

(e) Loan loss provisions

The allowance for loan losses is based on management's year-end assessment of loans outstanding, the Bank's past loan loss experience as well as known and potential risks related to the borrower.

Loan receivables are not accrued when the full collection of the principal or interest is in doubt. Previously accrued but unpaid interests are reversed and charged against interest income.

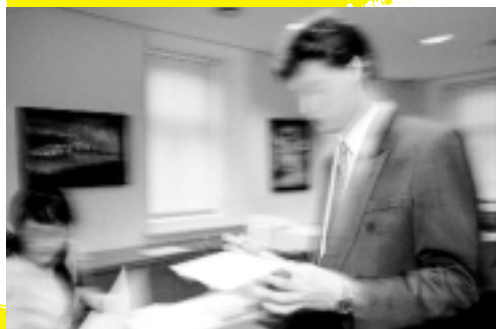
(f) Income taxes

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of the respective asset or liability and its reported amount.

(g) Significant events affecting the IAS Financial Statements

Following the default of the Russian Government on State treasury bills and the subsequent default of Russian banks on the forward market, the Bank suffered major losses in 1998. During this critical time, RZB Vienna remained firmly committed to maintaining our presence in Russia and to settle all our outstanding obligations. Aiming to show a positive equity position, our shareholders increased RBA's capital by USD 150 million. These funds were partially utilised to pay our counterparties on forward contract settlement after the Central Bank's termination of its moratorium in January 1999. We have now settled all our previously outstanding forward commitments with domestic and foreign counterparties.

Under the accrual principle, these losses were fully provisioned and recorded under IAS in 1998 whereas under the Russian cash accounting method; they affected the Bank's 1999 P/L statement, prepared according to Central Bank rules.



2. Assets

	1998	1999
<p>Cash in hand, balances with the Central Bank and post office banks</p> <p>This item represents cash in hand and cash held with the Central Bank of Russia, as well as compulsory reserves held with the Central Bank on customer deposits. The increase of this item in 1999 is related to an increase of liabilities with corporate and private customers.</p>	9,253,717	31,091,805
<p>Treasury bills and other eligible bills</p> <p>This item represents the remaining value of the restructured short-term Russian government GKO bills. The decline in book value for 1999 corresponds to a partial reimbursement of the principal by the Government under the GKO restructuring schedule and the writing-down of assets booked in roubles and translated into US Dollars at the year-end exchange rate.</p> <p>On December 31st, 1998, as the GKO restructuring program was not yet in place and the Russian government defaulted on repayment of the principal, the entire outstanding amount of the GKO was written off to P/L. This provision was reversed in 1999 according to the book value of the GKO reported in line with the declared restructuring program.</p>	–	15,301,518
<p>Loans and advances to banks</p> <p>This item represents short-term liquidity placement on international and domestic financial markets. Following the 1998 banking crisis, we closed the majority of credit lines on Russian banks. Instead, we placed our short-term rouble liquidity with Russian subsidiaries of foreign banks.</p>	33,410,474	119,124,935
<p>Loans and advances to customers</p> <p>This item represents current outstanding cash loans to corporate customers and does not include unutilised committed facilities, which are recorded off-balance sheet.</p> <p>The increase in the loan portfolio during 1999 is related both to the utilisation of committed facilities signed prior to the reporting period as well as new lending operations.</p>	70,121,126	127,031,565
<p>Interests in affiliated companies</p> <p>This item represents RBA's equity investment in two subsidiary companies co-founded by Raiffeisenbank Moscow under Russian legislation: OOO "Raiffeisen Investment" and OOO "Raiffeisen Leasing".</p>	42,711	32,666
<p>Intangible assets</p> <p>Intangible assets are part of the fixed asset inventory of the Bank. They are reported in this category according to IAS classification rules. These items are essentially software and low value items, including main office and branch furniture. The increase in this item during 1999 mainly reflects the establishment of two new branches.</p>	71,446	232,901
<p>Tangible fixed assets</p> <p>Fixed assets are booked in roubles at their historical value on the date of acquisition. In accordance with the specific provisions of the RZB Consolidation Rules, fixed assets were not revalued according to IAS Rule 29, "Financial Reporting in Hyperinflation Economies".</p>	2,133,743	2,367,839
<p>Other assets</p> <p>On December 31st 1998 we recorded, under this item, receivables under forward contracts from Russian banks. During 1999, those receivables were written off against financial losses although several forward receivables are awaiting judicial decisions.</p>	6,643,794	114,960
<p>Prepayment and accrued income</p> <p>This item represents regular accrued interests not yet paid as well as prepayments for customs and for the purchase of fixed assets in the process of acquisition.</p>	1,298,918	4,376,478
Total assets	122,975,929	299,674,667

