# Central and Eastern Europe 2008

## An exceptional year!

**Your Investor Relations Team**

E-mail: investor.relations@ri.co.at  Internet: www.ri.co.at  Phone: +43-1-71707 2089

Annual Report 2008

Raiffeisen INTERNATIONAL
Member of RZB Group

# Survey of key data

## Raiffeisen International Group

| Monetary values in € million | 2008 | Change | 2007 | 2006[1] | 2005 | 2004 |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Net interest income after provisioning | 2,452 | 18.9% | 2,062 | 1,455 | 1,035 | 666 |
| Net fee and commission income | 1,496 | 19.7% | 1,250 | 933 | 607 | 441 |
| Net trading income | 168 | 31.1% | 128 | 175 | 101 | 78 |
| General administrative expenses | (2,633) | 20.6% | (2,184) | (1,694) | (1,163) | (823) |
| Profit before tax | 1,429 | 15.5% | 1,238 | 891 | 569 | 341 |
| Profit after tax | 1,078 | 10.8% | 973 | 686 | 460 | 270 |
| Consolidated profit (after minorities) | 982 | 16.7% | 841 | 594 | 382 | 209 |
| **Balance sheet** | | | | | | |
| Loans and advances to banks | 9,038 | (18.2)% | 11,053 | 8,202 | 5,794 | 4,779 |
| Loans and advances to customers | 57,902 | 18.5% | 48,880 | 35,043 | 24,714 | 16,242 |
| Deposits from banks | 26,213 | 31.5% | 19,927 | 13,814 | 10,236 | 6,620 |
| Deposits from customers | 44,206 | 9.3% | 40,457 | 33,156 | 24,890 | 18,169 |
| Equity (including minorities and profit) | 6,518 | (1.6)% | 6,622 | 4,590 | 3,277 | 2,177 |
| Balance sheet total | 85,397 | 17.4% | 72,743 | 55,867 | 40,695 | 28,907 |
| **Key ratios** | | | | | | |
| Return on equity before tax | 22.0% | (3.7) PP | 25.7% | 27.3% | 21.8% | 22.2% |
| Return on equity after tax | 16.6% | (3.6) PP | 20.2% | 21.0% | 17.6% | 17.6% |
| Consolidated return on equity (after minorities) | 17.4% | (2.7) PP | 20.1% | 21.4% | 17.2% | 17.0% |
| Cost/income ratio | 54.0% | (3.6) PP | 57.6% | 59.1% | 61.6% | 63.5% |
| Return on assets before tax | 1.77% | (0.21) PP | 1.98% | 1.90% | 1.68% | 1.40% |
| Net provisioning ratio (avg. risk-weighted assets) | 1.32% | 0.48 PP | 0.84% | 0.97% | 0.81% | 0.98% |
| Risk/earnings ratio | 24.1% | 9.3 PP | 14.8% | 17.5% | 13.9% | 17.1% |
| **Bank-specific information[2]** | | | | | | |
| Risk-weighted assets (credit risk) | 60,388 | 21.3% | 49,802 | 38,002 | 26,582 | 16,690 |
| Total own funds | 6,992 | 4.6% | 6,684 | 4,513 | 2,938 | 2,359 |
| Total own funds requirement | 5,767 | 33.6% | 4,317 | 3,284 | 2,393 | 1,571 |
| Excess cover | 21.2% | (33.6) PP | 54.8% | 37.4% | 22.8% | 50.2% |
| Core capital ratio (Tier 1), credit risk | 9.7% | (1.7) PP | 11.4% | 9.8% | 9.0% | 11.8% |
| Core capital ratio (Tier 1), total | 8.1% | (2.4) PP | 10.5% | 9.0% | 8.0% | 10.1% |
| Own funds ratio | 9.7% | (2.7) PP | 12.4% | 11.0% | 9.8% | 12.0% |
| **Stock data** | | | | | | |
| Earnings per share in € | 6.39 | 10.2% | 5.80 | 4.17 | 2.79 | 1.93 |
| Price on 31.12. in € | 19.30 | (81.4)% | 103.60 | 115.51 | 55.55 | |
| High (closing prices) in € | 110.20 | (10.0)% | 122.50 | 115.51 | 59.40[3] | |
| Low (closing prices) in € | 16.23 | (83.5)% | 98.25 | 55.20 | 39.25[3] | |
| Number of shares on 31.12. in million | 154.67 | – | 154.67 | 142.77 | 142.77 | |
| Market capitalization on 31.12. in € million | 2,985 | (81.4)% | 16,024 | 16,492 | 7,931 | |
| Dividend per share in € | 0.93[4] | – | 0.93 | 0.71 | 0.45 | 0.31 |
| **Resources** | | | | | | |
| Number of employees on 31.12. | 63,376 | 8.6% | 58,365 | 52,732 | 43,614 | 22,851 |
| Number of business outlets | 3,231 | 7.2% | 3,015 | 2,848 | 2,443 | 916 |

[1] Excluding one-off effects due to the sale of Raiffeisenbank Ukraine and the stake in Bank TuranAlem.
[2] Calculated according to the Austrian Banking Act (Bankwesengesetz, BWG). Raiffeisen International as part of the RZB-Group is not subject to the Austrian Banking Act.
[3] 25 April 2005 (IPO) until 31 December 2005.
[4] Proposed at the Annual General Meeting.

# Contents

Albania

Austria
Belarus

Bosnia and
Herzegovina

Bulgaria
Croatia

Czech
Republic

Hungary
Kosovo

Poland
Romania

Russia
Serbia

Slovakia
Slovenia

Ukraine

# 2008

# An exceptional year!

2008 was an exceptional year: The financial crisis unfolded and expanded into an economic crisis with global implications. No financial institution anywhere in the world was left unscathed. Our company has not been entirely spared either. The causes and effects of the crisis, which has also swept over Central and Eastern Europe, have been the subject of much debate, reporting, analysis, and speculations, rose-tinted reports and dire forecasts. This is why we have deliberately avoided being too wordy in this annual report. We decided to let the hard facts and numbers speak for themselves. In times like these, the reality is often less horrifying than what is left to the imagination. Judge for yourself.

Below you will also find brief profiles of the countries in Central and Eastern Europe where Raiffeisen International is currently active.

The data has been derived from the Fischer World Almanac 2009.

# Poland

| | |
|---|---|
| **Official name** | Republic of Poland/ Rzeczpospolita Polska |
| **Surface area** | 312,685 km$^2$ (World ranking: 68) |
| **Inhabitants** | 38.1 million (World ranking: 32) |
| **Capital** | Warsaw/Warszawa (1.7 million inhabitants) |
| **Other large cities** | Łódź, Kraków, Wrocław, Poznań, Gdańsk |
| **Official language** | Polish |
| **Currency** | Złoty |

**Population**

| | |
|---|---|
| Inhabitants per km$^2$ | 122 |
| Average growth | (0.1)% |
| Poles | 98.7% |
| Other | 1.3% |

*Religion*

| | |
|---|---|
| Catholics | 96% |
| Other | 4% |

**Economy**

| | |
|---|---|
| Gross national product in US$ billion | 338.7 |
| Gross national income per capita | US$ 8,210 |


*GDP by sector*

| | |
|---|---|
| Agriculture | 4.5% |
| Industry | 31.5% |
| Services | 63.9% |

*Employment*

| | |
|---|---|
| Agriculture | 18% |
| Industry | 29% |
| Services | 53% |

**Foreign trade**

| | |
|---|---|
| **Total amount of imports in € billion** | **118.8** |

*Import goods (Top 5)*

| | |
|---|---|
| Machinery and transport equipment | 38% |
| Chemicals and related products | 16% |
| Metallurgic products | 13% |
| Minerals, fuels, and lubricants | 11% |
| Food and live animals | 7% |

*Top 5 countries of import*

| | |
|---|---|
| Germany | 24% |
| Russia | 9% |
| PR China | 7% |
| Italy | 7% |
| France | 5% |

| | |
|---|---|
| **Total amount of exports in € billion** | **101.1** |

*Export goods (Top 5)*

| | |
|---|---|
| Machinery and transport equipment | 42% |
| Metallurgic products | 13% |
| Chemicals and related products | 12% |
| Food and live animals | 10% |
| Minerals, fuels, and lubricants | 4% |

*Top 5 countries of export*

| | |
|---|---|
| Germany | 26% |
| Italy | 7% |
| France | 6% |
| United Kingdom | 6% |
| Czech Republic | 6% |

| **Raiffeisen International in Poland** | |
|---|---|
| Balance sheet total in € million | 7,108 |
| Branches | 123 |
| Employees | 3,271 |

# Czech Republic

| | |
|---|---|
| **Official name** | Czech Republic/ Česká republika |
| **Surface area** | 78,866 km² (World ranking: 112) |
| **Inhabitants** | 10.3 million (World ranking: 78) |
| **Capital** | Prague/Praha (1.2 million inhabitants) |
| **Other large cities** | Brno, Ostrava, Plzeň, Olomouc, Liberec |
| **Official language** | Czech |
| **Currency** | Czech crown |

**Population**

| | |
|---|---|
| Inhabitants per km² | 130 |
| Average growth | 0.4% |
| Czechs | 90.3% |
| Moravians | 3.7% |
| Slovaks | 1.9% |
| Other | 4.1% |

| *Religion* | |
|---|---|
| Non-denominational | 59% |
| Catholics | 27% |
| Other | 14% |

**Economy**

| | |
|---|---|
| Gross domestic product in US$ billion | 143.0 |
| Gross national income per capita | US$ 12,790 |

| *GDP by sector* | |
|---|---|
| Agriculture | 2.7% |
| Industry | 39% |
| Services | 58.3% |

| *Employment* | |
|---|---|
| Agriculture | 4% |
| Industry | 40% |
| Services | 56% |

**Foreign trade**

| | |
|---|---|
| **Total amount of imports in € billion** | **85.8** |

| *Import goods (Top 5)* | |
|---|---|
| Electronics | 14% |
| Machinery | 12% |
| Chemicals and chemical products | 9% |
| Fuels and lubricants | 9% |
| Motor vehicles and parts | 9% |

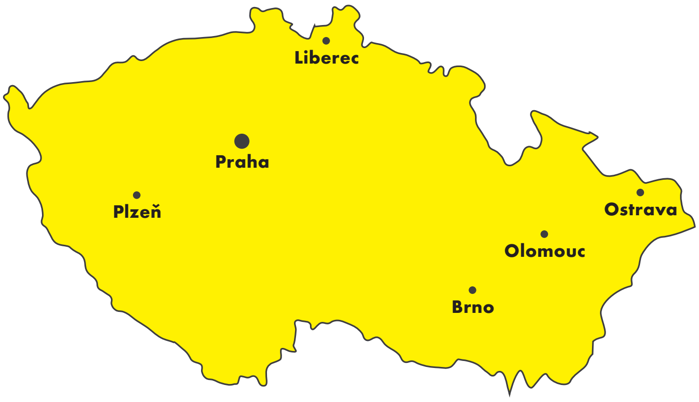
| *Top 5 countries of import* | |
|---|---|
| Germany | 28% |
| PR China | 8% |
| Poland | 6% |
| Slovakia | 5% |
| Italy | 5% |

| | |
|---|---|
| **Total amount of exports in € billion** | **88.9** |

| *Export goods (Top 5)* | |
|---|---|
| Motor vehicles and parts | 17% |
| Machinery | 14% |
| Electronics | 14% |
| Electro-technology | 9% |
| Chemicals and chemical products | 6% |

| *Top 5 countries of export* | |
|---|---|
| Germany | 31% |
| Slovakia | 9% |
| Poland | 6% |
| France | 5% |
| Austria | 5% |

| **Raiffeisen International in the Czech Republic** | |
|---|---|
| Balance sheet total in € million | 7,198 |
| Branches | 107 |
| Employees | 2,654 |



# Slovakia

| | |
|---|---|
| **Official name** | Republic of Slovakia/ Slovenská republika |
| **Surface area** | 49,034 km$^2$ (World ranking: 126) |
| **Inhabitants** | 5.4 million (World ranking: 109) |
| **Capital** | Bratislava (426,091 inhabitants) |
| **Other large cities** | Košice, Prešov, Nitra, Žilina, Banská Bystrica |
| **Official language** | Slovakian |
| **Currency** | Euro (Slovakian crown until 31 Dec. 2008) |

## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 110 |
| Average growth | 0.1% |
| Slovaks | 85.8% |
| Hungarians | 9.7% |
| Roma | 1.7% |
| Other | 2.8% |

*Religion*

| | |
|---|---|
| Roman Catholic | 69% |
| Protestant | 8% |
| Greek Catholic | 4% |
| Other | 19% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 55.0 |
| Gross national income per capita | US$ 9,610 |


*GDP by sector*

| | |
|---|---|
| Agriculture | 3.6% |
| Industry | 31.6% |
| Services | 64.8% |

*Employment*

| | |
|---|---|
| Agriculture | 4.7% |
| Industry | 39% |
| Services | 56% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in Sk billion** | **1,442** |

*Import goods (Top 5)*

| | |
|---|---|
| Machinery and transport equipment | 44% |
| Mineral oils, lubricants | 11% |
| Chemical products | 9% |
| Food, beverages, tobacco | 5% |
| Iron and steel | 5% |

*Top 5 countries of import*

| | |
|---|---|
| Germany | 20% |
| Czech Republic | 12% |
| Russia | 9% |
| PR China | 5% |
| Hungary | 5% |

| | |
|---|---|
| **Total amount of exports in Sk billion** | **1,421** |

*Export goods (Top 4)*

| | |
|---|---|
| Machinery and transport equipment | 54% |
| Iron and steel | 8% |
| Chemical products | 5% |
| Metal goods | 4% |

*Top 5 countries of export*

| | |
|---|---|
| Germany | 22% |
| Czech Republic | 12% |
| France | 7% |
| Austria | 6% |
| Hungary | 6% |

**Raiffeisen International in Slovakia**

| | |
|---|---|
| Balance sheet total in € million | 10,973 |
| Branches | 162 |
| Employees | 3,885 |

# Hungary

| | |
|---|---|
| **Official name** | Republic of Hungary/ Magyar Köztársaság |
| **Surface area** | 93,030 km$^2$ (World ranking: 107) |
| **Inhabitants** | 10.1 million (World ranking: 80) |
| **Capital** | Budapest (1.7 million inhabitants) |
| **Other large cities** | Debrecen, Miskolc, Szeged, Pécs, Györ |
| **Official language** | Hungarian |
| **Currency** | Forint |

**Population**

| | |
|---|---|
| Inhabitants per km$^2$ | 108 |
| Average growth | (0.2)% |
| Hungarians | 96.6% |
| Other | 3.4% |

| *Religion* | |
|---|---|
| Catholics | 61% |
| Protestants | 16% |
| Non-denominational | 15% |
| Other | 8% |

**Economy**

| | |
|---|---|
| Gross domestic product in US$ billion | 112.9 |
| Gross national income per capita | US$ 10,870 |

| *GDP by sector* | |
|---|---|
| Agriculture | 4% |
| Industry | 30% |
| Services | 66% |

| *Employment* | |
|---|---|
| Agriculture | 5% |
| Industry | 32% |
| Services | 63% |

**Foreign trade**

| | |
|---|---|
| **Total amount of imports in € billion** | **68.8** |

| *Import goods (Top 5)* | |
|---|---|
| Machinery and transport equipment | 52% |
| Processed goods | 32% |
| Energy sources | 10% |
| Food, beverages, tobacco | 4% |
| Raw materials | 2% |

| *Top 5 countries of import* | |
|---|---|
| Germany | 27% |
| Russia | 7% |
| Austria | 6% |
| PR China | 6% |
| Italy | 6% |

| | |
|---|---|
| **Total amount of exports in € billion** | **68.5** |

| *Export goods (Top 5)* | |
|---|---|
| Machinery and transport equipment | 62% |
| Processed goods | 27% |
| Food, beverages, tobacco | 6% |
| Energy sources | 3% |
| Raw materials | 2% |

| *Top 5 countries of export* | |
|---|---|
| Germany | 28% |
| Italy | 6% |
| Austria | 5% |
| Slovakia | 5% |
| Romania | 5% |

| **Raiffeisen International in Hungary** | |
|---|---|
| Balance sheet total in € million | 9,568 |
| Branches | 164 |
| Employees | 3,960 |

# Slovenia

| | |
|---|---|
| **Official name** | Republic of Slovenia/ Republika Slovenija |
| **Surface area** | 20,253 km$^2$ (World ranking: 150) |
| **Inhabitants** | 2.0 million (World ranking: 142) |
| **Capital** | Ljubljana (246,753 inhabitants) |
| **Other large cities** | Maribor, Celje, Kranj, Velenje, Koper |
| **Official language** | Slovenian |
| **Currency** | Euro |

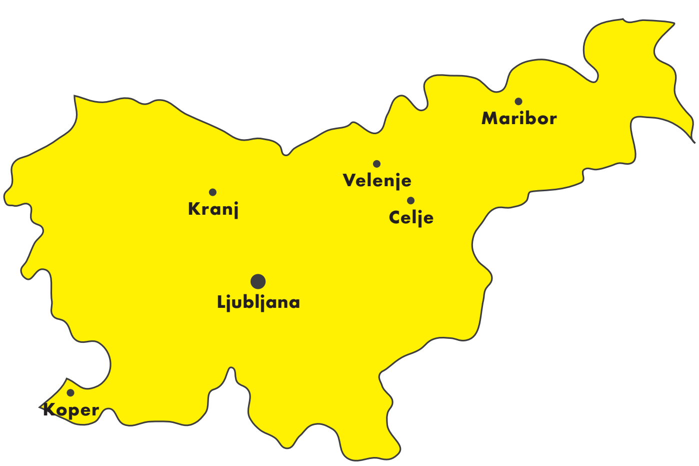
## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 99 |
| Average growth | 0.3% |
| Slovenians | 83.1% |
| Serbs | 2.0% |
| Croats | 1.8% |
| Other | 13.1% |

| *Religion* | |
|---|---|
| Catholics | 58% |
| None | 7% |
| Orthodox Christians | 4% |
| Other | 31% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 37.3 |
| Gross national income per capita | US$ 18,660 |




| *GDP by sector* | |
|---|---|
| Agriculture | 2.3% |
| Industry | 34.6% |
| Services | 63.1% |

| *Employment* | |
|---|---|
| Agriculture | 8.8% |
| Industry | 37% |
| Services | 53% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in € billion** | **21.5** |

| *Import goods (Top 5)* | |
|---|---|
| Machinery and transport equipment | 34% |
| Chemical products | 12% |
| Semi-finished products | 10% |
| Petroleum and products | 6% |
| Iron and steel | 6% |

| *Top 5 countries of import* | |
|---|---|
| Germany | 19% |
| Italy | 18% |
| Austria | 13% |
| France | 5% |
| Croatia | 4% |

| | |
|---|---|
| **Total amount of exports in € billion** | **19.4** |

| *Export goods (Top 4)* | |
|---|---|
| Machinery and transport equipment | 40% |
| Chemical products | 14% |
| Semi-finished products | 13% |
| Iron and steel | 4% |

| *Top 5 countries of export* | |
|---|---|
| Germany | 19% |
| Italy | 13% |
| Croatia | 8% |
| Austria | 8% |
| France | 7% |

| **Raiffeisen International in Slovenia** | |
|---|---|
| Balance sheet total in € million | 1,509 |
| Branches | 16 |
| Employees | 344 |

