

# Corporate Banking

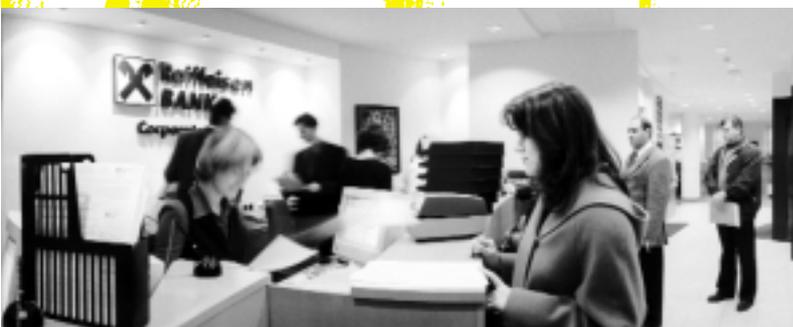


The year 1999 was one of great challenges as well as achievements for the Corporate Banking and Trade Finance Divisions. In the first half of 1999, companies were still trying to cope with the consequences of the previous year's financial crisis, having been hit by falling domestic consumption, the rouble devaluation and direct losses from non-payments coupled with frozen account balances at defaulted Russian banks. The number of reliable Russian banks declined to only a handful of mainly state-owned banks.

1999 was also a decisive year for Russian subsidiaries of western multinational companies. Some withdrew from the domestic market, while others identified new opportunities and decided not just to stay put, but to actually expand their activities in Russia. This latter category of western clients became a major target of Raiffeisenbank Austria's marketing efforts.



Given our positive track record in lending activities during the crisis – when none of either Raiffeisenbank Austria or RZB's corporate borrowers defaulted on its loan obligations – Raiffeisenbank Austria began to actively approach large Russian blue chip companies to establish loan facilities in structured trade finance. Pre-export and tolling finance for commodities exports, in addition to import financing for large Russian importers and distributors in the food and automotive industries, dominated our activities in this area. A number of domestic trade finance facilities were set up, based on our broad experience and know-how in pre-export financing. The results of these activities are perhaps best illustrated by the 260% increase in the Bank's corporate loan portfolio.



Another significant area of growth was the documentary business, particularly in the issuance of import-L/Cs and customs guarantees. The number of corporate clients and financial institutions using Raiffeisenbank Austria's documentary business service doubled in 1999, a further sizable increase in client numbers is expected in 2000. Revenues from transaction passports (in the form of commissions charged by the Bank as a foreign currency control agent) increased fourfold in 1999.

The new requirements of suppliers and changes in foreign currency regulations have resulted in greater interest in securing imports of consumer as well as capital goods by issuing L/Cs in addition to payment guarantees. In 1999, the total number of export, import L/Cs and guarantees increased 150%, with volume growth of 65% compared to 1998.

Another important instrument is the customs guarantee, issued at the request of multinationals as well as Russian importers covering their commitments towards the customs authorities (i.e. excise stamps).

Increased lending to corporate clients, the Bank's acquisition of large Russian and multinational companies as clients, and close internal cooperation with Treasury led to an increase in account balances and deposits by 7.5 times. As one of the most active participants in the Foreign Exchange market, we were able to offer speedy and reliable services to our clients, who used the Bank's Treasury for selling or buying foreign currency even for passports registered with other banks.

One of the highlights for Corporate Banking was the introduction of consumer banking activities by the Bank. These activities, as well as branch openings and a network of ATMs with 24-hour access, lead to co-operation between Corporate Banking and the Consumer Banking division on the development of salary solutions centered on VISA Electron and VISA Classic cards. These flexible and convenient payroll solutions attracted additional clients (mainly Russian subsidiaries of multinational companies), which had been seeking such services since the crisis.

Raiffeisenbank Austria's branches include corporate banking units which actively promote our banking products and services available to corporate clients located nearby, which further increases service quality and reduces response times.

In parallel with the retail banking card business, Corporate Banking developed and launched a corporate credit card program to further simplify our clients' management of business expenses in Russia and worldwide.

