to the problem of Y2K compliance for correspondent banks, held in November 1999. The highly successful conference was attended by over 100 participants from 60 Russian commercial banks from Moscow and the regions, as well as PriceWaterhouseCoopers. The preceding year also marked our involvement in several clearing projects. One of these Raiffeisenbank Austria recently finalized by concluding a co-operation agreement with the Golden Crown regional plastic card payments system, under which Raiffeisenbank Austria became a settlement center for over 100 regional banks in Russia.



Russia's financial markets survived the second difficult year following the August 1998 crisis. The Central Bank of Russia held to a strong (and expensive) monetary policy limiting the rouble's depreciation to under 22% during the course of the year. Meanwhile, market participants psychologically prepared for further declines in the currency raised the frequency of their attacks on the rouble. Raiffeisenbank, as an active market participant in Russia, had to operate in this very challenging environment.

Throughout the year rouble liquidity in the Russian financial market was high due to a number of administrative measures implemented by the Central Bank with the objective of maintaining the rouble surplus within Russia and preventing its flight into the most attractive asset from the point of view of domestic market participants – the US dollar. Thus, average interest rates in the Interbank market remained in a rather low 5-10% band during the year, with the exception of short periods of high volatility in the Forex Market, when the demand for roubles raised overnight rates to 30%. Fears of a possible rouble depreciation kept the dollar well-bid at any given moment in the Russian currency market, with market players only selling hard currency for liquidity purposes.

In 1999 Raiffeisenbank Austria strengthened its position among the Russian leading market makers in the Forex and Money Markets. We estimate Raiffeisenbank Austria's market share at about 15% of the Russian Forex Market's turnover and about 10% of Money Market's turnover, where a significant portion of Raiffeisenbank Austria's business constitutes client operations. The volume of Raiffeisenbank Austria's Money Market and Forex operations increased eight-fold during 1999. The Bank expanded its Money Market and Forex client base ten times and the volume of client deposit operations increased seven times. The proportion of client transactions in Raiffeisenbank Austria's Forex and Money Market activity rose from 30% at the beginning of 1999 to over 80% by year-end. Liquidity was provided by most Russian financial institutions and large domestic corporates.

Several important events happened in the Russian fixed income market in 1999: the GKO restructuring, changes in regulations for foreign investors, the first post-crisis GKO auctions, and the development of a new corporate bond instrument. Raiffeisenbank Austria developed its brokerage services in



the GKO/OFZ Market for Russian and international investors. We are among 8 foreign-owned banks authorised to open "S"-type accounts for non-resident investors. Considering the extremely high level of competition in this market segment, Raiffeisenbank Austria has managed to attract a number of large foreign companies for brokerage servicing in Russian domestic debt, which resulted in a five-fold increase of the Bank's client GKO/OFZ portfolio since the beginning of 1999.

Raiffeisenbank Austria provides client operations in a new debt market segment – Corporate Bonds. The first Russian corporate bond issues were launched by five large Russian corporates: Lukoil, Gazprom, Tyumen Oil, ALROSA and Unified Energy Systems. Raiffeisenbank Austria, on behalf of its "S" account holder customers, participated in the primary placements of these bonds.

Having launched its Promissory Notes program in the summer of 1999, Raiffeisenbank Austria is currently one of the few foreign banks offering its clients these easy investment instruments, given the straightforward legal procedures for non-financial institutions investing in promissory notes.

Raiffeisenbank puts special emphasis on providing clients with professional Research, quickly adapting information to customers' needs and highlighting new market opportunities. In 1999, Raiffeisenbank Austria launched a new research product – the Daily Monitor, delivering to our clients the latest market news, and sharing our views on possible developments and trading strategies. All our research products are produced for domestic and foreign users and prepared in Russian and in English. Raiffeisenbank Austria's own research products, as a complement to RZB's materials, are extremely popular among our customers, with Raiffeisenbank Austria's research delivery list comprising over 800 addresses both inside and outside Russia.



Forex & Money Market Operations