# Croatia

| | |
|---|---|
| **Official name** | Republic of Croatia/ Republika Hrvatska |
| **Surface area** | 56,542 km$^2$ (World ranking: 123) |
| **Inhabitants** | 4.4 million (World ranking: 116) |
| **Capital** | Zagreb (779,145 inhabitants) |
| **Other large cities** | Split, Rijeka, Osijek, Zadar, Karlovac |
| **Official language** | Croatian |
| **Currency** | Kuna |

## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 79 |
| Average growth | 0.0% |
| Croats | 89.6% |
| Serbs | 4.5% |
| Other | 5.9% |

| *Religion* | |
|---|---|
| Catholics | 88% |
| Orthodox Christians | 4% |
| Muslims | 1% |
| Other | 7% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 42.9 |
| Gross national income per capita | US$ 9,310 |

| *GDP by sector* | |
|---|---|
| Agriculture | 7% |
| Industry | 32% |
| Services | 61% |

| *Employment* | |
|---|---|
| Agriculture | 17% |
| Industry | 29% |
| Services | 54% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in € billion** | **18.8** |

| *Import goods (Top 5)* | |
|---|---|
| Petroleum and petroleum derivatives | 12% |
| Chemical products | 11% |
| Road vehicles | 9% |
| Food and live animals | 7% |
| Iron and steel | 5% |

| *Top 5 countries of import* | |
|---|---|
| Italy | 16% |
| Germany | 14% |
| Russia | 10% |
| PR China | 6% |
| Slovenia | 6% |

| | |
|---|---|
| **Total amount of exports in € billion** | **9.0** |

| *Export goods (Top 5)* | |
|---|---|
| Machinery and vehicles | 31% |
| Preliminary products | 15% |
| Chemical products | 9% |
| Petroleum and petroleum derivatives | 9% |
| Food and live animals | 8% |

| *Top 5 countries of export* | |
|---|---|
| Italy | 19% |
| Bosnia and Herzegovina | 14% |
| Germany | 10% |
| Slovenia | 8% |
| Austria | 6% |

| **Raiffeisen International in Croatia** | |
|---|---|
| Balance sheet total in € million | 5,984 |
| Branches | 79 |
| Employees | 2,333 |

# Bosnia and Herzegovina

| | |
|---|---|
| **Official name** | Bosnia and Herzegovina/Bosna i Hercegovina |
| **Surface area** | 51,129 km$^2$ (World ranking: 124) |
| **Inhabitants** | 3.9 million (World ranking: 124) |
| **Capital** | Sarajevo (304,075 inhabitants) |
| **Other large cities** | Banja Luka, Tuzla, Zenica, Mostar, Bihać |
| **Official languages** | Bosnian, Croatian or Serbian |
| **Currency** | Convertible marks |

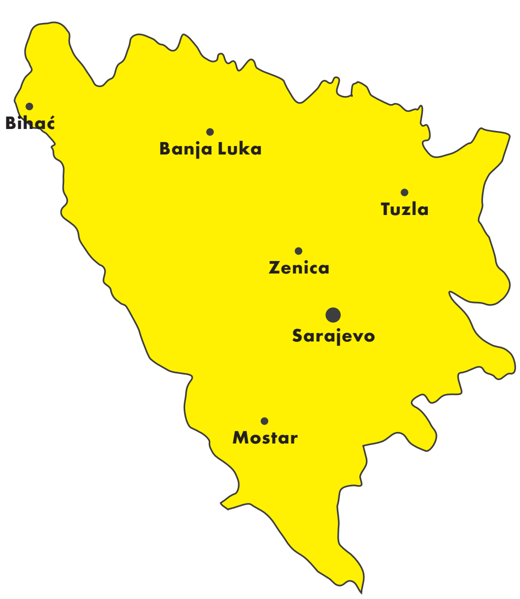
## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 77 |
| Average growth | 0.3% |
| Bosnians | 48% |
| Serbs | 37% |
| Croats | 14% |
| Other | 1% |

| *Religion* | |
|---|---|
| Muslims | 48% |
| Orthodox Christians | 34% |
| Catholics | 15% |
| Other | 3% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 12.3 |
| Gross national income per capita | US$ 3,230 |




| *GDP by sector* | |
|---|---|
| Agriculture | 10% |
| Industry | 25% |
| Services | 65% |

| *Employment* | |
|---|---|
| Agriculture | n/a |
| Industry | n/a |
| Services | n/a |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in € billion** | **5.8** |

| *Import goods (Top 4)* | |
|---|---|
| Machinery and devices | 16% |
| Minerals, fuels, and lubricants | 15% |
| Chemical products | 9% |
| Transport equipment | 7% |

| *Top 5 countries of import* | |
|---|---|
| Croatia | 17% |
| Germany | 12% |
| Serbia (incl. Montenegro) | 10% |
| Italy | 9% |
| Slovenia | 8% |

| | |
|---|---|
| **Total amount of exports in € billion** | **2.6** |

| *Export goods (Top 5)* | |
|---|---|
| Machinery and devices | 13% |
| Aluminium and products | 11% |
| Wood and wood products | 9% |
| Minerals, fuels, and lubricants | 8% |
| Chemical products | 7% |

| *Top 5 countries of export* | |
|---|---|
| Croatia | 19% |
| Italy | 14% |
| Germany | 13% |
| Serbia (incl. Montenegro) | 13% |
| Slovenia | 12% |

| **Raiffeisen International in Bosnia and Herzegovina** | |
|---|---|
| Balance sheet total in € million | 2,395 |
| Branches | 100 |
| Employees | 1,776 |

# Albania

| | |
|---|---|
| **Official name** | Republic of Albania/ Republika e Shqipërisë |
| **Surface area** | 28,748 km$^2$ (World ranking: 139) |
| **Inhabitants** | 3.2 million (World ranking: 131) |
| **Capital** | Tirana/Tiranë (343,078 Einwohner) |
| **Other large cities** | Durrës, Elbasan, Shkodra, Vlora, Korça |
| **Official language** | Albanian |
| **Currency** | Lek |

**Population**

| | |
|---|---|
| Inhabitants per km$^2$ | 110 |
| Average growth | 0.6% |
| Albanians | 95% |
| Other | 5% |

*Religion*

| | |
|---|---|
| Muslims | 70% |
| Orthodox Christians | 20% |
| Catholics | 10% |

**Economy**

| | |
|---|---|
| Gross domestic product in US$ billion | 9.1 |
| Gross national income per capita | US$ 2,930 |

*GDP by sector*

| | |
|---|---|
| Agriculture | 23% |
| Industry | 21% |
| Services | 56% |

*Employment*

| | |
|---|---|
| Agriculture | 58% |
| Industry | 14% |
| Services | 28% |

**Foreign trade**

| | |
|---|---|
| **Total amount of imports in Lek billion** | **377** |

*Import goods (Top 5)*

| | |
|---|---|
| Machinery and equipment | 21% |
| Mineral fuel, petrol, electricity | 17% |
| Food, beverages, tobacco | 17% |
| Building material and metals | 16% |
| Chemical and plastic products | 11% |

*Top 5 countries of import*

| | |
|---|---|
| Italy | 27% |
| Greece | 15% |
| Turkey | 7% |
| Germany | 6% |
| Russia | 4% |

| | |
|---|---|
| **Total amount of exports in Lek billion** | **97** |

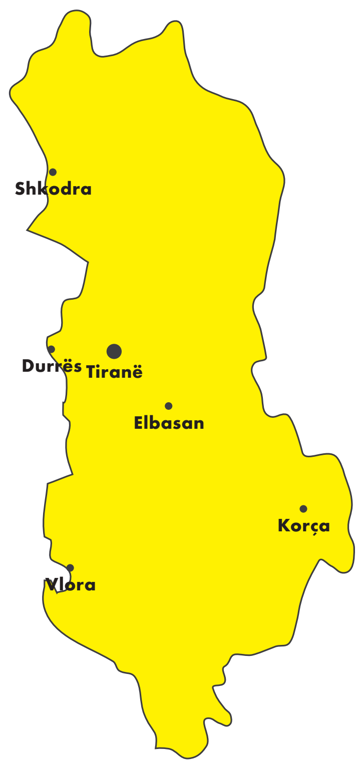
*Export goods (Top 5)*

| | |
|---|---|
| Clothing, textiles, shoes | 48% |
| Building material and metals | 16% |
| Mineral fuel, petrol, electricity | 15% |
| Food, beverages, tobacco | 7% |
| Machinery and equipment | 4% |

*Top 5 countries of export*

| | |
|---|---|
| Italy | 68% |
| Greece | 8% |
| Germany | 2% |
| Macedonia | 2% |
| Turkey | 2% |

| **Raiffeisen International in Albania** | |
|---|---|
| Balance sheet total in € million | 2,048 |
| Branches | 102 |
| Employees | 1,427 |



# Kosovo

| | |
|---|---|
| **Official name** | Republic of Kosovo/ Republika e Kosovës (Albanian)/ Republika Kosovo (Serbian) |
| **Surface area** | 10,887 km$^2$ (World ranking: 161) |
| **Inhabitants** | 2.1 million (World ranking: 139) |
| **Capital** | Pristina/Priština (166,000 inhabitants) |
| **Other large cities** | Prizren, Ferizaj, Mitrovica, Gjakova, Peja |
| **Official languages** | Albanian, Serbian |
| **Currency** | Euro |

## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 195 |
| Average growth | n/a |
| Albanian | 92% |
| Serbs | 5% |
| Other | 3% |
| *Religion* | |
| Muslims | n/a |
| Orthodox Christians | n/a |
| Catholics | n/a |


## Economy

| | |
|---|---|
| Gross domestic product in € billion | 2.2 |
| Gross national income per capita | n/a |
| *GDP by sector* | |
| Agriculture | n/a |
| Industry | n/a |
| Services | n/a |
| *Employment* | |
| Agriculture | n/a |
| Industry | n/a |
| Services | n/a |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in € million** | **1,180** |
| *Import goods (Top 4)* | |
| Food | 25% |
| Machinery | 21% |
| Mineral products | 18% |
| Chemical products and wood | 10% |
| *Top 4 countries of import* | |
| EU and Switzerland | 36% |
| Macedonia | 19% |
| Serbia (incl. Montenegro) | 14% |
| Turkey | 7% |
| **Total amount of exports in € million** | **48.9** |
| *Export goods (Top 2)* | |
| Metal wastes | 49% |
| Food | 16% |
| (no other information available) | |
| *Top 4 countries of export* | |
| EU and Switzerland | 37% |
| Macedonia | 20% |
| Serbia (incl. Montenegro) | 14% |
| Albania | 11% |

## Raiffeisen International in Kosovo

| | |
|---|---|
| Balance sheet total in € million | 598 |
| Branches | 47 |
| Employees | 720 |

# Serbia

| | |
|---|---|
| **Official name** | Republic of Serbia/ Republika Srbija |
| **Surface area** | 77,474 km$^2$ (World ranking: 114) |
| **Inhabitants** | 7.4 million (World ranking: 95) |
| **Capital** | Belgrade/Beograd (1.3 million inhabitants) |
| **Other large cities** | Novi Sad, Niš, Kragujevac, Subotica |
| **Official language** | Serbian |
| **Currency** | Serbian dinar |

**Population**

| | |
|---|---|
| Inhabitants per km$^2$ | 96 |
| Average growth | 0.0% |
| Serbs | 82.7% |
| Hungarians | 3.9% |
| Bosnians | 1.8% |
| Other | 11.6% |

| *Religion* | |
|---|---|
| Orthodox Christians (majority) | n/a |
| Catholics | n/a |
| Muslims | n/a |
| Other | n/a |

**Economy**

| | |
|---|---|
| Gross domestic product in US$ billion | 32.0 |
| Gross national income per capita | US$ 4,030 |

| *GDP by sector* | |
|---|---|
| Agriculture | 13% |
| Industry | 25% |
| Services | 62% |

| *Employment* | |
|---|---|
| Agriculture | 7.3% |
| Industry | 34.2% |
| Services | 58.4% |

**Foreign trade**

| | |
|---|---|
| **Total amount of imports in € billion** | **13.4** |

| *Import goods (Top 5)* | |
|---|---|
| Machinery and transport equipment | 29% |
| Mineral oil and lubricants | 17% |
| Chemical products | 14% |
| Semi-products | 9% |
| Food, live animals, beverages, tobacco | 5% |

| *Top 5 countries of import* | |
|---|---|
| Russia | 14% |
| Germany | 12% |
| Italy | 10% |
| PR China | 7% |
| Slovenia | 4% |

| | |
|---|---|
| **Total amount of exports in € billion** | **6.4** |

| *Export goods (Top 5)* | |
|---|---|
| Food, live animals, beverages, tobacco | 17% |
| Semi-products | 15% |
| Machinery and transport equipment | 14% |
| Chemical products | 10% |
| Raw materials | 5% |

| *Top 5 countries of export* | |
|---|---|
| Italy | 12% |
| Bosnia and Herzegovina | 12% |
| Montenegro | 11% |
| Germany | 11% |
| Russia | 5% |

| **Raiffeisen International in Serbia** | |
|---|---|
| Balance sheet total in € million | 2,913 |
| Branches | 103 |
| Employees | 2,210 |

# Bulgaria

| | |
|---|---|
| **Official name** | Republic of Bulgaria/ Republika Bălgarija |
| **Surface area** | 110,994 km$^2$ (World ranking: 101) |
| **Inhabitants** | 7.7 million (World ranking: 93) |
| **Capital** | Sofia/Sofija (1.1 million inhabitants) |
| **Other large cities** | Plovdiv, Varna, Burgas, Ruse, Stara Zagora |
| **Official language** | Bulgarian |
| **Currency** | Lew |

## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 69 |
| Average growth | (0.6)% |
| Bulgarians | 83.5% |
| Turks | 9.5% |
| Roma | 4.6% |
| Other | 2.4% |

| *Religion* | |
|---|---|
| Orthodox Christians | 86% |
| Muslims | 13% |
| Other | 1% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 31.5 |
| Gross national income per capita | US$ 3,990 |


| *GDP by sector* | |
|---|---|
| Agriculture | 9% |
| Industry | 31% |
| Services | 60% |

| *Employment* | |
|---|---|
| Agriculture | 9% |
| Industry | 34% |
| Services | 57% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in Lew billion** | **42.8** |

| *Import goods (Top 5)* | |
|---|---|
| Machinery, means of transport | 29% |
| Industrial goods | 21% |
| Mineral fuel | 20% |
| Chemical products | 9% |
| Raw materials | 8% |

| *Top 5 countries of import* | |
|---|---|
| Russia | 12% |
| Germany | 12% |
| Italy | 9% |
| Ukraine | 7% |
| Turkey | 7% |

| | |
|---|---|
| **Total amount of exports in Lew billion** | **26.3** |

| *Export goods (Top 5)* | |
|---|---|
| Industrial goods | 29% |
| Diverse finished products | 19% |
| Machinery, equipment, means of transport | 15% |
| Mineral fuel | 15% |
| Chemical products | 8% |

| *Top 5 countries of export* | |
|---|---|
| Turkey | 12% |
| Germany | 10% |
| Italy | 10% |
| Greece | 9% |
| Belgium | 6% |

| **Raiffeisen International in Bulgaria** | |
|---|---|
| Balance sheet total in € million | 4,766 |
| Branches | 197 |
| Employees | 3,708 |

# Romania

| | |
|---|---|
| **Official name** | Romania/România |
| **Surface area** | 238,391 km² (World ranking: 80) |
| **Inhabitants** | 21.6 million (World ranking: 51) |
| **Capital** | Bucharest/București (1.9 million inhabitants) |
| **Other large cities** | Cluj-Napoca, Iași, Constanța, Timișoara, Craiova |
| **Official language** | Romanian |
| **Currency** | Lei |

## Population

| | |
|---|---|
| Inhabitants per km² | 91 |
| Average growth | (0.2)% |
| Romanians | 89.5% |
| Hungarians | 6.6% |
| Roma | 2.5% |
| Other | 1.4% |

| *Religion* | |
|---|---|
| Orthodox Christian | 87% |
| Catholics | 5% |
| Protestant | 3% |
| Other | 5% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 121.6 |
| Gross national income per capita | US$ 4,830 |

| *GDP by sector* | |
|---|---|
| Agriculture | 11% |
| Industry | 38% |
| Services | 51% |

| *Employment* | |
|---|---|
| Agriculture | 32% |
| Industry | 30% |
| Services | 38% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in € billion** | **51.0** |

| *Import goods (Top 5)* | |
|---|---|
| Supply products to industry | 35% |
| Capital goods without means of transport | 22% |
| Means of transport and parts | 15% |
| Durable consumer goods | 12% |
| Fuel and petrol, mineral oil | 11% |

| *Top 5 countries of import* | |
|---|---|
| Germany | 17% |
| Italy | 13% |
| Hungary | 7% |
| Russia | 6% |
| France | 6% |

| | |
|---|---|
| **Total amount of exports in € billion** | **29.4** |

| *Export goods (Top 5)* | |
|---|---|
| Supply products to industry | 37% |
| Durable consumer goods | 24% |
| Means of transport and parts | 15% |
| Fuel and petrol, mineral oil | 8% |
| Food and beverages | 3% |

| *Top 5 countries of export* | |
|---|---|
| Italy | 17% |
| Germany | 17% |
| France | 8% |
| Turkey | 7% |
| Hungary | 6% |

| **Raiffeisen International in Romania** | |
|---|---|
| Balance sheet total in € million | 6,561 |
| Branches | 557 |
| Employees | 6,899 |

# Ukraine

| | |
|---|---|
| **Official name** | Ukraine/Ukraïna |
| **Surface area** | 603,700 km² (World ranking: 43) |
| **Inhabitants** | 46.8 million (World ranking: 27) |
| **Capital** | Kiev/Kyïv (2.7 million inhabitants) |
| **Other large cities** | Charkiv, Dnipropetrovs'k, Odesa, Donec'k, Zaporižžja |
| **Official language** | Ukrainian |
| **Currency** | Hryvnia |