Raiffeisenbank Austria actively cooperated with other members of the Raiffeisen Banking Group in supporting their local activities of multinational clients as well as local clients from Raiffeisenbank's subsidiaries in Central and Eastern Europe. Several large western banks without a Russian presence routed their clients to Raiffeisenbank Austria for provision of reliable banking services. Due to the default of many large Russian banks, Raiffeisenbank Austria stepped in to act as an agent for pre-export finance facilities for western bank creditors and lending consortiums.

One of Raiffeisenbank Austria's most important objectives is to develop and implement new banking products and services as well as customized solutions on request and with full client involvement. A new service introduced im-



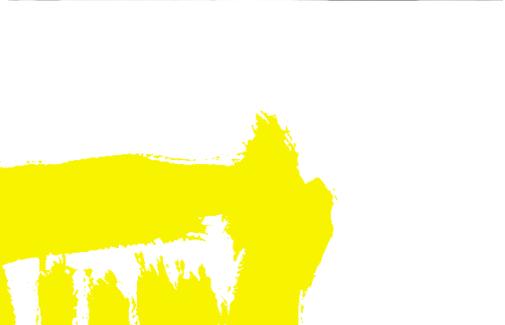


mediately following the crisis was a 24-hour cash collection and delivery service to minimize the risk of devaluation in cash-driven businesses.

Based on the cash management expertise of the Raiffeisen Group, a new solution called Finstream was launched, enabling the client's central treasury to manage and monitor its operating units financial flows in Russia and worldwide.

Towards the end of 1999 Raiffeisenbank Austria began to work on a new leasing project, which resulted in the creation of a Russian leasing subsidiary – OOO Raiffeisen-Leasing – in the spring of 2000. OOO Raiffeisen-Leasing is jointly owned by Raiffeisenbank Austria and Vienna-based Raiffeisen Leasing International, the holding company and coordinating center for RZB's leasing activities in Central and Eastern Europe.

The creation of OOO Raiffeisen-Leasing is further evidence of the Raiffeisen Banking Group's strategic interest in Russia and its commitment to the Russian market. This coincides with the increased interests of foreign companies' Russian subsidiaries as well as domestic companies to modernize and invest in local production in a range of industry sectors. Once again, Raiffeisenbank Austria is ready and willing to lead the way in introducing new financing techniques to Russia.



# Consumer Banking

Consumer banking is the newest area of Raiffeisenbank Austria's activities. In June 1999, following three successful years of banking in Russia, Raiffeisenbank Austria received a retail banking license from the Central Bank of Russia, authorizing the Bank to service private clients. Earlier, in February 1999, Raiffeisenbank Austria became a principal member of VISA International. Both events enabled the Bank to launch the consumer banking project, offering its private clients current accounts and term deposits, as well as VISA cards. In the development of its retail banking products, the bank benefited from a century's worth of experience and knowledge of the retail business of RZB, its main shareholder, and of other network banks of the Raiffeisen Banking Group.

Raiffeisenbank Austria has established its own processing center, making the involvement of third parties unnecessary. The processing center allows us to trace and secure the entire lifecycle of the card: from issuance, through all transactions and finally, to card expiry.

To satisfy customer needs Raiffeisenbank Austria has started to build up its own ATM network with ATMs being installed in locations where the Bank's customers are concentrated – primarily business centers and Raiffeisenbank branches in downtown Moscow. Raiffeisenbank Austria is constantly enlarging its ATM network. ATMs accept all VISA International cards, operate around-the-clock, with instructions available in Russian, English and German. Cash can be disbursed both in Russian roubles and US Dollars.

The next step in the development of consumer banking was the opening of currency exchange offices in our branches and an exchange office in Moscow's Renaissance Penta Hotel. All the exchange offices are equipped with POS terminals to provide cash advance services for VISA cardholders.