3. Liabilities

Deposits by Banks

This item represents our refinancing with lending institutions. In 1999 the portion of our refinancing with our main shareholder RZB Vienna declined significantly. We retain a firm refinancing line from RZB Head Office in the amount of USD 150 m, which covers our liabilities with corporate and private customers.

	1998	1999
Deposits by Banks	133,347,223	101,749,176
Deposits by Customers	59,940,142	168,192,808
Other liabilities	64,858,397	3,725,557
Accruals and deferred income	2,069,137	2,100,898
Provisions for liabilities and charges	2,273,653	2,500,000
Subscribed capital	3,793,704	130,234,814
Profit reserves	535,593	310,740
Balance sheet profit / loss for the financial year	(145,160,753)	12,760,202
Profit / loss brought forward	1,318,833	(121,899,528)
Total liabilities	122,975,929	299,674,667

Deposits by Customers

This item includes both corporate and private client deposits. Most of the deposits are in the form of short-term demand deposits. The increase in Customer deposits corresponds to an increase in the corporate and private client base.

Other liabilities

The main part of this item in 1998 consisted of internal provisions created under forward contracts when the Central Bank moratorium on forward settlements was still in place. During 1999 these provisions were written off against the P/L. At the end of 1999, this item represented mainly the outstanding value of our own promissory notes issued as short-term financial instruments on the interbank market.

Accruals and deferred income

This item represents interests accrued but not yet paid on liabilities with corporate customers and financial institutions.

Provisions for liabilities and charges

This item represents current provisions on outstanding doubtful loans reported under this category according to IAS financial criteria. These amounts represent provisions for RBA participation in syndicated loans extended to Russian banks that, as of the reporting date, are in doubtful financial circumstances.

Subscribed capital

In March 1999 the Shareholders of the Bank made a capital increase of USD 150 million to cover financial losses related to the 1998 banking crisis. The capital increase helped to restore the Bank's equity position in compliance with Central Bank regulatory requirements.

The subscribed capital is reflected at the RUR/USD exchange rate at the date of the capital contribution. It actually represents the remaining USD value of the initial contribution of USD 15 million and the subsequent increase by USD 150 million depreciated as a result of the rouble devaluation.

Profit reserves

This item represents the statutory profit reserve established in compliance with Central Bank regulations.

Balance sheet profit / loss for the financial year

After the 1998 financial crisis, Raiffeisenbank suffered financial losses due to the rouble devaluation and the restructuring of the Government GKO treasury bills. The entire amount of the losses – USD 145,160,000 – was reflected in 1998 including the 100% provision on forward contracts. According to Russian financials expressed on a cash basis, a portion of the financial losses related to the default of Russian banks on their forward commitments – were recorded in 1999.

After those losses were fully booked in 1998 and subsequently covered by the capital increase, we reported a net after-tax profit of USD 12,760,202 in the 1999 financial year.

Profit / loss brought forward

The P/L brought forward is accounted for in Russian roubles at the rate of the previous reporting period and therefore devalues with the increase in the USD/RUR

Total liabilities

4. Profit and loss statement

1999

The itemization of the Profit and Loss statement corresponds to the aggregate amount of USD 12,760,202 reported as retained earnings on the equity side of our balance sheet.

1. Operating expenses	18,727,281
– of which, interest expenses	10,830,248
– of which, non-interest expenses	7,897,033

This item represents both operating expenses actually settled during the reporting period and those accrued but not paid during the period. The non-interest expenses represent fees and commissions paid to financial and corporate counterparties as well as commission fees paid to RZB Head Office for the USD 150 million committed refinancing facility to cover our liabilities with customers.

2. General expenses	8,028,374
– of which, staff expenses	3,701,399
– of which, overhead expenses	4,155,194
– of which, depreciation allowance	171,781

Staff expenses represent the payroll fund of the Bank as well as contributions to medical insurance, life and accident insurance, and meal allowances.