## Population

| | |
|---|---|
| Inhabitants per km² | 78 |
| Average growth | (0.7)% |
| Ukrainians | 77.8% |
| Russians | 17.3% |
| Belarusians | 0.9% |
| Other | 4% |

| *Religion* | |
|---|---|
| Orthodox Christian (majority) | n/a |
| Catholics | 10% |
| Muslim | 4.3% |
| Other | n/a |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 106.5 |
| Gross national income per capita | US$ 1,940 |


| *GDP by sector* | |
|---|---|
| Agriculture | 9% |
| Industry | 35% |
| Services | 56% |

| *Employment* | |
|---|---|
| Agriculture | 19% |
| Industry | 24% |
| Services | 56% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in US$ billion** | **60.7** |

| *Import goods (Top 5)* | |
|---|---|
| Primary energy sources and mineral products | 30% |
| Machinery and electro-technological products | 17% |
| Vehicles | 14% |
| Chemicals | 9% |
| Food products | 7% |

| *Top 5 countries of import* | |
|---|---|
| Russia | 28% |
| Germany | 10% |
| Turkmenistan | 8% |
| PR China | 6% |
| Poland | 5% |

| | |
|---|---|
| **Total amount of exports in US$ billion** | **49.2** |

| *Export goods (Top 5)* | |
|---|---|
| Iron metal | 40% |
| Food products | 13% |
| Machinery and electro-technological products | 10% |
| Primary energy source and mineral products | 9% |
| Chemicals | 8% |

| *Top 5 countries of export* | |
|---|---|
| Russia | 26% |
| Turkey | 7% |
| Italy | 5% |
| Poland | 3% |
| Germany | 3% |

| **Raiffeisen International in Ukraine** | |
|---|---|
| Balance sheet total in € million | 6,285 |
| Branches | 1,134 |
| Employees | 17,368 |

# Belarus

| | |
|---|---|
| **Official name** | Belarus/ Respublika Belarus' |
| **Surface area** | 207,595 km² (World ranking: 83) |
| **Inhabitants** | 9.7 million (World ranking: 81) |
| **Capital** | Minsk (1.7 million inhabitants) |
| **Other large cities** | Homel', Mahilëŭ, Vicebsk, Hrodna, Brėst |
| **Official languages** | Belarusian, Russian |
| **Währung** | Belarus rouble |

## Population

| | |
|---|---|
| Inhabitants per km² | 47 |
| Average growth | (0.4)% |
| Belarusians | 81% |
| Russians | 11% |
| Poles | 4% |
| Other | 4% |

*Religion*

| | |
|---|---|
| Orthodox Christian | 60% |
| Roman Catholic | 8% |
| Other | 32% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 36.9 |
| Gross national income per capita | US$ 3,470 |

*GDP by sector*

| | |
|---|---|
| Agriculture | 9% |
| Industry | 42% |
| Services | 49% |

*Employment*

| | |
|---|---|
| Agriculture | 10.7% |
| Industry | 34.5% |
| Services | 54.8% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in US$ billion** | **28.7** |

*Import goods (Top 5)*

| | |
|---|---|
| Mineral products, primary energy source | 36% |
| Reactors, boilers, equipment | 12% |
| Chemicals, plastics | 11% |
| Iron metal, iron metal products | 9% |
| Food products | 8% |

*Top 5 countries of import*

| | |
|---|---|
| Russia | 60% |
| Germany | 8% |
| Ukraine | 5% |
| PR China | 3% |
| Poland | 3% |

| | |
|---|---|
| **Total amount of exports in US$ billion** | **24.3** |

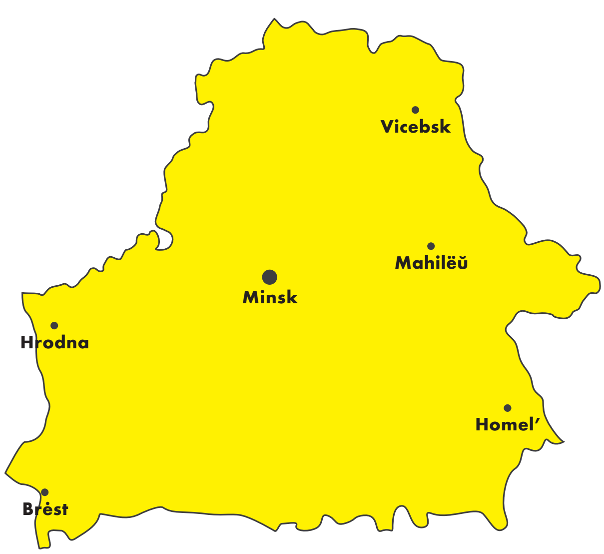
*Export goods (Top 5)*

| | |
|---|---|
| Mineral products, primary energy sources | 36% |
| Chemicals, plastics | 14% |
| Means of transport | 12% |
| Food products | 7% |
| Iron metal, iron metal products | 7% |

*Top 5 countries of export*

| | |
|---|---|
| Russia | 36% |
| The Netherlands | 18% |
| United Kingdom | 6% |
| Ukraine | 6% |
| Poland | 5% |

| **Raiffeisen International in Belarus** | |
|---|---|
| Balance sheet total in € million | 1,646 |
| Branches | 103 |
| Employees | 2,168 |



# Russia

| | |
|---|---|
| **Official name** | Russian Federation/ Rossijskaja Federacija |
| **Surface area** | 17,075,400 km$^2$ (World ranking: 1) |
| **Inhabitants** | 142.5 million (World ranking: 9) |
| **Capital** | Moskow/Moskva (10.4 million inhabitants) |
| **Other large cities** | St. Petersburg, Novosibirsk, Yekaterinburg, Nižnij Novgorod, Samara |
| **Official language** | Russian |
| **Currency** | Rouble |

## Population

| | |
|---|---|
| Inhabitants per km$^2$ | 8.3 |
| Average growth | (0.5)% |
| Russians | 79.8% |
| Tatars | 3.8% |
| Ukrainians | 2.0% |
| Other | 14.4% |

| *Religion* | |
|---|---|
| Orthodox Christian | 52.6% |
| Muslim | 14.4% |
| Catholics | 0.6% |
| Other | 32.4% |

## Economy

| | |
|---|---|
| Gross domestic product in US$ billion | 986.9 |
| Gross national income per capita | US$ 5,770 |


| *GDP by sector* | |
|---|---|
| Agriculture | 5% |
| Industry | 39% |
| Services | 56% |

| *Employment* | |
|---|---|
| Agriculture | 10% |
| Industry | 30% |
| Services | 60% |

## Foreign trade

| | |
|---|---|
| **Total amount of imports in US$ billion** | **200.0** |

| *Import goods (Top 5)* | |
|---|---|
| Machinery, equipment, means of transport | 49% |
| Chemical products and rubber | 14% |
| Food | 14% |
| Metals and metal products | 8% |
| Clothing and shoes | 4% |

| *Top 5 countries of import* | |
|---|---|
| Germany | 13% |
| PR China | 12% |
| Ukraine | 7% |
| Japan | 6% |
| USA | 5% |

| | |
|---|---|
| **Total amount of exports in US$ billion** | **353.0** |

| *Export goods (Top 5)* | |
|---|---|
| Energy sources | 65% |
| Metals and metal products | 14% |
| Chemical products and rubber | 6% |
| Machinery, equipment | 5% |
| Wood and wood products | 4% |

| *Top 5 countries of export* | |
|---|---|
| The Netherlands | 12% |
| Italy | 8% |
| Germany | 8% |
| Turkey | 5% |
| Belarus | 5% |

| **Raiffeisen International in Russia** | |
|---|---|
| Balance sheet total in € million | 14,952 |
| Branches | 236 |
| Employees | 10,276 |

# Preface by the Chairman of the Managing Board

## Ladies and gentlemen,

Although 2008 was a year shaped by the great challenges of the global financial crisis, we managed to achieve another record result. That success was due to our business model, which is based on diversification in our bank's geographical reach, products, and customer groups. Moreover, we took decisive steps to safeguard our company for the long term in an increasingly difficult market environment.

In the course of the year, the market uncertainties triggered by the subprime crisis developed into a crisis of confidence that eventually led to turmoil on the global money and capital markets and hence to a full-scale banking crisis. The real economic effects of this development were also already noticeable in the economic region of Central and Eastern Europe toward the end of 2008. The growth rates of the countries there slowed and will probably continue to decline in 2009.

This change in the global economic situation has led us to focus even more on the quality of our assets. Therefore, a risk policy geared to the new environment is the centerpiece of our action package. We have committed ourselves to even stricter underwriting standards on new loans concerning credit limits, maturities and collateralization. Credit growth will slow down noticeably, and we will see an increase in loan defaults from companies and private households. Further measures are aimed at increasing efficiency and continuously growing in the retail division, where our primary goal is to promote further expansion of customer deposits.

Particularly in the current economic environment, it is important to point out that our home market again proved to be the growth engine of Europe last year. The convergence story of Central and Eastern Europe is not over – that region will continue to offer above-average potential in the future. The continuing growth of some of the region's countries supports this view and stands in contrast to developments in Western Europe and many other parts of the world.

We are also positioned very well for this new and challenging market environment. Raiffeisen International's leading branch network in the region, our presence in 17 markets, and our expertise and service orientation in corporate and personal banking business enabled us to again acquire approximately a million new customers in 2008. We thus had more than 14.7 million customers at the end of the reporting period – a good starting point for the current year.

The Czech Raiffeisenbank's merger with eBanka in July 2008 marked the successful conclusion of the integration of our tenth acquisition. For the second year in a row, we refrained from purchasing another bank in 2008. This was a logical step, given that we are already extremely well-positioned throughout the region and in light of the global deterioration of the economic environment. This in part significant macroeconomic downturn also provided the grounds for the bank's first reduction in staff numbers – namely, in Ukraine – after many years of continual staff expansion. Unfortunately, we also had to take a similar step in Hungary at the beginning of the current year.

In Russia, Raiffeisenbank was one of the first system-relevant banks to sign an agreement with the Russian Central Bank. Based on that agreement, loans by Raiffeisenbank to the country's smaller banks are guaranteed to a large extent by the central bank. That has improved the flow of liquidity to small and medium-sized local banks and contributed to stabilizing the banking market.

We are pleased that the services and positioning of Raiffeisen International received recognition from leading financial magazines even in a difficult market environment. *Euromoney*, *Global Finance*, and *The Banker* all agreed in 2008 that Raiffeisen International together with RZB is the best banking group in Central and Eastern Europe.

In this year of very great challenges for all people and businesses, the confidence of our customers and business associates is enormously important. I therefore wish to thank them for that confidence. My gratitude also extends to our shareholders, both to Raiffeisen Zentralbank as our stable core-shareholder as well as to our institutional and private investors. We greatly appreciate their confidence in view of the unpleasant situation on the stock markets. Finally, I sincerely thank our more than 63,000 employees. They were the ones who made our outstanding development possible and will use their expertise and dedication to best utilize the opportunities of the crisis.

Herbert Stepic
Chairman of the Managing Board
Raiffeisen International Bank-Holding AG

# Managing Board of Raiffeisen International

f.l.t.r.:

**Herbert Stepic**
Chief Executive Officer

**Peter Lennkh**
Member of Management Board

**Aris Bogdaneris**
Member of Management Board

**Martin Grüll**
Member of Management Board
(Chief Financial Officer)

**Heinz Wiedner**
Member of Management Board
(Chief Operating Officer)

**Rainer Franz**
Member of Management Board




# Report of the Supervisory Board

As in the past, there was open dialogue between the Managing Board and the Supervisory Board of Raiffeisen International in the reporting period. The Managing Board of Raiffeisen International regularly informed the members of the Supervisory Board and the Committees in a timely and comprehensive manner about all issues relevant to business development, including the company's risk situation and risk management and that of material Group entities. The Managing Board consulted with the Supervisory Board about the Company's strategic orientation and discussed the status of the strategy's implementation at regular intervals. The information was in all cases provided to the Supervisory Board in a timely manner, which enabled it to make well-founded decisions and fulfill its supervisory duties. The discussions and exchange of information took place both during and between the meetings.

The effects of the changes in capital market conditions on the Company and the Group were also dealt with thoroughly both during and between the Supervisory Board meetings. In addition, the Supervisory Board received regular reports on the current earnings position and liquidity and risk situation of the Group.

The Supervisory Board held five meetings during the year under review. All members of the Supervisory Board participated in more than half of the meetings. At all the meetings, the Supervisory Board performed the tasks prescribed to it by law in compliance with the Austrian Corporate Governance Code.

The annual financial statements and management report as well as the consolidated financial reports and consolidated management report for 2007 were examined at the meeting on 26 March 2008. Pursuant to the Audit Committee's recommendation, the annual financial statements were ratified, and the proposal regarding the use of profit was approved. The Supervisory Board was informed about the management letter. Note was taken of the corporate governance report together with the external examination. The Supervisory Board joined in the Audit Committee's proposal to appoint *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* as auditor and submitted that proposal to the Annual General Meeting. Finally, the merger of Raiffeisen International GROUP IT GmbH with Raiffeisen International was discussed, and a report was given on that topic to the Annual General Meeting.

At the meeting on 9 June 2008, the compliance report was submitted and discussed in addition to the regular report on the situation of the Company and the Group.

At the meeting on 10 June 2008, the distribution of Supervisory Board remuneration was decided in accordance with the resolution of the Annual General Meeting.

At the meeting of 16 September 2008, the effects of the financial crisis on the banking sector and particularly on the liquidity situation of the Group were discussed in detail.

The current situation on the capital markets also shaped the meeting on 3 December 2008. At that meeting, the planning for 2009 was presented to the Supervisory Board and subsequently discussed. In addition, the Managing Board reported on lending policy measures and projects in the area of IT. A status report was given on the topic of compliance. At that meeting, the Supervisory Board appointed Rainer Franz as a member of the Managing Board for another year.

The Chairs of the Working, Audit, and Personnel Committees reported regularly to the Supervisory Board about the work of the respective committee.

The Working Committee dealt essentially with the appointment of officers in the Group and disposition of shareholdings in Group companies. The Audit Committee prepared the ratification of the annual financial statements and dealt with the proposal concerning the distribution of profit and the management letter. It furthermore made a proposal for the selection of the auditor of the financial statements. The Personnel Committee concerned itself with matters related to the remuneration of the Managing Board, including the bonus arrangements and the directors and officers insurance.

The Annual General Meeting elected Johann Strobl to the Supervisory Board on 10 June 2008. His period in office will end at the Annual General Meeting that will decide on the discharge of board members for 2012. The Supervisory Board plans to propose at least one more candidate with international banking experience for election to the Supervisory Board at the next regular Annual General Meeting.

The accompanying consolidated financial statements (income statement, balance sheet, and notes) and the consolidated management report as well as the annual financial statements and management report of Raiffeisen International were audited by KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. The audit has revealed no reasons for objection, and the statutory requirements have been fully satisfied, thus allowing an unconditional auditor's certificate to be issued. After thorough review and discussion of the consolidated financial statements and the annual financial statements in the Audit Committee and in the Supervisory Board, the Supervisory Board has declared its agreement with the proposal regarding the use of profit and approves the annual financial statements of Raiffeisen International Bank-Holding AG. They have thus been ratified in accordance with Section 125 (2) of the Austrian Stock Corporation Act (AktG).

Vienna, February 2009

For the Supervisory Board
Walter Rothensteiner, Chairman

# Overview of Raiffeisen International

Raiffeisen International is one of the leading banking groups in Central and Eastern Europe. Its roots go back to 1986, when the first subsidiary bank was founded in Hungary. This occurred at a time when the fall of the Iron Curtain was not yet in sight. So, Raiffeisen International may be described as a pioneer of the expansion to Central and Eastern Europe. In the subsequent years, the Group first established banks of its own in various countries of the region. In 2000 the acquisition of existing banks began as well. The most recent acquisition was that of Impexbank in Russia in 2006, whose merger with the Russian Raiffeisenbank has now been completed. As a result, one of the most important banking networks in Central and Eastern Europe has arisen.

The network comprised 15 banks and further specialist companies, including leasing companies, in 17 markets at the end of December 2008. The banks and specialist companies had 3,231 business outlets and 63,376 employees serving more than 14.7 million customers. This expansion documents not only the great importance of the Raiffeisen International network, but also means security through geographical risk diversification in a difficult market environment. Because the network banks in these 17 markets all operate as mutually independent units, an unfavorable development in one country can be offset by a positive trend in another market.

Raiffeisen International's leading role in Central and Eastern Europe is shown not least by the ranking of its network banks in their individual markets. At the end of the year, 7 network banks were among the top three banks in their respective countries.

## Awards from respected institutions

Raiffeisen International's importance is further evidenced by the many awards given to the company in 2008 by internationally recognized institutions. Raiffeisen International has received some of those prizes already over several consecutive years. The most important awards in the reporting period came from *Global Finance, Euromoney,* and *The Banker.*

*Global Finance* named Raiffeisen International together with RZB as "Best Bank in Central and Eastern Europe 2007" in March 2008. In addition, *Global Finance* gave the network banks in Albania, Bosnia and Herzegovina, Serbia, and Slovakia the "Best Bank" award.

*Euromoney* awarded Raiffeisen International and RZB the award "Best Banking Group in Central and Eastern Europe (CEE)" in July 2008 for the fourth year running. The magazine also honored the network banks in Albania, Belarus, Bosnia and Herzegovina, Kosovo, Serbia, and Slovakia as "Best Bank".

*The Banker* named Raiffeisen International together with RZB "Bank of the Year" in Central and Eastern Europe in November 2008. At the same time, it honored the local subsidiaries in Bulgaria, Croatia, and Slovakia as "Bank of the Year".

## Markets of Raiffeisen International

| Data as of 31 December 2008 | Balance sheet total in € million | Change[1] | Business outlets | Number of staff |
|---|---|---|---|---|
| Albania | 2,048 | 5.0% | 102 | 1,427 |
| Belarus | 1,646 | 52.3% | 103 | 2,168 |
| Bosnia and Herzegovina | 2,395 | 12.9% | 100 | 1,776 |
| Bulgaria | 4,766 | 20.2% | 197 | 3,708 |
| Croatia | 5,984 | 7.3% | 79 | 2,333 |
| Czech Republic | 7,198 | 27.0% | 107 | 2,654 |
| Hungary | 9,568 | 18.4% | 164 | 3,960 |
| Kazakhstan | 97 | (18.1)% | 1 | 30 |
| Kosovo | 598 | 26.4% | 47 | 720 |
| Poland | 7,108 | 19.3% | 123 | 3,271 |
| Romania (incl. Moldova) | 6,561 | 17.1% | 557 | 6,899 |
| Russia | 14,952 | 22.8% | 236 | 10,276 |
| Serbia | 2,913 | (0.1)% | 103 | 2,210 |
| Slovakia | 10,973 | 39.9% | 162 | 3,885 |
| Slovenia | 1,509 | 7.0% | 16 | 344 |
| Ukraine | 6,285 | 1.9% | 1,134 | 17,368 |
| **Subtotal** | **84,601** | **19.0%** | **3,231** | **63,029** |
| Other/consolidation | 796 | – | – | 347 |
| **Total, Raiffeisen International** | **85,397** | **17.4%** | **3,231** | **63,376** |

[1] Change of balance sheet total versus 31 December 2007. Growth in local currencies differs due to fluctuating euro exchange rates.