A major achievement of Raiffeisenbank's Consumer Banking Division in cooperation with Corporate Banking was the introduction of payroll solutions for our corporate clients through VISA Classic or VISA Electron. By year-end 1999, salary cards comprised 80% of the total number of cards issued by the Bank. Within a relatively short period of time, Raiffeisenbank has gained an excellent reputation in the retail banking market for quick and efficient service, professional staff, product variety and a personalized approach to customers.





# Settlements

Since 1997 Raiffeisenbank Austria has provided its clients with a whole range of settlements services offered according to western and Russian banking practices.

From the end of 1998 Raiffeisenbank Austria faced a steady and rapid increase in transaction volumes. Growth in transaction volumes resulted from our increased clientele as well as from greater client activity. In comparison with 1999, the number of interbank operations and transactions on behalf of our clients increased 8-10 times. Currently, Raiffeisenbank Austria's Operations Division services a wide network of corporate clients and loro correspondents, which includes leading Russian and multinational giants, and large regional banks.

The high quality of settlement and clearing services for corporate clients and correspondent banks is a major priority for Raiffeisenbank Austria. To maintain high quality settlement standards in a challenging environment, the Bank has focused on using advanced technology and professional staff, enabling us to meet the demands of an ever-increasing number of customers for quality, speed and security.

The superior technology used in Raiffeisenbank's operations is of key importance. We place special emphasis on continually perfecting production cycles (Straight-through-processing), complex operational risk management, the use of electronic banking, scanning and other up-to-date technologies.

Our clients already appreciate the benefits of our electronic banking system, which offers the option of submitting payment orders and receiving account statements without leaving one's office. This service is an obvious advantage for our more remote clients. In 1999, the number of clients using electronic banking doubled.

The Bank uses an internal operations system, which is able to fulfill a whole range of transactions. Raiffeisenbank's specialists adjusted this system, which is the one typically used by international banks, to the requirements of the Central Bank of Russia on financial and accounting reporting.

Raiffeisenbank Austria is a member of the SWIFT international settlement system. All settlements within the system are fully integrated with the Bank's internal operations system.





As a member of VISA International, the Bank established an in-house processing center which provides a whole range of VISA plastic card transactions.

In 1999, Raiffeisenbank Austria also entered into an agreement with the Golden Crown system as a settlement bank, with the objective of supporting one of the most advanced regional settlements systems existing in Russia today.



# Risk Management

The new Credit & Risk Management Division was established in 1999, bringing together the Credit Analysis, Credit Administration, Documentary Business, Foreign Currency Control and Risk Management departments. The Division's task is to cover all risk-related issues of the Bank's business and to ensure an optimal risk/return relationship within the Bank's operations.

In addition to credit risk, our understanding of risk includes also market risk, legal risk, accounting risk, operational risk and – of particular importance for the Russian market – fraud and reputational risk. The Credit & Risk Management Division, in tight coordination with all relevant departments of Raiffeisenbank Austria and RZB Vienna, works to mitigate and control these risks and to establish a general understanding by all employees of the importance of this matter and a serious approach to it.

As far as credit risk is concerned, a careful selection of counterparties/corporate borrowers, profound analysis, and strong collateral required, has resulted in a high-quality credit portfolio. Raiffeisenbank Austria has limited its cooperation with Russian banks (with the exception of Russian subsidiaries of foreign banks) to transactions on a credit risk-free basis.

As far as market risk is concerned, limit sizes have been reconsidered and limit adherence is strictly monitored.

In order to cope with fraud and reputational risks, internal procedures – including those targeting money laundering and fraud prevention – were reviewed to ensure even better protection against such risks and full compliance with Russian legislation and RZB Group standards. A new manual has been introduced and training workshops organized for employees of all relevant departments, including account managers and front office staff.

Fraud protection efforts are geared not only towards the Bank's safety, but on our clients' safety as well. The Credit & Risk Management Division attempts to provide as much fraud protection for clients as possible, particularly important in the Bank's consumer banking and plastic card operations. An in-house card authorization system, in-house ATMs, customer education, other fraud prevention measures, and the daily monitoring of "irregular" card activities ensure minimum levels of fraud for our customers.