Overhead expenses represent other non-operating expenses of the Bank such as rentals, expenses related to premises, communications, travel, legal and consultancy fees, advertising, subscriptions, etc.

The depreciation allowance corresponds to the contribution to the depreciation fund of the Bank during the reporting period.

3. Taxes and duties	1,820,635
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This item represents taxes and duties relating to the operating activities of the Bank. According to existing Russian legislation, financial institutions pay – in addition to the corporate profits tax – the turnover taxes applied on gross income received during the reporting period.

Total expenses	28,576,290
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4. Operating income

1999

Interest income

19,345,010

- of which, interest received and accrued for the period 13,583,835
- of which, income from operations with securities 5,761,175

The interest income corresponds both to the corporate and interbank operations. The income from operations with securities reflects the proceeds from the restructured GKO portfolio received during the reporting period.

Non interest income

21,991,482

- of which, fees and commissions received 4,256,399
- of which, open position revaluation 13,914,048
- of which, recovery of provisions 3,821,035

The income from the open position revaluation reflects both the trading position of the Bank and the revaluation of the capital accounted for in roubles but actually kept in US Dollars.

Total income

41,336,492

Retained earnings for 1999

12,760,202





**Representative
offices in Europe**

Belgium

Warmoesberg 2
B-1000 Brussels, Belgium
Tel.: (+322) 429 29 77
Fax: (+322) 429 29 77

France

9 – 11 Avenue Franklin Roosevelt
F-75008 Paris, France
Tel.: (+331) 4561 2700
Fax: (+331) 4561 1606

Slovenia

Trg republike 3
SLOB1000 Ljubljana, Slovenia
Tel.: (+386) 61 200 1800
Fax: (+386) 61 200 1818

Italy

Via Andrea Costa 2
I-201131 Milan, Italy
Tel.: (+3902) 2804 0646
Fax: (+3902) 2804 0658

RZB Group International

England

36-38 Botolph Lane
GB-London EC3R8DE
Tel.: (+44.171) 929 22 88
Fax: (+44.171) 623 12 50
Telex: 886 153

USA

RZB Finance LLC
1133 Avenue of the Americas,
16th floor
New York, NY 10036
Tel.: (+ 1.212) 845-4100
Fax: (+ 1.212) 944-2093

Singapore

50 Raffles Place 38-04/05
Singapore Land Tower
Singapore 048623
Tel.: (+65) 225 95 78
Fax: (+65) 225 39 73
Telex: 425 24 RZB SIN
SWIFT: RZBASGSG
Reuters: RZBS

**Representative
offices in Asia**

Iran

Africa Expressway 135
19677 Tehran, Iran
Tel. (9821) 205 3575
Fax (9821) 205 73 25

Vietnam

6 Phung Khac Khoan Street
District 1
Ho Chi Minh City
Vietnam
Tel. (+848) 829 7934
Fax: (+848) 822 1318

Mumbai (India)

10 Khetan Bhavan, 4th floor
198 J.T. Road, Churchgate
400020 Mumbai (India)
Tel. (+9122) 283 8057
Fax (+9122) 282 0664

People's Republic of China

Beijing International Club 111
Jianguomenwai Dajie 21
100020 Beijing
People's Republic of China
Tel.: (+8610) 6532 5925
Fax: (+8610) 6532 5926

People's Republic of China

Unit 1401B, 14th floor, Tower II
Admiralty Centre
No. 18, Harcourt Road, Hong Kong
People's Republic of China
Tel. (+852) 2730 2112
Fax: (+852) 2730 6028



London



Brussels



Warsaw



Paris



Prague



Vienna

Budapest



Milan



Ljubljana



Zagreb



Sarajevo



Malta



Supervisory board



Dr. Herbert Stepic

Chairman of the Supervisory Board

Mr. Heinz Hoedl

Member of the Supervisory Board

Mr. Heinrich Schaller

Member of the Supervisory Board



RZB Group International

Head Office

Am Stadtpark 9
A-1030 Vienna
Postal address:
P.O.Box 50
A-1011 Vienna
Tel.: (1) 717 07-0
Fax: (1) 717 07-1715
Telex: 136 989
Internet: <http://www.rzb.at>



Banking network in Central and Eastern Europe

Ukraine

Raiffeisenbank Ukraine
Vorovskogo 40
01054 Kiev, Ukraine
Tel.: (0038044) 490 05 00
Fax: (0038044) 490 05 01
SWIFT: RZBUUAUK
Reuters: RBUK