# Emerging from the crisis stronger with our customers

## Interview with Herbert Stepic, Chairman of the Managing Board of Raiffeisen International Bank-Holding AG

***How would you summarize the crisis year of 2008?***

My assessment of last year has two sides. On the one hand, we achieved another record result in 2008, and our profit after tax and minority interests grew by significantly more than 10 per cent compared with 2007. That is an impressive accomplishment that many competitors envy. On the other hand, the global financial crisis has led to a significantly worsened environment. Funding facilities are severely limited and more costly than before. And to top it off, the real economy is also suffering considerably from these conditions, and the consequences of that will find expression in rising insolvencies and increased unemployment figures. Our stock price has also suffered substantially in the wake of this situation and the pessimistic expectations of market observers.

***Development in Eastern Europe has been viewed much more negatively since last autumn. What do you think of that assessment?***

Risk aversion has risen very sharply on the global markets since Lehman Brothers filed for Chapter 11 protection in mid-September. That has put pressure on national economies worldwide, including the emerging countries of Central and Eastern Europe. The market also differentiates less according to individual regions or countries in such phases. The fact is that the domestic saving ratio in Central and Eastern European countries is not sufficient to cope with the economic catch-up process within one to two decades, a time-frame that would be reasonable to expect of the population. It is therefore right and important to rely on foreign funds. That is done by way of foreign direct investments or through loans to businesses and households. Economically, that makes very clear sense, and in exceptional circumstances such as now exist, great challenges and also risks arise. Nevertheless, it is very important that these capital flows not be interrupted and, if necessary, that they be assumed temporarily by institutions like the International Monetary Fund and the European Union, as has occurred in Hungary and Ukraine. Of course, we will supply our subsidiary banks with sufficient capital, so they can continue to make important contributions to the transformation process, but we cannot ensure the functioning and growth of entire national economies.

***Is the growth phase in Central and Eastern Europe over, then?***

By no means! Of course, the entire region is affected by the crisis, but the media sometimes give the impression that Eastern Europe is the reason for the crisis or is making it dramatically worse. That is a worrisome tendency that I strongly object to. I see a new chapter beginning. Growth has been interrupted or continues, but in some cases at significantly lower levels. In the past five years, the countries in this region have grown on average 4.5 percentage points more strongly than the euro area. The difference is even likely to have been above 4 percentage points in 2008. Now, that has probably been accompanied by some overheating tendencies in certain regions and sectors. So, a decline of the growth difference to about 2.5 percentage points, as many now forecast for the medium term, is a healthy development that will help sustain the economic catch-up process.

***Have Austria's banks – including Raiffeisen International – made a mistake with their strong exposure in Eastern Europe, the key word being "cluster risk"?***

The opposite is the case. If Austrian banks had not gone to Central and Eastern Europe, their earnings situation would certainly be far weaker and they would probably have been more exposed in investment banking, like other Western European banks. Austrian banks have created a successful business model, with which they can also brave the crisis in difficult times. Raiffeisen International does not deal in complicated structured financing instruments. We also have no subprime transactions on our books. Our business model is simple, but abiding. We cover the basic financial needs of almost 14.7 million customers in Central and Eastern Europe.

***How have you reacted to the new situation, and what does your funding situation look like?***

We have adjusted our lending policy to the general conditions and give even more weight to the aspect of risk evaluation, which has traditionally played a great role for us. We are concentrating now on short maturities and have sharply reduced foreign currency loans to private individuals or – as in the case of the Swiss franc – stopped making them altogether. We are assigning even greater importance to collateral and collection of overdue receivables. On the cost side, we realized opportunities to increase efficiency throughout the past year, and numerous projects – for example, in the area of procurement – already contributed substantially to improving our cost/income ratio before the crisis. Finally, stopping our branch expansion will also lead to cost relief.

On the personnel side, we put a freeze on hiring at the end of September, with exceptions only for strategically important positions in areas like risk management or IT. We began the process of reducing personnel in Ukraine. That had been planned for a long time, and now coincides with the crisis. We have also been forced to take such a step in Hungary, and we do not do so lightly.

Our funding rests on several strong pillars. We are in the fortunate position of being able to cover about 60 per cent of our needs by means of customer deposits. Raiffeisen Zentralbank (RZB) provides more than 20 per cent, and we obtain the rest through the syndication market or supranational organizations like the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). We have maintained traditionally good relationships with those organizations and others for many years

***And how is RZB doing, your majority shareholder, of whose managing board you are deputy chairman?***

In addition to its strong foothold in Austrian corporate customer business and in Eastern Europe, RZB has expanded its business with other banks and investment banking in recent years. Of course, it is therefore affected by negative market valuations of its investment portfolio and write-downs like most of its local and international competitors. As a consequence it will not be able to continue posting record results as in the past years. However, thanks to its strong core business, RZB will do comparatively well – given the general conditions – and report a positive result for 2008. The shareholders also have given RZB and its strategy for increasing capital their full backing.

***One thing you probably are not happy about in 2008 is your stock price, right?***

For exactly the same reasons that we have been praised in the past, we are now being punished: our orientation to growth markets and our strong focus on the CIS and especially on Russia. Moreover, stocks in general and bank stocks in particular are being avoided because of the financial crisis. So, our stock price has completely disconnected from our actual performance. That is very regrettable, but the market is obeying its own laws. I am personally suffering from this development like all other shareholders, including many of our employees. One simply has to accept that the trend is not going to go in the desired direction for a while. In any case, the 22 research firms that evaluate Raiffeisen International view us far better than the market does at present. Our solid business model, with risk diversification across 17 markets and all customer segments, large customers, small and medium-sized enterprises, and private individuals, should ensure our investors better times again in the medium term.

***Where do you see the emphases in 2009?***

2009 will be a difficult year for many sectors worldwide. It will primarily be characterized by consolidation. Our top goal will be to continue growing on the deposit side. We are certainly not alone in that and would be ill-advised to undermine ourselves with cutthroat terms in this situation. We have the region's strongest financial brand and are a proven symbol of values like safety and trust. In more than 120 years, no saver has lost even a single cent with Raiffeisen. That is a convincing argument for many existing and potential customers especially in turbulent times.

Furthermore, we will do our best to support our customers in this crisis and to emerge from it stronger with them. What makes me particularly confident is our staff. I am very proud of them! Our employees are mostly young people, all hungry for success, and have above-average levels of education. Our Group has excellent human capital at its disposal, which is what has made us so successful and will now contribute greatly to overcoming the crisis.

***Finally, a question about your charity organization. How is it doing?***

The H. Stepic CEE Charity focuses on assisting young people during their occupational education. In addition to some smaller actions, the organization is implementing its first large projects in Bosnia and Herzegovina and in Ukraine and is developing others. I am grateful to all the members, donors, and staff volunteers without whose dedication these initial successes would not have been possible. Of course, hard times lie ahead here, too, as the crisis is regrettably lowering the propensity to donate. But especially in these times, it is important to stick together and not to forget those who have it much worse. Solidarity, another pillar of the Raiffeisen philosophy, is now regaining a very special significance.

# Stock and investor relations

## Financial crisis reaches the real economy

Market participants got a taste of what was to come in the following months at the beginning of 2008. Bad economic news from the United States and negative headlines about major international banks resulting from a widening US mortgage crisis caused stock markets to slump in January and March. Added to that were worries about possible effects of the financial crisis on the real economy. The US central bank reacted with huge key interest rate cuts in the first quarter, which brought temporary calm.

Concerns about inflation and rising commodity prices dominated market events until mid-year. In particular, the sharp rise of oil prices to a high of almost US$ 150 per barrel drove up inflation markedly. The inflation rate in the euro countries was at times considerably above the ECB's target of 2 per cent, reaching 4 per cent in June and July. Prices also climbed appreciably in Central and Eastern Europe, and even increased by double-digit percentage rates in the Commonwealth of Independent States.

The financial crisis worsened significantly in the third quarter, triggered by the collapse of US investment bank *Lehman Brothers*, which in only a few days led several well-known banks to seek mergers with other large financial institutions. *AIG*, the world's largest insurer, US mortgage finance companies *Fannie Mae* and *Freddie Mac*, and other banks, including some from Europe, only managed to avoid bankruptcy through government assistance and partial nationalization.

It then became clear the financial crisis would also affect the real economy. The US government adopted a first package of measures totaling US$ 700 billion to stabilize the financial market and restore confidence. On 11 and 12 October 2008, the European Union likewise adopted joint measures to strengthen the European financial system. Rescue packages were also adopted at the national level, which mostly consisted of government guarantees for liquidity procurement, providing funds to improve the equity situation, and increasing investor protection. These steps were buttressed by further key interest rate cuts by the central banks of major industrialized countries.

Although the government measures at first served to calm the financial markets, it became increasingly clear that the real economy would be affected on a massive scale. Within a few weeks, more and more businesses from nearly all parts of the manufacturing sector reported dramatic sales and earnings declines. As a result, economic activity across the globe suffered rapid and dramatic losses to momentum and is currently in a recession.

In the fourth quarter, the emerging market countries of Central and Eastern Europe were no longer able to escape this development. The situation there was shaped in October and November by high exchange rate volatility and a sharp decline of growth, which had still been strong until then. That was especially true of Ukraine and Hungary. The International Monetary Fund then extended loans to both countries of about US$ 16 billion each to stabilize the overall economic situation and restore the confidence of market participants.

# Price of Raiffeisen International shares in the wake of the financial crisis

The extraordinary developments on the international financial markets and the real economic decline that began in the third quarter of 2008 critically influenced the price trend of Raiffeisen International shares in the past year. The shares began the year at a price of € 103.60, which initially held steady, not least due to good business figures, and marked its high point for the year in May at € 110.20. It fell from that level to values around € 80 by the end of August and thus developed in line with the Austrian Traded Index (ATX) and the benchmark index for European banks, the Dow Jones Euro Stoxx Banks.

The price decline of Raiffeisen International shares accelerated with the significant worsening of the market environment due to the financial crisis from September onward. The great uncertainty of many market participants was reflected in extreme volatility, which led on individual trading days to price fluctuations in the double-digit percentage range. Particularly sharp declines were registered in stocks with business related to the markets of Central and Eastern Europe, including Raiffeisen International. The publication of business figures on the third quarter at the beginning of November, which were on average above analysts' expectations, did nothing to change these share price declines. At year's end, shares were quoting at € 19.30 and had thus lost a total of 81 per cent compared with the beginning of the year. The ATX fell in the same period by 61 per cent, and the Dow Jones Euro Stoxx Banks by 64 per cent. Raiffeisen International's market capitalization amounted to € 3 billion at the end of 2008. At this report's editorial deadline on 27 February 2009, the share price stood at € 14.99.

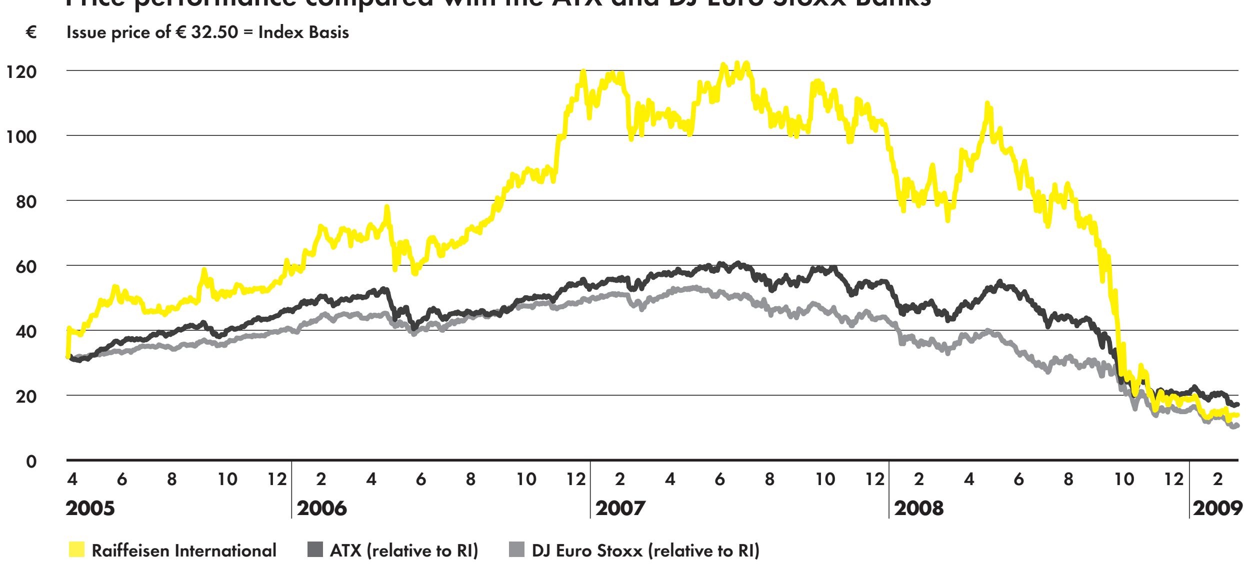
Altogether, about 137.9 million Raiffeisen International shares were traded in 2008. Turnover amounted to about € 8.7 billion, and average daily trading volume to 551,618 shares.

# Stock included in major indices

Raiffeisen International is currently included in six main share indices. In terms of weighting, the stock occupies seventh place in each of the two most important Austrian share indices, the ATX and the ATX Prime. It is furthermore included in the Dow Jones Euro Stoxx Banks, which is important for the sector.

As one of over 300 Western European blue chips, Raiffeisen International shares are represented in both the DJ Euro Stoxx and the DJ Stoxx 600, which covers the 600 Western European companies with the largest market capitalization.

## Price performance compared with the ATX and DJ Euro Stoxx Banks



## Free float virtually unchanged

By way of its 100 per cent subsidiary *Cembra Beteiligungs GmbH*, RZB continues to be Raiffeisen International's single largest shareholder, with a stake of about 70 per cent. Accordingly, the free float, the usual reference point for weighting Raiffeisen International in share indices, is unchanged at the preceding year's level of about 30 per cent.

Private investors own about 3 per cent of the shares, while institutional investors account for the remaining 28 per cent and thus represent a focal point of the shareholder structure. The proportion held by private individuals – mostly from Austria – thus remained constant compared with the preceding year.

From a geographical standpoint, there were partly larger shifts in the shareholder structure concerning the shares held by institutional investors in 2008. Most of these shares remain in the hands of European institutional investors, who account for 61 per cent. Investors from Great Britain own a large part with 19 per cent, followed by Austria with 16 per cent. The remaining 26 per cent are allocable to shareholders from other EU countries. Investors in the United States account for about 38 per cent of the shares in institutional portfolios, and Asian investors for a smaller stake.

## Capital Markets Day in St. Petersburg

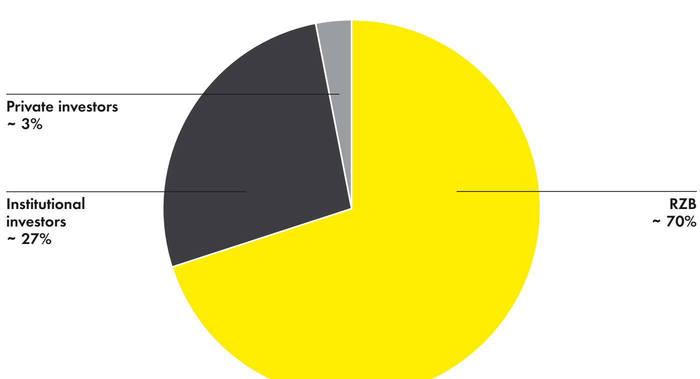
Participating in conferences is an important part of Raiffeisen International's communication with the capital market. Analysts and institutional investors were kept informed in 2008 through roadshows in Europe, the United States, and Asia and for the first time in the Arab-speaking region as well as in many additional individual talks.

| Index (selection) | Number of companies in the index | Weight of RI in the index |
|---|---|---|
| ATX | 20 | 6% |
| ATX Prime | 57 | 5% |
| DJ Euro Stoxx | 318 | < 1% |
| DJ Euro Stoxx Banks | 40 | < 1% |
| DJ Stoxx 600 | 600 | < 1% |
| MSCI World | 1693 | < 1% |

Organizing Raiffeisen International's third annual Capital Markets Day on 26 September 2008 was a highlight of investor relations' activities. After Austria (Vienna) and Ukraine (Kiev) in the previous years, Russia (St. Petersburg) was chosen this time as the event's venue. Over 130 participants from the world's most important financial centers accepted the company's invitation to the former seat of the Russian tsars.

The event began with a tour of a *Raiffeisenbank* branch in St. Petersburg, where representatives from the financial community obtained a first-hand picture, among other things, of how successfully *Impexbank* had been integrated into *Raiffeisenbank* in 2007. In addition, the Capital Markets Day offered analysts and investors an excellent opportunity to communicate with the Group's management and the managing boards of network banks from Romania, Russia, and Hungary about business development and the Group's strategy. Questions about current development in the markets of Central and Eastern Europe due to the financial crisis and about the assessment of that by Raiffeisen International's management was a focus of the talks.

### Shareholder structure of Raiffeisen International



## Regular conferences and presentations

The Managing Board comprehensively informed the public, investors, and analysts about business figures for 2007 and interim results during the year under review in the context of presentation and conference calls. In each case, the management faced the questions raised by the participants in detailed question and answer sessions. These sessions took account of the increased information needs of market operators, particularly against the background of the financial crisis.

All information documents from the Capital Market Day, the presentations related to the conference calls, and the latest corporate presentation are available to interested parties at the Raiffeisen International website: **www.ri.co.at → Investor Relations → Financial Reports & Figures → Presentations**.

## Broad research coverage

The number of reports by analysts on Raiffeisen International increased again in the past year. Altogether, 22 major international investment banks and analyst firms watched the Raiffeisen International stock and wrote 137 reports about it in 2008. Their investment recommendations may be viewed at **www.ri.co.at → Investor Relations → RI Shares → Analyst Reports**.

## E-mail service for investors

The goal of Raiffeisen International's e-mail service is to ensure that institutional and private investors receive information simultaneously. Online registration for this widely used information service is possible at any time at **www.ri.co.at → Investor Relations → Ordering and E-mail Service**.

## Annual General Meeting

Raiffeisen International's Annual General Meeting for the 2007 financial year was held on 10 June 2008 at the Austria Center Vienna (ACV). About 700 investors, consisting primarily of private individuals, were informed directly by the Managing Board about the company's development. It was thus one of the best-attended shareholder gatherings in Austria. Altogether, almost 73 per cent of the voting stock was represented at the Annual General Meeting. The welcoming speech by the Supervisory Board chairman and presentations by Managing Board members were webcast live, as in previous years, and may still be downloaded at **www.ri.co.at → Investor Relations → Events → Annual General Meeting**. The Annual General Meeting accepted the Managing Board's dividend proposal of € 0.93 per share and all its other motions with a large majority of votes. For the year 2007, € 143.8 million were distributed to the shareholders of Raiffeisen International.

All Raiffeisen International shareholders are again cordially invited to the next Annual General Meeting on 9 June 2009 at the Austria Center Vienna. Details regarding the last and the upcoming Annual General Meetings as well as other important dates may be found on the company website at **www.ri.co.at → Investor Relations.**

## Dividend proposal

A profit distribution for 2008 of € 0.93 per share, as in the previous year, will be proposed by the Managing Board to the Annual General Meeting. If the shareholders accept, the total dividend payout will amount to € 143.8 million. The payment will be made on 17 June 2009 to entitled shareholders through the banks that maintain their securities accounts. The dividend and its amount will be determined by reference to the holdings of Raiffeisen International shares on 16 June 2008.

| Year | Paid dividend in € million | Dividend per share in € |
|---|---|---|
| 2004 | 38.8 | 0.31 |
| 2005 | 64.2 | 0.45 |
| 2006 | 101.4 | 0.71 |
| 2007 | 143.8 | 0.93 |
| 2008[1] | 143.8 | 0.93 |

[1] Proposal at the Annual General Meeting

**Share data**

| | |
|---|---|
| Price on 31 December 2008 | € 19.30 |
| High/low in 2008 (closing prices) | € 110.20/€ 16.23 |
| Earnings per share for 2008 | € 6.39 |
| Market capitalization as of 31 December 2008 | € 3 billion |
| Average daily trading volume in 2008 (single counting) | 551,618 shares |
| Stock exchange turnover in 2008 (single counting) | € 8.7 billion |
| Free float as of 31 December 2008 | approx. 30% |

**Share details**

| | |
|---|---|
| ISIN | AT0000606306 |
| Ticker symbols | RIBH (Vienna Stock Exchange) |
| | RIBH AV (Bloomberg) |
| | RIBH.VI (Reuters) |
| Market segment | Prime Market |
| Issue price per share at IPO (25 April 2005) | € 32.50 |
| Issue price per share at capital increase (5 October 2007) | € 104.00 |
| Number of shares issued as of 31 December 2008 | 154,667,500 |
| Average number of shares in 2008 | 153,599,079 |

**Financial calendar 2009**

| | |
|---|---|
| 26 February | Start of Quiet Period |
| 26 March | 2008 Annual Report, Analyst Conference, Conference Call |
| 30 April | Start of Quiet Period |
| 14 May | First Quarter Report, Conference Call |
| 9 June | Annual General Meeting |
| 17 June | Ex Dividend and Dividend Payment Date |
| 30 July | Start of Quiet Period |
| 13 August | Semi-Annual Report, Conference Call |
| 29 October | Start of Quiet Period |
| 12 November | Third Quarter Report, Conference Call |

# Investor relations

E-mail: investor.relations@ri.co.at
Internet: www.ri.co.at → Investor Relations
Phone: +43-1-71707 2089
Fax: +43-1-71707 2138

Raiffeisen International Bank-Holding AG, Investor Relations
Am Stadtpark 3, 1030 Wien, Austria

# Corporate governance report

Raiffeisen International agrees to comply with the Austrian Corporate Governance Code (ACGC) as amended in June 2007. The ACGC is publicly available at the websites of the Austrian Working Group for Corporate Governance (www.corporate-governance.at) and Raiffeisen International (www.ri.co.at).

## Composition of the Managing Board

The Managing Board currently consists of six members:

| Managing Board | Year born | Date first appointed | End of term in office |
|---|---|---|---|
| Herbert Stepic, Chairman | 1946 | 14 June 2001 | 13 June 2011 |
| Martin Grüll | 1959 | 3 January 2005 | 2 January 2010 |
| Aris Bogdaneris | 1963 | 1 October 2004 | 26 September 2009 |
| Rainer Franz | 1943 | 20 January 2003 | 31 December 2009 |
| Peter Lennkh | 1963 | 1 October 2004 | 26 September 2009 |
| Heinz Wiedner | 1953 | 14 June 2001 | 13 June 2011 |

The members of the Managing Board have seats on the supervisory boards of the following domestic and foreign companies not included in the consolidated financial statements:

- Herbert Stepic: OMV AG

Persons who are 68 years or older may not be appointed as member of the Managing Board or be reappointed for another term in office.

# Composition of the Supervisory Board

The Supervisory Board currently has six members:

| Supervisory Board | Year of birth | Date first appointed | End of term in office |
|---|---|---|---|
| Walter Rothensteiner, Chairman | 1953 | 11 May 2001 | Regular Annual General Meeting 2011 |
| Manfred Url, Deputy Chairman | 1956 | 11 May 2001 | Regular Annual General Meeting 2011 |
| Patrick Butler | 1957 | 28 September 2004 | Regular Annual General Meeting 2009 |
| Karl Sevelda | 1950 | 11 May 2001 | Regular Annual General Meeting 2011 |
| Stewart D. Gager | 1940 | 24 January 2005 | Regular Annual General Meeting 2009 |
| Johann Strobl | 1959 | 10 June 2008 | Regular Annual General Meeting 2013 |

## Independence of the Supervisory Board

The Supervisory Board of Raiffeisen International stipulates the following criteria for the independence of supervisory board members of a company according to Rule 53 of the Austrian Corporate Governance Code:

- The supervisory board member shall not have served as member of the management board or as management-level staff of the company or one of its subsidiaries in the past five years.
- The supervisory board member shall not maintain or have maintained in the past year any business relations with the company or one of its subsidiaries to an extent of significance for the member of the supervisory board. This shall also apply to relationships with companies in which a member of the supervisory board has considerable economic interest. The approval of individual transactions by the supervisory board pursuant to L Rule 48 does not automatically mean the person qualifies as not independent.
- The supervisory board member shall not have acted as auditor of the company or have owned a share in the auditing company or have worked there as an employee in the past three years.
- The supervisory board member shall not be a member of the management board of another company in which a member of the management board of the company is a supervisory board member.
- The supervisory board member shall not be a close relative (direct offspring, spouse, life partner, parent, uncle, aunt, sibling, niece, or nephew) of a member of the management board or of persons who hold one of the aforementioned positions.

The exercise of functions within the group or the mere exercise by a supervisory board member of duties as a member of the board of management or as a managing director shall not result in the relevant enterprise being considered an “enterprise in which the supervisory board member has a substantial economic interest” unless the circumstances give reason to believe that the supervisory board member draws a personal benefit from such enterprise.

All members of the Supervisory Board of Raiffeisen International meet the criteria applying to the independence of supervisory board members.

As a member of the Supervisory Board, Steward D. Gager is neither a shareholder with a stake of more than 10 per cent nor represents such shareholders and is therefore "free float representative" in the meaning of C Rule 54 of the ACGC 2007.

Members of the Supervisory Board have the following supervisory board seats in domestic and foreign companies:

- Walter Rothensteiner: UNIQA Versicherungen AG
- Karl Sevelda: Bene AG, Unternehmens Invest AG

Persons who are 75 years or older may not be elected as a member of the Supervisory Board or be reappointed for another term in office. Furthermore, no person may be elected who has altogether more than eight supervisory board seats in companies listed on the stock exchange. The chair in the supervisory board of a company listed on the stock exchange counts twice.

### Members of the Committees

The bylaws of the Supervisory Board regulate its organization and assign certain tasks to the Working, Audit, and Personnel Committees. The Committees are composed as follows:

| Supervisory Board member | Working Committee | Audit Committee | Personnel Committee |
|---|---|---|---|
| Walter Rothensteiner, Chairman | Chairman | Chairman | Chairman |
| Manfred Url, Deputy Chairman | Deputy | Deputy | Deputy |
| Karl Sevelda | | Member | |

### Meeting participation

No member of the Supervisory Boards failed to participate personally in more than half of the Supervisory Board meetings last year.

### Contracts subject to approval

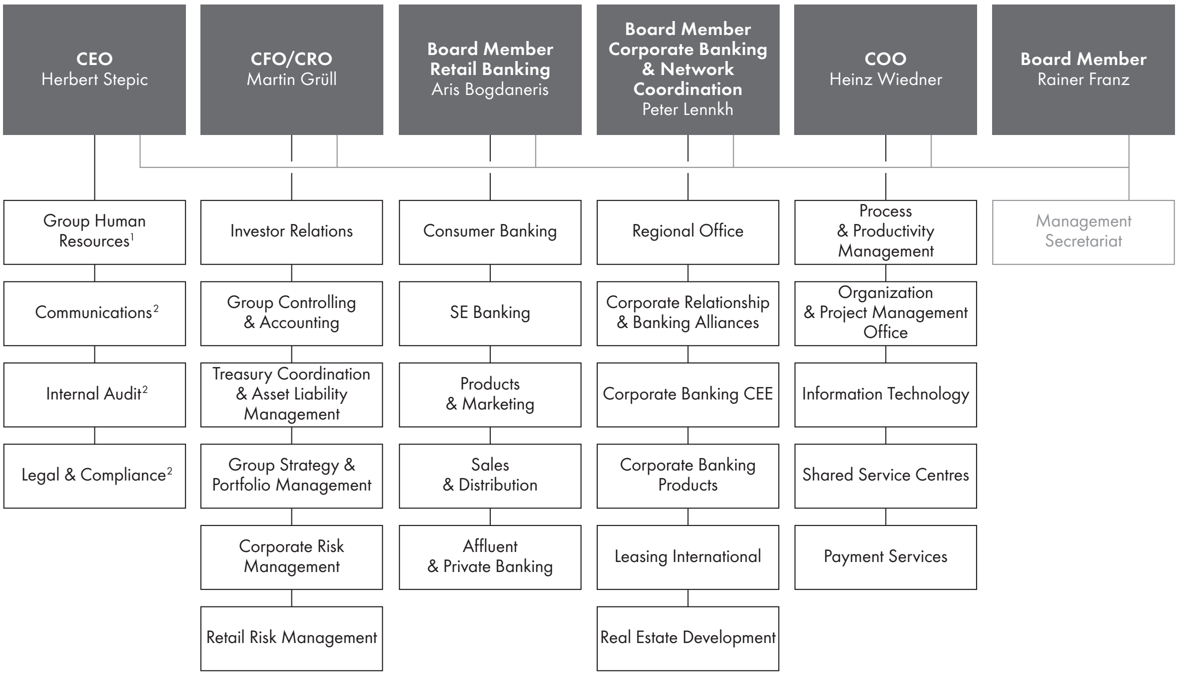
Furthermore, no contracts subject to approval as defined by the Austrian Stock Corporation Act were made with Supervisory Board members in 2008.

## Working method of the Managing Board and Supervisory Board

### Assignment of duties in the Managing Board

The Managing Board of Raiffeisen International manages the Company according to clearly defined goals, plans, and guidelines with a forward-looking orientation and relying on modern principles of entrepreneurship. In the process, it constantly takes into account the interests of the shareholders and employees.

A division of business operations governs the tasks belonging to the individual areas of responsibility in the Managing Board:




[1] The Learning & Development unit reports to Rainer Franz.
[2] Outsourced to RZB.

## Decision-making powers of the Committees

The business management measures that require the consent of the Supervisory Board or the responsible Committee are regulated in the bylaws of the Managing Board and the Supervisory Board and its Committees.

The *Working Committee* is responsible for all matters assigned to it by the full Supervisory Board. It is thus called upon to approve the transactions and measures not reserved to the Supervisory Board. Those include, in particular, the establishment and dissolution of subsidiaries as well as the acquisition of shareholdings up to a certain book value amount, the making or dissolution of syndication or voting trust agreements with co-shareholders, the assumption of duties in the corporate bodies of other enterprises by Managing Board members, or the appointment of persons to managing boards and supervisory bodies of Group lending institutions. The Working Committee furthermore approves the extension of loans and credits to Group enterprises from a certain amount upward.

The *Personnel Committee* concerns itself with the matters of remuneration of the Managing Board members and the employment contracts of the Managing Board members. It is specifically responsible for approving the bonus allotment and the allocation of shares from the share incentive program to the Managing Board members.

The *Audit Committee* prepares the ratification of the annual financial statements, the management report, the consolidated financial statements, and the consolidated management report as well as the proposal concerning the distribution of profit. It furthermore draws up the proposal for the selection of the auditor. The content of the management letter is also discussed in the Audit Committee.

## Number of meetings

The Supervisory Board convened for five meeting in the reporting period. In addition, the Managing Board regularly informed the Supervisory Board in a timely and comprehensive manner about all issues relevant to business development, including the risk situation and risk management of the Company and material Group entities, and particularly about events of major significance. The Audit Committee met once. As a rule, the Working and Personnel Committees made their decisions in writing on a circulating basis, with important decision being dealt with orally in advance.

# Disclosure concerning Managing Board and Supervisory Board remuneration

## Remuneration of the Managing Board

The remuneration of the Managing Board is reported according to fixed and performance-based components including remuneration for membership in boards of subsidiaries, bonuses, and payments in kind.

For the duration of the Managing Board contract, payments are made to pension funds on the basis of a contribution-oriented system. On the whole the same rules apply to the Managing Board members as apply to employees. They provide that a basic contribution to a pension fund and an additional contribution be made by the Company if the employee makes contributions in the same amount. Three Managing Board members additionally have individual retirement benefits that are funded by pension liability insurance.

Furthermore, there is protection against the risk of occupational disability, likewise arranged by means of a pension fund or based on an individual pension commitment secured by pension liability insurance.

The following amounts of remuneration were paid to the Managing Board of Raiffeisen International:

| in € 000 | 2008 | 2007 |
|---|---|---|
| Fixed and performance-based remuneration | 9,219 | 5,864 |
| Payments to pension plans and pension liability insurance | 79 | 80 |
| **Total** | **9,298** | **5,944** |

In the year under review, the share of performance-based remuneration components amounted to 60.7 per cent. It had been 45.1 per cent in the preceding year.

The performance-based components of the Managing Board's remuneration consist of bonus payments linked to the achievement of Company objectives for profit after tax, return on risk-adjusted capital, and cost/income ratio and to the achievement of annually agreed personal objectives and the value of an allotment of shares in the framework of the share incentive program. The value of the allotted shares corresponds to 65.7 per cent of the performance-based remuneration components. There were no material changes in the principles for profit-sharing compared with the preceding year.

## Share incentive program

The share incentive program (SIP) is a stock-based remuneration program for the Managing Board, members of the managing boards of network banks, and executive personnel with a term of three years per tranche. At the beginning, a number of shares are conditionally allotted to beneficiaries that correspond in value to a fixed percentage of the basic annual remuneration. The number of shares actually allotted at the end of the term is geared to two equally weighted performance parameters – the average return on equity achieved during the term in comparison with a target value fixed per tranche and the TSR (total shareholder return) ranking in comparison with the banks listed in the DJ Euro Stoxx banks subindex.

It is a prerequisite for participation in the SIP that the beneficiaries make an investment of their own and hold a number of Raiffeisen International shares during the term that corresponds to at least 30 per cent of the number of conditionally allotted shares.

A tranche of the remuneration program matured for the first time in 2008 (the 2005 SIP tranche). In accordance with the terms of the program (published in the *Amtsblatt zur Wiener Zeitung* on 9 August 2005), the maximum number of shares to be allotted, i.e., maturing shares, was reached by exceeding the set performance criteria (average return on equity over the waiting period and TSR ranking). Because of the designated value limit for an allotment, the lower number of shares shown in the following table was actually transferred. The value of the allotted shares is equivalent to 65.69 per cent of the performance-based remuneration components.

## 2005 SIP

| Group of persons | Number of shares due | Value at a share price of € 81.17 on allotment date in € | Number of shares actually transferred |
|---|---|---|---|
| Managing Board members of Raiffeisen International | 45,286 | 3,675,865 | 39,206 |
| Managing Board members of bank subsidiaries associated with Raiffeisen International | 81,057 | 6,579,397 | 64,616 |
| Executives of Raiffeisen International and other enterprises associated with it | 24,818 | 2,014,477 | 15,362 |

To avoid legal uncertainties, a severance indemnity was paid in cash instead of a transfer of shares in four countries in accordance with plan terms and conditions for qualifying employees. In Austria, the possibility was granted to qualifying persons likewise to receive a cash settlement instead of half of the shares due in order to pay from that the wage tax due at the time of transfer. For these reasons, a lower number of actually transferred shares was deducted from the total number of own shares.

A new tranche is issued in the framework of the SIP every year. That means that conditional shares are allotted respectively for three tranches as of the balance sheet date. The number of those shares amounted to 202,377 as of 31 December 2008 (the 2006 allotment accounted for 65,803 of those, the 2007 allotment for 51,903, and the 2008 allotment for 84,591).

The originally disclosed number of conditionally allotted shares changed as a result of various personnel changes in the Group units and the maturing of the 2005 SIP tranche and is presented in the following table as an aggregate:

## 2006 SIP to 2008 SIP

| Groups of persons | Number of shares maturing as of 31 Dec. 2008 | Minimum allotment of shares | Maximum allotment of shares |
|---|---|---|---|
| Managing Board members of Raiffeisen International | 60,977 | 15,244 | 39,206 |
| Managing Board members of bank subsidiaries associated with Raiffeisen International | 108,578 | 27,144 | 162,867 |
| Executives of Raiffeisen International and other enterprises associated with it | 32,822 | 8,206 | 49,234 |

## Severance rights of the Managing Board

The Managing Board contracts are entered into for the duration of the term in office. In case duties or employment are ended, two members of the Managing Board have rights to severance benefits in accordance with the Austrian Salaried Employees Act (*Angestelltengesetz, AngG*), two members in accordance with contractual stipulations, and two members in accordance with the Austrian Company Pension Fund Act (*Betriebliches Mitarbeitervorsorgegesetz, BMVG*). The severance rights according to the AngG or to contractual stipulations generally lapse upon notice of termination by the employee except in the case of a Managing Board member.

Furthermore, there are no indemnification agreements between the Company and its Managing Board and Supervisory Board members, e.g., for the eventuality of a public takeover bid.

## Remuneration of the Supervisory Boards

The Annual General Meeting resolved on 10 June 2008 to pay the Supervisory Board members total remuneration of € 330.000 and assigned to the Supervisory Board itself the task of distributing that amount.

| in € | 2008 |
|---|---|
| Chairman of Supervisory Board | 70,000 |
| Deputy Chairman of Supervisory Board | 60,000 |
| Member of Supervisory Board | 50,000 |
| **Total** | **330,000** |

Fees for meeting attendance were not paid.

## D & O insurance

Directors and officers (D & O) property damage and liability insurance was taken out again last year for the Managing Board and Supervisory Board with UNIQA Sachversicherung AG.