Romania

Raiffeisenbank Romania S.A.
Bdul. Unirii 74,
RO-75103-Bucharest 3
Tel.: (+40.1) 302 00 22
Fax: (+40.1) 320 99 10
SWIFT: RZBRROBU
Reuters: RBRB

Croatia

Raiffeisenbank Austria d.d.
Petrinjska 59
HR-10.000 Zagreb
Tel.: (+385.1) 4566 466
Fax: (+385.1) 481 16 24
Telex: 21 137 rbazg rh
SWIFT: RZBH HR2X
Reuters: RZBH
Internet: <http://www.tel.hr/rba>

Bulgaria

Raiffeisenbank (Bulgaria) AD
18/20 Gogol Str.
BG-1504 Sofia
Tel.: (+359.2) 919 859
Fax: (+359.2) 943 4528
Telex: 220 06, 220 05
(Treasury)
SWIFT: RZBBBBGSF
Reuters: RBBS

Slovakia

Tatra banka, a.s.
Vajanského nábrežie 5,
P.O.Box 50
SK-810 11 Bratislava 111
Tel.: (+421.7) 5967 1111
(+421.7) 6865 1111
Fax: (+421.7) 5292 4760
Telex: 926 44 TATR SK

Financial Institutions Department:

Mostova 8
Tel.: (+421.7) 5443 4369
Fax: (+421.7) 5292 4760
SWIFT: TATR SK BX
Reuters: TBBR
Internet: <http://www.tatrabanka.sk>

Czech Republic

Raiffeisenbank a.s.
Vodickova 38
CZ-111 21 Praha 1
Tel.: (+420.2) 242 312 70
Fax: (+420.2) 242 312 78
Telex: 123160 RZBP C
SWIFT: RZBC CZ PP
Reuters: RAIF

Russia

OOO Raiffeisenbank Austria
17/1 Troitskaya Street
129090 Moscow – Russia
Tel.: (+7.095) 721 99 00
Fax: (+7.095) 721 99 01
Telex: 914617 RAIFF RU
SWIFT: RZBMRUMM
Reuters: RZBM
Internet: <http://www.raiffeisen.ru>

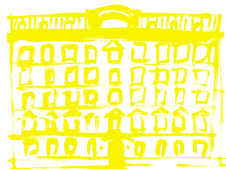
Poland

Raiffeisen Centrobank S.A.
Ul. Nowogrodzka 50,
Unitra Building
PL-00-695 Warszawa
Tel.: (+48.22) 657 46 00
Sat.tel.: (+48) 39 12 14 47
Fax: (+48.22) 625 07 36
Telex: 814 329 or 814 872
SWIFT: RCBW PL PW
Reuters: RCBW

Hungary

Raiffeisen Bank Rt.
Váci utca 19-21.
H-1052 Budapest
Tel.: (+36.1) 484 44 00
Fax: (+36.1) 484 44 44
Telex: 223123, 223172 unicc h
SWIFT: UBRT HUHB
Reuters: UNIC
Internet: <http://www.raiffeisen.hu>





Raiffeisenbank Austria OOO

Central office

129090 Moscow
Troitskaya str. 17/1
tel. (7 095) 721 99 00
fax (7 095) 721 99 01
e-mail: common@raiffeisen.ru
<http://www.raiffeisen.ru>

Taganskoye Branch

Nikoloyamskaya str. 13/2
109240 Moscow
tel. (7 095) 745 98 10
fax (7 095) 745 98 11
e-mail: taganskoje@raiffeisen.ru

Romanov Dvor Branch

Romanov per. 4, building 4
103875 Moscow
tel. (7 095) 745 98 20
fax (7 095) 745 98 21
e-mail: romanov@raiffeisen.ru

Raiffeisen Group's companies in Moscow

RZB Representative office

Troitskaya str. 17/1
129090 Moscow
tel. (7 095) 721 99 04
fax (7 095) 721 99 07

Raiffeisen Investment OOO

Troitskaya str. 17/1
129090 Moscow
tel. (7 095) 721 99 41
fax (7 095) 284 84 14

Raiffeisen – Leasing OOO

Troitskaya str. 17/1
129090 Moscow
tel. (7 095) 721 99 00
fax (7 095) 721 99 01
e-mail: leasing@raiffeisen.ru



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