# Report on external evaluation

Transparency in matters of corporate governance is of special importance for Raiffeisen International. It therefore undertakes not "merely" to comply with the ACGC, but rather actually lives and breathes it. In the reporting period, all of the ACGC's L and C rules were complied with. L rules (Legal Requirement) are based on compulsory legal regulations. C rules (Comply or Explain) are to be complied with, and any divergence must be explained and justified to achieve behavior in conformity with the Code.

Following the recommendation in the preamble to the ACGC, the Company commissioned an external evaluation by *Univ.-Prof. DDr. Waldemar Jud Unternehmensforschungs GmbH*, which confirmed full compliance with the Austrian Corporate Governance Code. The results of that evaluation are available to the public on the Raiffeisen International website (www.ri.co.at).

# Annual General Meeting

The Annual General Meeting for 2007 was held on 10 June 2008 at the Austria Center in Vienna. The next Annual General Meeting for 2008 will take place on 9 June 2009. The invitation to shareholders for this meeting will be published at least three weeks in advance.

As owners of the Company, the shareholders exercise their rights by voting at the Annual General Meeting. The voting proceeds according to the one-share-one-vote principle in which all shareholders have equal rights without voting right restrictions. Every unit share issued confers one vote, and no registered shares have been issued. The shareholders can exercise their voting right themselves or through proxies. Unless different voting majorities are prescribed by law, the Annual General Meeting's resolutions are ratified by a simple majority of the capital stock in attendance at the time of ratification. In addition to voting on the discharge of the Managing Board and Supervisory Board, the election of Supervisory Board members and on proposals they have submitted themselves, the shareholders vote on the use of profit and hence on the amount of the dividend. To ensure maximum transparency of the Annual General Meeting, the opening comments and speeches by the Managing Board are broadcast live on the internet at **www.ri.co.at** → **Investor Relations** → **Events** → **Annual General Meeting** and may also be viewed there later. That gives shareholders who were unable to attend the Annual General Meeting in person the opportunity to obtain the information first-hand.

# Transparency

Open and transparent communication with shareholders and their representatives, customers, analysts, employees, and the interested public is especially important to Raiffeisen International. The internet and particularly the Company website play an important role in that. In this regard, the website presents, among other things, the following continuously updated information:

- Annual and interim reports
- Company presentations
- Ad hoc announcements, press releases, and IR mailings
- Share price information and data on the Company's stock
- Financial calendar with long advance notice of important dates
- Directors' dealings
- Articles of association of Raiffeisen International
- Criteria of independence for Supervisory Board members
- Analysts' estimates
- Forms for ordering printed materials and signing up for automatically distributed "Investor Relations News" by e-mail

## Conflicts of interest

Members of Raiffeisen International's Managing Board must disclose material personal interests in transactions of the Company and Group enterprises and other conflicts of interest to the Supervisory Board. They must also inform the other Managing Board members.

Managing Board members who perform management functions for other enterprises are obligated to work towards achieving a fair balance of the interests of the enterprises involved.

If Supervisory Board members get into conflicts of interest, they must inform the Chairman of the Supervisory Board of that without delay. If the Chairman gets into conflicts of interest, he must disclose them to the Deputy Chairman without delay.

The Supervisory Board's consent is required for contracts between the Company and members of the Supervisory Board that obligate the members to performance in relation to the Company or a subsidiary (Section 228 (3) Commercial Code) apart from their activity in the Supervisory Board for more than merely negligible compensation. That also applies to contracts with enterprises in which a Supervisory Board member has a considerable economic interest. The Company did not enter into any such contracts in 2008.

# Accounting and financial statement auditing

The Raiffeisen International Group's accounting is performed according to the provisions of the International Financial Reporting Standards (IFRS). The annual financial statements of Raiffeisen International are prepared according to the provisions of the Austrian Commercial Code (UGB). The consolidated financial statements are published within the first three months of the financial year following the reporting period, and interim reports at the latest 45 days after the end of the respective reporting period.

The 2008 Annual General Meeting again appointed *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft*, Vienna as auditor. The auditor appointed by the last Annual General Meeting received compensation of € 27,524 for other services ordered by the Company. For the current financial year, no consulting services have so far been agreed beyond the previous year's extent. The auditor confirms that it has been issued a certificate of a quality assurance system and no reasons for exclusion or partiality exist. Besides preparing the legally prescribed audit report and performing an auditor's reporting duty, the auditor writes a management letter to the Managing Board that also contains references to weaknesses in the Company. The letter is brought to the attention of the Supervisory Board Chairman, who ensures that it is dealt with in the Audit Committee and a report of that is made to the Supervisory Board.

# Corporate responsibility

**Raiffeisen International is committed to corporate responsibility as a modern version of Friedrich Wilhelm Raiffeisen's ideas concerning corporate conduct. The starting point for his notion was helping the economically disadvantaged by enabling them to help themselves through cooperative organizations. This linkage of economic activity with aspects of social welfare may be understood as corporate responsibility, with assumption of environmental responsibility likewise playing a vital role both in the concept of corporate responsibility and for Raiffeisen International**

Raiffeisen International's close link to the issue of corporate responsibility is also shown by the gable cross, the trademark of the entire Raiffeisen Banking Group. It consists of two stylized horse's heads crossed on the gable of a house. It is a traditional European symbol believed to protect a house and its occupants from outside dangers and to ward off evil. As the Raiffeisen logo, it stands for the social security that Raiffeisenbank members enjoy through their self-determined cooperation. The gable cross is used around the world, and so too for Raiffeisen International's branding.

## Five core principles

To define today's interpretation of corporate responsibility based on Raiffeisen's ideas and clearly communicate it to the Group's more than 63,000 employees in 17 markets, the concept has been broken down into the following five principles:

### ■ A future always needs a past

Raiffeisen International has its roots in a group of companies with a long tradition and strong brand. This solid foundation of values with its focus on social welfare, created by Friedrich Wilhelm Raiffeisen in the 19th century, has been adapted to the present and expanded. So, corporate responsibility can now be equated with "doing business à la Raiffeisen."

### ■ We are here to stay

Raiffeisen International's business activity on its 17 markets in Central and Eastern Europe has an appreciable effect on their national economies. Aware that that also entails great responsibility, Raiffeisen International aims at a long-term commitment with positive effects for the region, such as stimulating growth through capital investment and employment.

## ■ Our clients' success defines our own success

Raiffeisen International serves more than 14.7 million customers, including many small and medium-sized businesses as well as large enterprises. In equity participations, the company focuses on creating value for the long term and not siphoning off profits for the short term. Even in crises, it strives to resolve difficulties jointly with the affected parties.

## ■ The best become better with us

Raiffeisen International is aware of the especially intense competition for qualified employees in Central and Eastern Europe. It therefore positions itself as an attractive employer by giving employees extensive opportunities for education and training as well as room to develop their skills in a pleasant working environment.

## ■ A strong cultural mix

Raiffeisen International operates in 17 markets, each with their own identity and culture. That the company appreciates those cultures may be seen, for example, in its sponsorship of local traditions. The international composition of its more than 63,000-strong workforce also testifies to the company's openness to diversity.

Execution of the corporate responsibility concept is manifested in concrete behavior. An example of assuming environmental responsibility connected with Raiffeisen International's core business is its financing of the Kavarna wind energy farm in Bulgaria, which has an annual output of 40 megawatts, by the Raiffeisen-Leasing International subsidiary in cooperation with Raiffeisen Energy and Environment. By making this project possible, Raiffeisen International is contributing to the construction and operation of an environment-friendly plant to exploit renewable energy sources.

Another example of the successful combination of Raiffeisen International's core business with responsible conduct is the establishment of a training center for its employees in Ukraine. The Financial Academy Raiffeisen Bank Aval (FARBA) helps the company pursue its goal of optimally educating and training its employees to enhance their efficiency. It does so, on the one hand, with the intention of promoting its core business. On the other hand, the education and training also benefits the employees, since they can realize their potential – an important aspect for work satisfaction and career opportunities.

In addition to environmentally and socially responsible conduct directly related to core business, Raiffeisen International is involved in achieving goals through donations and sponsoring. It was, for example, the first private company to contribute considerably to financing the Albanian government's project "To bring the Internet to every school". It has thus made possible in the last three years the creation of 12 computer areas in higher schools across Albania. Furthermore, the H. Stepic CEE Charity, established by Raiffeisen International's CEO, is working to help children, teenagers, and young women in economically disadvantaged regions of Central and Eastern Europe.

H.STEPIC CEE CHARITY
ASSOCIATION TO SUPPORT CHARITY PROJECTS IN CENTRAL AND EASTERN EUROPE

A comprehensive presentation of Raiffeisen International's activities may be found in the RZB Group's Corporate Responsibility Report published in March 2009. That report is also available on Raiffeisen International's website at **www.ri.co.at** → **Investor Relations** → **Financial Reports & Figures**.

# Group management report

## General economic environment

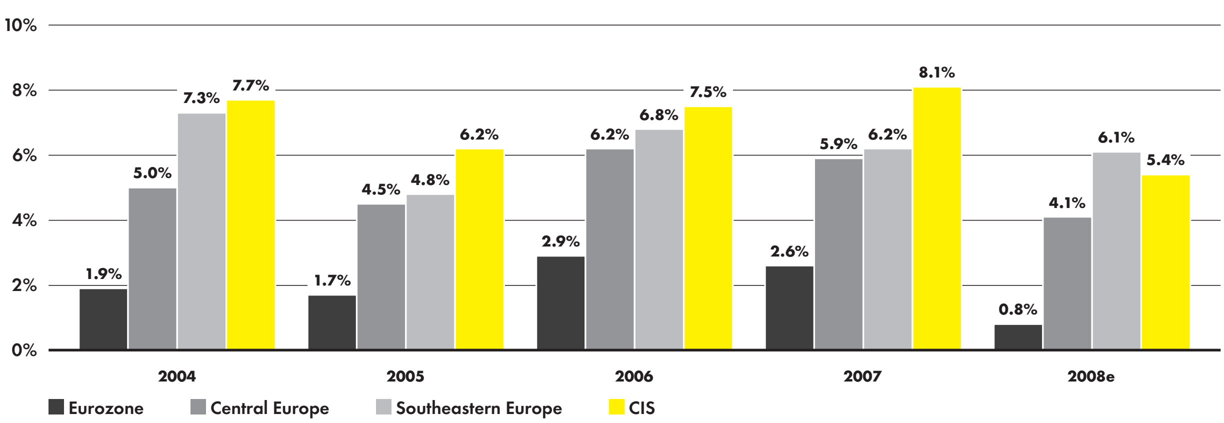
### Economic downswing felt

Economic growth in the euro area slowed significantly during 2008 and is likely to be only about 0.8 per cent for the full year. Real GDP in the euro area still grew by 2.6 per cent in 2007. The countries of Central and Eastern Europe held up comparatively well in the context of the global economic downswing and the continuing crisis on international financial markets in 2008. According to current estimates, the reporting period's real GDP growth in the new EU member states of Central Europe (Czech Republic, Hungary, Poland, Slovakia, and Slovenia) came to an average of 4.1 per cent. This decline against the 5.9 per cent increase achieved in the preceding year was largely in line with and attributable to the growth slowdown in Western Europe.

Economic development in the Southeastern European countries (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, and Serbia) showed continued high momentum in 2008 with average real GDP growth of 6.1 per cent and resulted primarily from good harvests in the agricultural sector, which had suffered in the year before due to weather-related losses.

A slowdown was also registered in the European countries of the CIS (Belarus, Russia, and Ukraine), where real GDP growth averaged only 5.4 per cent in 2008 after 8.1 per cent in the previous year. One major reason for this was the decline of raw material prices from about mid-year onward and the worsening situation of the local and international financial sector. However, the extreme rise of oil prices still stimulated the Russian economy until mid-year.

**Annual real GDP growth**



## Inflation decline from mid-2008

Inflation rates in Central and Eastern Europe continued to climb in the first half of 2008, in some cases significantly. In addition to an increase of oil prices to record levels, a sharp rise of food prices was responsible for that. That was caused, on the one hand, by increased world market prices and, on the other, by weather-related crop failures in the region in 2007. Another factor is that the proportion of food in total consumer expenditures is significantly higher in Central and Eastern Europe than in Western Europe. A development in the opposite direction began in the second half of the year. The emerging global economic slowdown ended speculation on further oil price increases, and a good harvest in the region simultaneously contributed to a visible easing of food prices.

Despite this trend reversal around mid-year, average inflation rates in Central and Eastern Europe were above the preceding year's level, in some cases significantly. The increase was least pronounced in the Central European countries at 5.1 per cent (after 3.5 per cent in 2007). The Southeastern European countries registered an increase to an average 8.6 per cent (after 5.0 per cent in the preceding year), with inflation rates in Bulgaria (12.3 per cent) and Serbia (12.8 per cent) in the double-digit range. The increase in the CIS countries was even greater, with the average inflation rate coming to 15.1 per cent (after 9.4 per cent the previous year). Ukraine registered the region's highest inflation rate at 25.2 per cent.

## Burden due to international financial markets

The continuing crisis on international financial markets initially peaked in September 2008 with the bankruptcy of US investment bank *Lehman Brothers*. Extensive support of the banking sector by governments and central banks in the United States and Europe helped temporarily stabilize the financial markets in the final months of 2008. On the other hand, a severe recession began to appear in the United States and Western Europe.

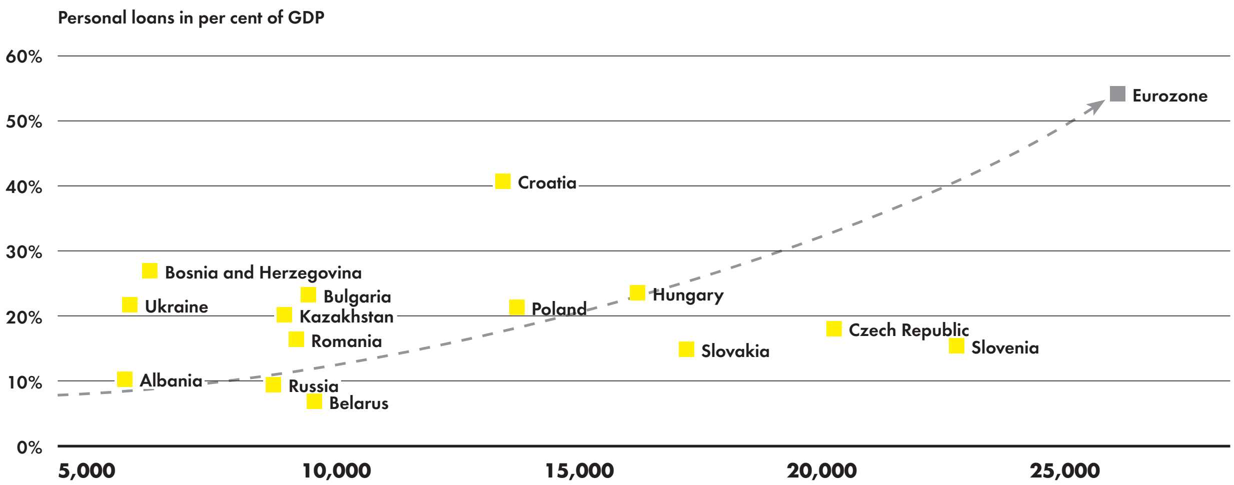
This situation had an impact on economic activity in Central and Eastern Europe by way of significantly weakening Western European demand for exports from the region and declining capital investments in the region. Moreover, credit growth declined significantly in view of the difficulty and high cost of obtaining external funding. Speculation and capital outflows forced Hungary and Ukraine to seek financial support from the International Monetary Fund. Hungary additionally obtained assistance from the EU, which thus underscored its willingness and ability to stand by its more vulnerable new member states in financial distress. At the same time, it represents an important signal to Romania and Bulgaria as well as the EU candidates of Southeastern Europe, whose stability is of great political importance for Europe.

# Banking sector development in Central and Eastern Europe

The aggregate assets of banks in the entire region of Central and Eastern Europe continued to show increases in the first half of 2008, though at a lower level than in the past few years. If the available figures are projected to the full year (no final figures were available at the time this report was completed), assets of the banking sector in Central and Eastern Europe increased about 10 per cent on a euro basis in 2008. That represents a slowing of growth by about two-thirds, after an average increase of somewhat more than 30 per cent had been registered in 2007.

The decline of credit growth was less pronounced in countries where the relationship between loans and deposits was balanced or came out in favor of deposits. The shortage and higher cost of funding after the collapse of US investment bank *Lehman Brothers* slowed bank growth in the region further in the second half of 2008. Increasing reluctance by banks to extend credit in foreign currencies also played a significant role in this. Overall, deposit business gained increasingly in importance, after having been less of an emphasis in recent years.

**Personal loans in per cent of GDP vs. GDP per capita (at purchasing power parities)**




Note: Data as of end 2008, source: Thomson Financial Datastream, wiiw, Raiffeisen RESEARCH

# Performance and financials

## Introduction and scope of consolidation

The consolidated financial statements of Raiffeisen International are prepared in accordance with the *International Financial Reporting Standards (IFRS).* Raiffeisen International Bank-Holding AG also prepares individual financial statements conforming to the Austrian Commercial Code (UGB), which provide the formal basis of assessment for calculating dividend payments and taxes. For more on the disclosures required by the UGB, please see the relevant sections of the notes to this report. The majority of Raiffeisen International is held by Raiffeisen Zentralbank Österreich Aktiengesellschaft (RZB), which makes it part of the RZB Group. The stake held by RZB amounted to about 70 per cent at the end of the year, and the rest of the shares were free float.

As of 31 December 2008, Raiffeisen International's scope of consolidation comprised 131 Group units, including network banks and leasing companies in 17 markets and a number of financial companies and bank-related service pro-viders. For more information on changes in the scope of consolidation, please see the relevant section of the notes on page 214. Neither in the year under review nor in the preceding year were there any material additions or disposals in the scope of consolidation that would have impaired the comparability of the two periods.

Raiffeisen International has made use early of IFRS 8 in the present consolidated financial statements. This standard lays out a new structure for segment reporting. Reporting is now based solely on regional units. Further details may be found in the consolidated financial statements.

# Executive summary

## Profit from operating activities grows by almost 40 per cent

Despite an unfavorable market environment worldwide, Raiffeisen International achieved its best result ever in 2008. Operating income for the full year increased by almost 40 per cent to € 2,247 million. Operating income for the fourth quarter of 2008 was 10 per cent above that of the third quarter and was therefore higher than all previous quarters.

The table below gives an overview of the development of profit from operating activities:

### Profit from operating activities on an annual basis

| in € million | 2008 | 2007 | Change | 2006 |
|---|---|---|---|---|
| Net interest income | 3,232 | 2,419 | 33.6% | 1,764 |
| Net fee and commission income | 1,496 | 1,250 | 19.7% | 933 |
| Net trading income | 168 | 128 | 31.1% | 175 |
| Other net operating income | (16) | (5) | 212.2% | (4) |
| **Operating income** | **4,880** | **3,791** | **28.7%** | **2,868** |
| Staff costs | (1,276) | (1,085) | 17.6% | (825) |
| Other administrative expenses | (1,113) | (877) | 27.0% | (688) |
| Depreciation/amortization/write-downs | (244) | (223) | 9.4% | (181) |
| **General administrative expenses** | **(2,633)** | **(2,184)** | **20.6%** | **(1,694)** |
| **Profit from operating activities** | **2,247** | **1,607** | **39.8%** | **1,174** |

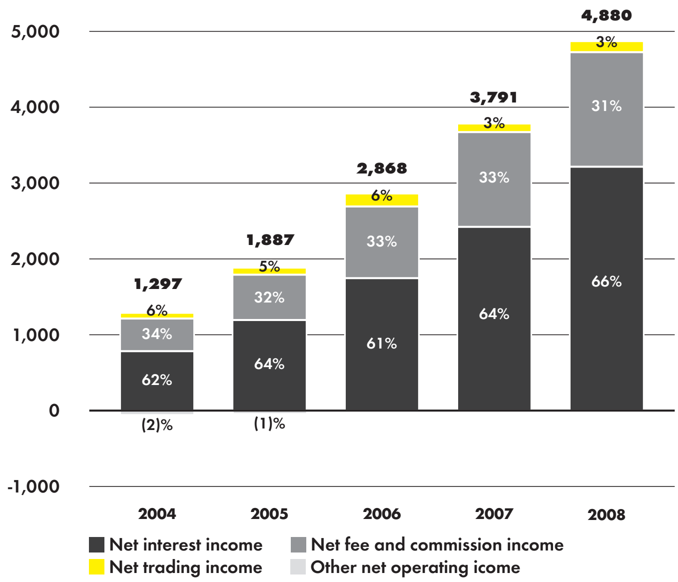
## Operating income up 29 per cent due to interest result

As in the preceding years, the driver of growth was *net interest income*, which rose by one-third to € 3,232 million. Both business divisions contributed to that with corporate customers up by 39 per cent, and retail customers by 28 per cent. The regional emphasis was in the CIS, which registered the largest increase at over 40 per cent. That raised the Group's interest margin again by 13 basis points on an annual basis to 3.99 per cent. The share of net interest income in operating income was 2 percentage points above the preceding year's level and amounted to 66 per cent.

*Net fee and commission income grew* by almost 20 per cent, or € 247 million, to € 1,496 million, which represents a 31 per cent share of operating income. This solid growth was about equally distributed among all regions, with Central and Southeastern Europe accounting for the largest

**Development of operating income**

in € million

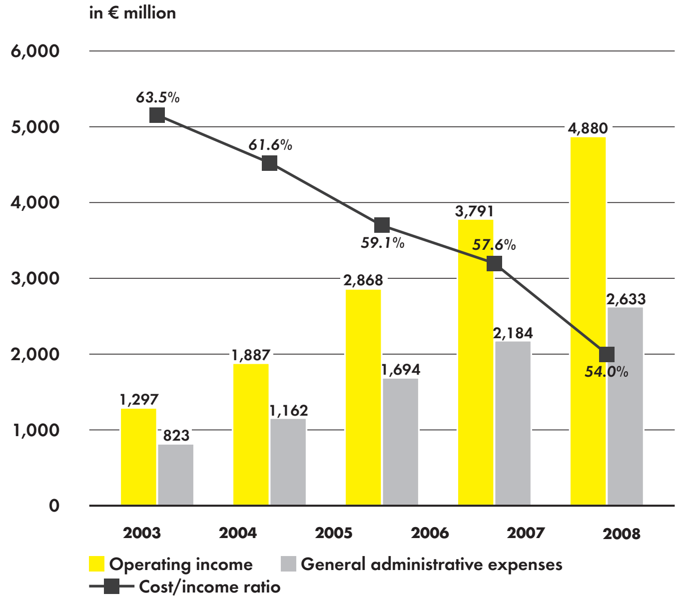



absolute totals. As in the past, payment transfer business (plus 14 per cent) was the most important income component, with a 43 per cent share of net commission income.

*Net trading income* was 31 per cent, or € 40 million, above the preceding year's value and amounted to € 168 million. That resulted in a 3 per cent share of operating income. The individual income components developed very differently. While the result from interest-related business came to minus € 88 million due to the strong interest rate movements triggered by the global financial crisis, profit from currency-related business stood at € 258 million.

**Development of the cost/income ratio**

in € million




## General administrative expenses up 21 per cent

*General administrative expenses* grew in the year under review by 21 per cent, or € 449 million, to € 2,633 million. In contrast to the preceding year, other administrative expenses rose by 27 per cent to € 1,113 million and therefore more than staff costs did. Staff costs grew by 18 per cent in 2008 to € 1,276 million. The average number of employees rose by 11 per cent, or 5,904, to 61,454 and therefore less significantly than in the preceding years. At 21 per cent, Southeastern Europe showed the largest increase.

## Cost/income ratio improved by 3.6 percentage points

General administrative expenses increased by 21 per cent in the past year, significantly less than operating income did at 29 per cent. That had a positive effect on the cost/income ratio, a key measure of bank efficiency that sets operating expenses in relation to operating income. It improved by 3.6 percentage points from 57.6 to 54.0 per cent.

## Profit at record level despite fourth-quarter decline

Raiffeisen International achieved record earnings in 2008. *Profit before tax* rose by 16 per cent from € 1,238 million to € 1,429 million. However, because of significantly higher provisioning for impairment losses (plus 119 per cent), this increase was lower than that of operating profit. The main reason for that was the significant slowing of economic activity in Central and Eastern Europe, which did not affect earnings until the fourth quarter of 2008. Earnings before tax were 60 per cent lower in the fourth quarter of 2008 than in the third quarter because of higher risk provisioning and the negative effect of a partly ineffective capital hedge.

### Development of consolidated earnings on an annual basis

| in € million | 2008 | 2007 | Change | 2006[1] |
|---|---|---|---|---|
| **Profit from operating activities** | **2,247** | **1,607** | **39.8%** | **1,174** |
| Provisioning for impairment losses | (780) | (357) | 118.6% | (309) |
| Other profit/loss | (38) | (13) | 192.3% | 26 |
| **Profit before tax** | **1,429** | **1,238** | **15.5%** | **891** |
| Income taxes | (351) | (264) | 32.8% | (205) |
| **Profit after tax** | **1,078** | **973** | **10.8%** | **686** |
| Minority interests in profit | (96) | (132) | (27.2)% | (92) |
| **Consolidated profit** | **982** | **841** | **16.7%** | **594** |

[1] Excluding one-off effects due to the sale of Raiffeisenbank Ukraine and the minority stake in Bank TuranAlem in the amount of € 588 million.

## Provisioning for impairment losses more than doubled in 2008

Against the background of the global financial and economic crisis, from which the CEE countries are not being spared, allocations to *provisioning for impairment losses* had to be raised substantially in 2008, and especially in the fourth quarter. Provisions were raised by 119 per cent, or € 423 million, to € 780 million, and their increase was far above growth of business volume. While individual provisions rose by 78 per cent, portfolio-related provisions went up 266 per cent. Decreasing creditworthiness of borrowers and resulting lower internal and external ratings were the reason for that. The risk/earnings ratio therefore climbed significantly from 14.8 to 24.1 per cent.

Just under two-thirds of provisioning for impairment losses (€ 507 million) was allocated for retail customers, and the rest was mostly due to corporate customers (€ 269 million). The regional emphasis of new provisioning for impairment losses was in the CIS with a share of 46 per cent, or € 356 million, which yields a risk/earnings ratio of 28 per cent for the region. Central Europe also showed an increased need of provisioning, and new allocations there of € 265 million resulted in a risk/earnings ratio of 26 per cent. At € 159 million, new allocations in Southeastern Europe grew significantly from the preceding year's very low level, but the risk/earnings ratio was the Group's lowest at 17 per cent.

## Tax rate rises to 24.6 per cent

*Income taxes* increased by 33 per cent to € 351 million in 2008 and hence disproportionally relative to profit before tax. The effective tax rate rose from 21.3 to 24.6 per cent. That was due to the different distribution of profits. The effective tax rate was the highest in the CIS at 29 per cent, while the lowest rate was registered in Southeastern Europe at 16 per cent.

## Consolidated profit just under € 1 billion

*Profit after tax* grew by 11 per cent from € 973 million to € 1,078 million. That was primarily due to a 40 per cent rise of operating income, which was partly offset, however, by higher income taxes and significantly increased provisioning for impairment losses. Other profit/loss fell to minus € 38 million (2007: minus € 13 million) and included, among other things, net income/loss from derivative financial instruments (minus € 20 million), but also realized and unrealized gains and losses from financial investments (minus € 26 million).

In contrast to profit after tax, *minority interests* in profit declined by 27 per cent to € 96 million. That was due to the different distribution of earnings increases within the Group. After deduction of those minority interests, the consolidated profit falling to Raiffeisen International worked out to € 982 million. That represents an increase on the preceding year of 17 per cent, or € 141 million.

## Earnings per share increases to € 6.39

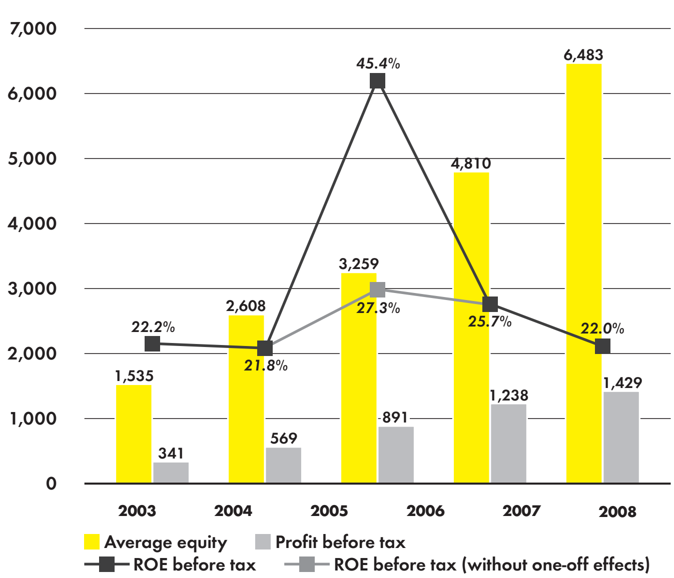
*Earnings per share (EPS)* calculated from consolidated profit improved by € 0.59 from € 5.80 to € 6.39. The average number of shares outstanding amounted to 153.6 million in 2008. That number stood at 145.0 million in 2007, because new shares from the capital increase of October 2007 were only included on a pro rata basis. The proposed dividend of € 0.93 per share is the same as the previous year, and the payout ratio therefore stands at 14.6 per cent.

## ROE of 22.0 per cent

The *return on equity (ROE)* before tax fell from 25.7 to 22.0 per cent. That was primarily due to the underlying average equity, which was 35 per cent above the preceding year's level at € 6,483 million in 2008 because of profit retention and the capital increase carried out in the fourth quarter of 2007, which brought in € 1,220 million. The consolidated ROE, based on the capital allocable to Raiffeisen International shareholders, also fell by 2.7 percentage points to 17.4 per cent due to the higher capital base.

### Development of profit and return on equity

in € million




## Equity burdened by currency devaluations

The effects of the global financial and economic crisis were felt in some CEE countries due to the partly massive devaluation of local currencies against the euro, including especially the Ukrainian hryvnia, which lost 46 per cent on an annual basis. Double-digit percentage declines were likewise registered by the Polish zloty (minus 16 per cent), the Russian ruble (minus 15 per cent), and the Romanian leu and Serbian dinar (minus 12 per cent each). The severe currency devaluation had a corresponding effect on the equity denominated in the respective local currencies and goodwill. That resulted in a valuation loss of € 873 million in the year under review. Altogether, valuation gains and losses had negative effects on equity in the amount of € 1,050 million.

Furthermore, against the background of the Ukrainian currency's devaluation against the US$, the hedge for capital investments in Ukraine became partly ineffective and was therefore recognized in the income statement in October. A resulting charge of € 88 million was made to earnings.

## Currency-driven effect on the balance sheet total

Compared with the preceding years, the *balance sheet total* of the Raiffeisen International Group grew less strongly in the period under review. It increased from € 72.7 billion to € 85.4 billion on an annual basis, which means growth of 17 per cent, or € 12.7 billion. However, that figure includes losses of about € 5.6 billion resulting from the significant devaluation of some CEE currencies in the fourth quarter. Adjusting for those currency effects shows organic growth of one-fourth, or € 18.3 billion.

As in the preceding years, the increase was mainly due to growth of loans to customers in 2008, which were up by 18 per cent, or € 8.5 billion, after provisioning.

### Own funds excess cover above 21 per cent

In 2008 Basel II was adopted to calculate capital adequacy, this provides for a more comprehensive and risk-sensitive backing of business with own funds. At the beginning of December, RZB received approval for partial use of the Internal Ratings-Based approach. As a sub-group of RZB, Raiffeisen International can use this approach too. In the case of Raiffeisen International, the network banks in the Czech Republic, Slovakia, and Hungary use the approach. For the remaining Group units, risk-weighted assets (credit risk) is calculated according to the Standardized Approach.

While the switch to Basel II rules initially entailed an additional requirement totaling about € 740 million for the Standard Approach, of which operational risk accounted for € 440 million, use of the Internal Ratings-Based approach lowered the amount by € 86 million. An own funds requirement of about € 650 million therefore resulted for the full year from applying Basel II. Together with organic growth in 2008, that caused the own funds requirement to rise by 34 per cent to € 5,767 million.

Influenced in particular by the negative effect of currency translation, *own funds* only rose by 5 per cent to € 6,991 million. The core capital ratio based on total risk therefore fell by 2.4 percentage points to 8.1 per cent, and the *own funds ratio* fell by 2.7 percentage points to 9.7 per cent.

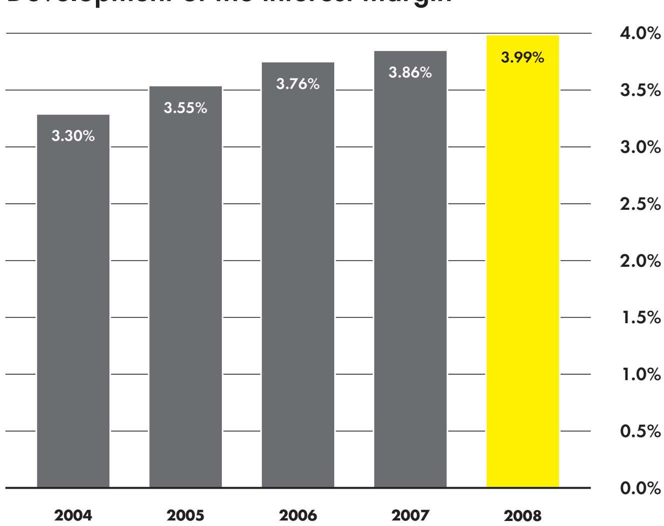
# Detailed review of items in the income statement

Since no significant changes in the scope of consolidation occurred in 2008, the comparability of the reported figures with the preceding year is not adversely affected. However, the items of the income statement were influenced more strongly than in the preceding years by the fluctuations of some CEE currencies.

## Net interest income

*Net interest income* grew in the year under review by more than one-third, or € 813 million, to € 3,232 million. The increase was greater than that of the average balance sheet total at 29 per cent. The basis for it was an improvement of the interest margin by 13 basis points to 3.99 per cent (calculated on the average balance sheet total). An expansion of the interest margin was achieved in all regional segments, but particularly in the CIS, where it increased by 64 basis points. That had a corresponding effect on net interest income in the CIS, which rose by 41 per cent to € 1,297 million. However, net interest income also grew significantly in Central Europe (plus 25 per cent) and Southeastern Europe (plus 29 per cent).

**Development of the interest margin**



Driven mainly by volume, net interest income in the retail customers division increased by 28 per cent to € 1,844 million and accounted for 57 per cent of total net interest income (minus 2 percentage points). The share of net interest income from the corporate customers division remained constant at about 34 per cent, but the relative increase of 39 per cent was significantly greater than that of retail business and was primarily due to improved margins.

*Interest income* grew by 34 per cent to € 6,183 million. Just under 80 per cent of that derived from the most important balance sheet item, loans and advances to customers. Interest income from that source rose by almost 39 per cent on annual comparison. A significant plus of 71 per cent was also shown by interest income from balances with central banks. The net contribution of interest income from derivatives stood at € 139 million.

*Interest expenses* increased by 35 per cent to € 2,951 million, which was somewhat greater than the growth of interest income. In general, the more difficult funding situation became noticeable for the Group toward the end of the year. Because of higher interest rates, expenses of € 1,583 million were incurred for customer deposits, which represents an increase of 34 per cent. On the other hand, the balance sheet item only rose on average by 15 per cent. Interest expenses for subordinated liabilities, needed mainly because of local supervisory regulations, climbed by 12 per cent from € 83 million to € 93 million.

## Provisioning for impairment losses

Currency and interest rate developments in the fourth quarter had substantial effects on banks operating in Central and Eastern Europe. Raiffeisen International did not escape their influence. They affected the credit quality of customers, which ultimately led to a significant increase of provisioning for impairment losses. Compared with the preceding year, new allocations to provisioning for impairment losses rose in 2008 by a net 119 per cent, or € 423 million, to € 780 million, of which the fourth quarter accounted for more than half. The net provisioning ratio – based on the risk-weighted assets of credit risk – therefore also rose by 48 basis points to 1.32 per cent. The allocations still had a precautionary character in 2008, since the loss rate, i.e., the ratio of loans written off to total lendings, fell by 1 basis point to 0.11 per cent.

*The risk/earnings ratio* – the ratio of provisioning for impairment losses to net interest income – went up 9.3 percentage points in the period under review to 24.1 per cent.

Newly formed *individual provisions* rose by 78 per cent on the preceding year to € 502 million. The increase was mostly registered in Central Europe, where provisions climbed by 204 per cent to € 230 million. The focus of the increase was in Hungary (plus € 49 million) and Poland (plus € 39 million). In the CIS, provisioning rose by 37 per cent in 2008 to € 206 million, while provisions for individual loans grew the least in Southeastern Europe with a plus of 19 per cent to € 67 million.

Net new allocations to *portfolio-based provisions* increased by 266 per cent to € 278 million and therefore more strongly than individual provisions did. That reflects, in particular, the expectation of rising defaults in 2009 because of the economic situation and currency levels which both started to deteriorate significantly in 2008. Only € 42 million and hence 11 per cent less was allocated to portfolio-based provisions in Central Europe. Most of the portfolio-based provisions were incurred in Southeastern Europe at € 86 million and especially in the CIS at € 151 million. Of that, Russia accounted for € 81 million, and Ukraine for € 70 million.

Compared with non-performing loans, provisioning for impairment losses showed a smaller increase, which is why the ratio of provisioning for impairment losses to non-performing loans declined by 13.0 percentage points to 92.2 per cent.

# Net fee and commission income

Development of *net fee and commission income* from bank services was very strong in 2008, with a plus of 20 per cent, or € 247 million, to € 1,496 million.

In 2008, Raiffeisen International expanded the volume and number of transactions executed, particularly in the areas of payment transfers, loans, and third party services.

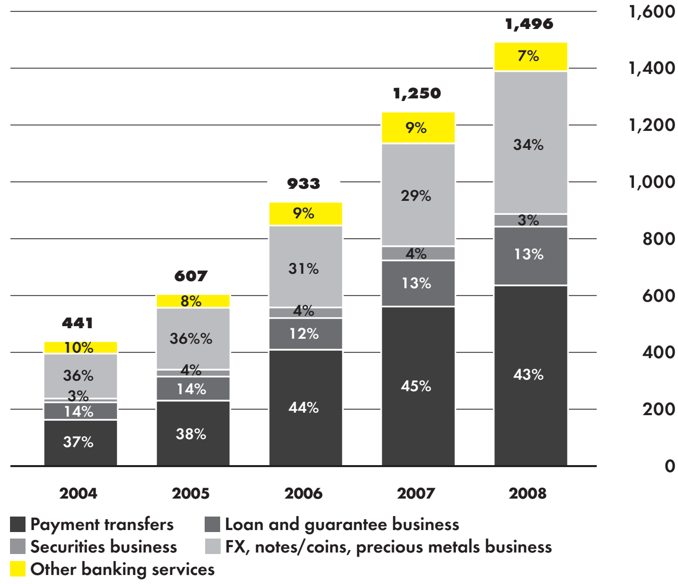
The most important earnings contribution came from payment transfer business with a share of 43 per cent. Income from that rose altogether by 14 per cent to € 643 million. The strongest regional increase was in Central Europe at 32 per cent.

In foreign currency and precious-metals business, the Group earned € 505 million and therefore 39 per cent more than in the preceding year. The increases came primarily from Central Europe and Russia. With a 34 per cent share, foreign exchange and notes/coins business made the second-largest contribution to net commission income.

In loan and guarantee business, net fee and commission income rose by 27 per cent to € 201 million. On the other hand, commissions from securities business remained 10 per cent below the preceding year's level.

**Development of net fee and commission income**

**in € million**



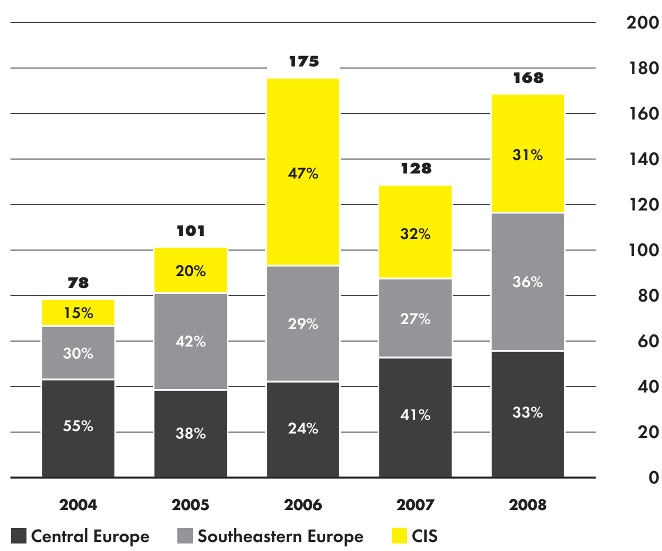

# Net trading income

*Net trading income* achieved an increase of 31 per cent to € 168 million in 2008 thanks to positive valuation results from currency transactions. That plus was realized despite a special effect related to the ineffectiveness of a capital hedge. Entered into in US$ for the investment in the Group's Ukrainian units, the capital hedge had to be terminated at the end of October due to the severe devaluation of the Ukrainian hryvnia. Due to the ineffectiveness, the loss for this part of the hedge of minus € 88 million had to be recognized in earnings. About 36 per cent of net trading income derived from Southeastern Europe, while the CIS share remained nearly the same at 31 per cent. In Central Europe, earnings were burdened by valuation losses on securities, so the region's share shrank to 33 per cent.

*Net income from currency-related business* was the mainstay of net trading income, since the other trading operations contributed negative totals. The € 258 million shown under this item reflected an increase of € 168 million despite the above-mentioned loss of € 88 million from releasing the ineffective part of the capital hedge. The majority of the increase was due to the Russian network bank, which achieved valuation gains of € 145 million by means of

**Net trading income by geographic segments**

**in € million**



foreign exchange transactions for hedging measures. *Raiffeisen Bank Aval* in Ukraine and *Raiffeisen Bank* in Romania made substantial contributions to this result of € 47 million and € 44 million, respectively. The valuation of the foreign exchange positions after the severe devaluations of the Ukrainian hryvnia and Romanian leu was responsible for that.

*Net trading income from interest rate and credit products* normally plays a minor role for Raiffeisen International, because the limits approved by management are relatively small and only used selectively. However, individual network banks are being forced to hold securities – primarily government bonds – for the purpose of investing surplus liquidity and sometimes also in order to comply with statutory regulations. Because of the severe interest rate fluctuations in the second half of 2008, a loss resulted in this item of € 88 million after a profit of € 27 million in the year before. The largest valuation losses were registered in the CIS (particularly Russia) at € 50 million and in Central Europe (particularly the Czech Republic and Hungary) at € 27 million. In Southeastern Europe the loss was € 11 million.

*Net trading income from stock transactions* amounted to minus € 1 million and therefore did not continue the pattern of the preceding year's positive result of € 9 million.

# Net income from derivatives

*Net income from derivatives* improved by € 10 million in the year under review, amounting to minus € 20 million in 2008 after minus € 30 million in the preceding year.

The negative result from other derivative instruments included in this item was greatly reduced in 2008 (minus € 16 million versus minus € 34 million in the preceding year). The main reason was that cash flow hedge accounting was implemented in Russia in the course of the year. Interest rate swaps were used to hedge interest rate risk from variable-rate liabilities, and changes in their market value were initially recorded in equity without affecting income. They are charged to the income statement only if the cash flow hedge becomes at least partly ineffective. Moreover, valuation losses from interest rate swaps in the amount of € 26 million had negatively influenced the earnings of the Russian Raiffeisenbank in the preceding year.

# Net income from financial investments

*Net income from financial investments* amounted to minus € 26 million in the past year after minus € 9 million in the year before. After good development in the first three quarters of 2008, the financial market turmoil adversely affected valuation results on securities in the fourth quarter.

*Net income from securities at fair value through profit and loss*, which consists of valuation results and net proceeds from disposals, amounted to minus € 47 million. Due to the situation on the financial markets, write-downs were made in the amount of € 45 million on predominantly fixed-income debt instruments of public-sector entities, which also made up the majority of total securities. Losses of € 2 million resulted from the sale of securities.

*Net income from financial investments held to maturity* turned out slightly negative. On the other hand, net income from equity participations developed positively and amounted to € 21 million. It includes net proceeds from sales of plus € 24 million and net valuations of minus € 3 million. The sale of a 15 per cent stake in *Raiffeisen stavebni sporitelna, a.s.*, a Prague-based building society previously valued at equity, generated € 11 million. The sale of *Raiffeisen stambena stedionica d.d.*, a Zagreb-based building society, led to a loss on disposal of € 2 million. The divestment of other participations yielded the Group a positive result of € 15 million.

# General administrative expenses

*General administrative expenses* grew in the year under review by 21 per cent, or € 449 million, to € 2,633 million. Since operating income rose by 29 per cent and therefore more strongly than general administrative expenses did, the *cost/income ratio* improved significantly. The ratio, which represents a bank's cost efficiency, decreased by 3.6 percentage points on the preceding year (57.6 per cent) to 54.0 per cent.

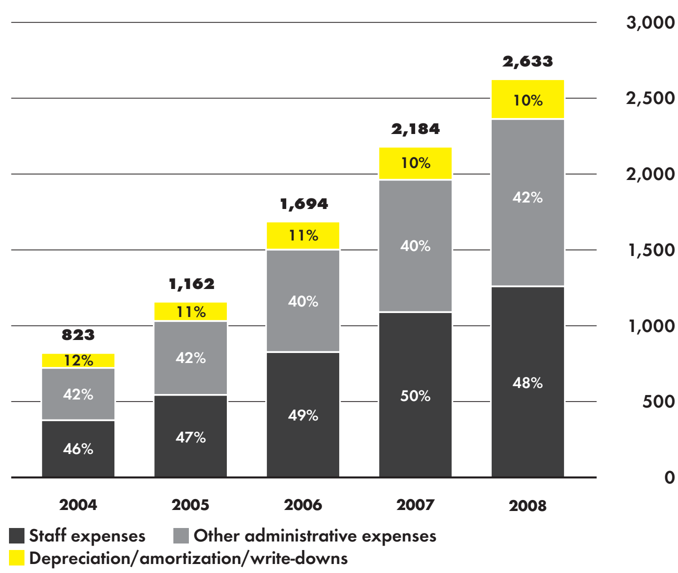
At 48 per cent, *staff costs* were the largest share of general administrative expenses in 2008. Compared with the preceding year, it grew by 18 per cent, or € 191 million, to € 1,276 million, of which wages and salaries accounted for 78 per cent, social security costs and staff-related taxes for 18 per cent, and voluntary social expenses, expenses on severance payments and retirement benefits, and expenses on the Share Incentive Program for 4 per cent. The strongest regional increases of staff costs were in the CIS and Southeastern Europe at 19 per cent each, followed by Central Europe at 15 per cent.

The Group's average number of employees (expressed as full-time equivalents) grew by 11 per cent, or 5,904, to 61,454. The region with the largest increases was Southeastern Europe, where the average number of employees rose by 21 per cent, or 3,218. The corresponding number in Central Europe increased by 10 per cent, or 1,186, and in the CIS by only 5 per cent, or 1,468. Operating income per employee developed well, rising from € 68,000 to € 79,000.

With a plus of 27 per cent, or € 237 million, to € 1,113 million, *other administrative expenses* registered a greater increase than that of staff costs. The largest expense items were premises at € 314 million (plus 38 per cent), IT at € 153 million (plus 33 per cent), advertising at € 133 million (plus 17 per cent), and legal/consulting costs at € 108 million (plus 56 per cent). The cost of premises increased the most in the CIS at plus 52 per cent due to higher rents, while the corresponding figure rose by 32 per cent in Southeastern Europe and by 28 per cent in Central Europe.

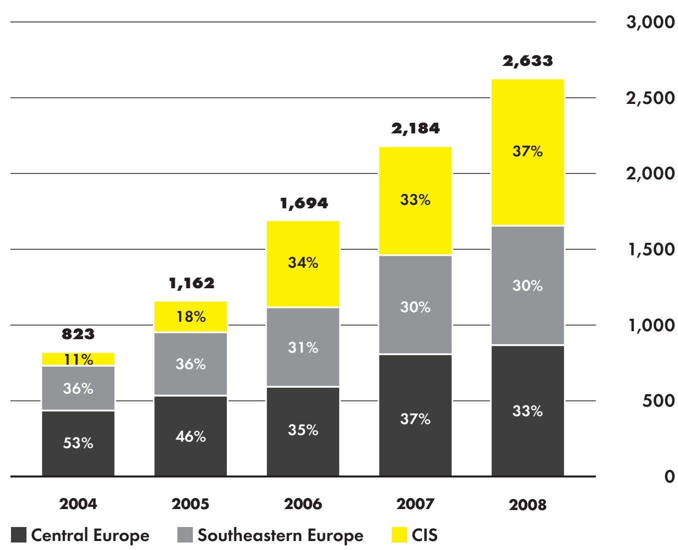
## General administrative expenses: Breakdown by expense categories

in € million

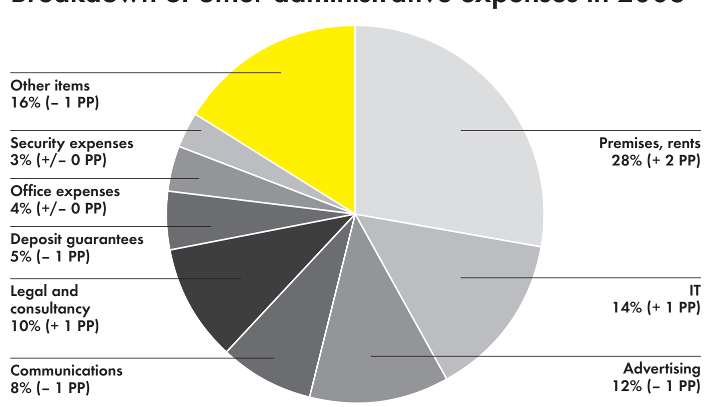



## General administrative expenses: Breakdown by regions

in € million




## Breakdown of other administrative expenses in 2008



The number of business outlets amounted to 3,231 at the end of the year. That means a net increase of 216 outlets compared with the preceding year. The new outlets were opened mainly in Southeastern Europe (212), and particularly in Romania (121) and Bulgaria (46). In the CIS, 35 branches were closed on balance due to further location optimization measures.

*Depreciation/amortization/write-downs on tangible and intangible assets* rose on annual comparison by 9 per cent, or € 21 million, to € 244 million. Tangible assets accounted for € 149 million of that, intangible assets for € 68 million, assets from operating leasing business for € 27 million.

## Other net operating income

*Other net operating income* worsened in 2008 from minus € 5 million in the preceding year to minus € 16 million. Various items are included in this. Revenues and expenses from various non-banking activities decreased by 93 per cent, or € 16 million, to € 1 million. On the other hand, the result from operating leasing grew by 74 per cent, or € 16 million, to € 38 million. Operating leasing business is mainly conducted in Croatia and to a lesser extent in Poland, Serbia, and the Czech Republic.

Due to the settlement of litigation, it was possible to release provisions in Slovakia and Poland. That resulted in net income from other provisions of € 4 million (2007: minus € 17 million). Other taxes not dependent on income increased by 35 per cent to € 58 million.

Finally, further income of € 4 million resulted from release of negative goodwill of Romanian securities service provider *Raiffeisen Capital & Investment S.A.*, Bucharest. In the preceding year, similar initial consolidation effects in the amount of € 13 million had resulted from integrating three asset management companies.

## Income from disposal of Group assets

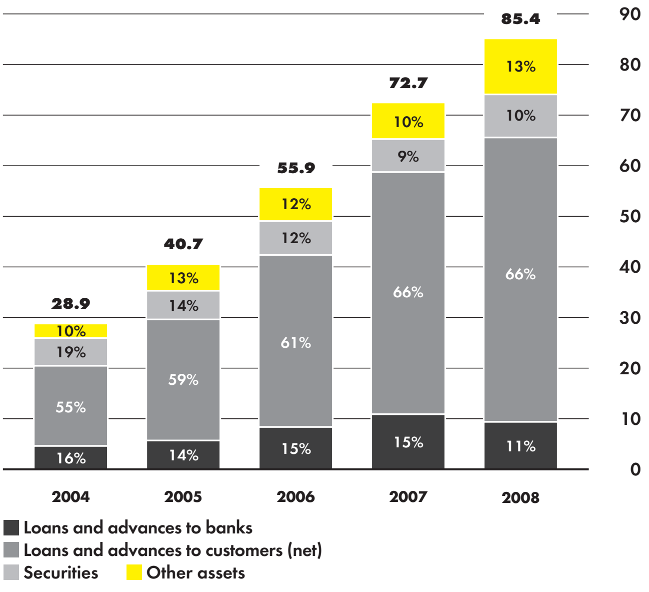
Seven subsidiaries were deconsolidated in 2008, which generated income of € 8 million. The divestments of Hungarian project companies brought in € 7 million. Of that, the largest contribution to earnings amounting to € 5 million came from the sale of *SCTD Kondorosi ut Kft.*, Budapest, in May 2008. The divestment of two Czech project companies furthermore yielded a positive result totaling € 1 million. In the preceding year, income from disposal of Group assets amounted to € 27 million. The sale of energy generating company *SINESCO Energiaszolgáltató Kft.*, Budapest, and real estate project company *Arena Corner Ingatlanfejlesztõ Kft.*, Budapest, made the main contributions to income amounting to € 11 million and € 15 million, respectively.

# Balance sheet

The *balance sheet total* of the Raiffeisen International Group amounted to € 85.4 billion as of 31 December 2008 and therefore increased by 17.4 per cent, or € 12.7 billion, on the preceding year's comparable value of € 72.7 billion. That was mainly due to organic growth, additions and disposals in the scope of consolidation in the year under review did not significantly impact the consolidated balance sheet total. On the other hand, currency effects, i.e., net effects arising from the changes in the exchange rates of CEE currencies, turned out to be significant, especially in the last few months of the year. Hardest hit was the Ukrainian hryvnia, which devalued against the euro by 46 per cent in the course of the year. Devaluations of 15 per cent and 16 per cent were also registered against the Russian rouble and the Polish zloty, respectively. Adjusted for these currency effects, the Group's organic balance sheet growth came to about 25 per cent, or € 18.3 billion.

**Structure of balance sheet assets**

in € billion




## Assets

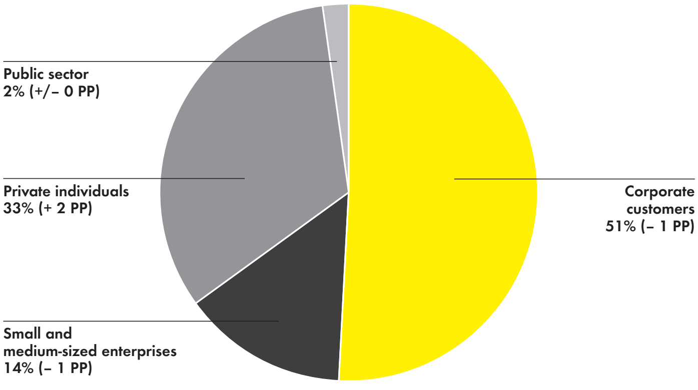
On the asset side, growth of the balance sheet total is determined by *loans and advances to customers*, the main growth driver in the Raiffeisen International Group. They rose by 19 per cent, or € 9 billion, to a total of € 57.9 billion in 2008. After deduction of provisioning for impairment losses, loans and advances to customers made up an unchanged nearly two-thirds share of balance sheet assets. The ratio of customer loans to customer deposits increased by 10 percentage points to 131 per cent.

Loans to corporate customers (excluding micro businesses) totaled € 34.6 billion at year's end. That means an increase of 15 per cent, or € 4.4 billion. Loans to retail customers registered a significantly larger increase of 26 per cent, or € 4.5 billion, to € 22.1 billion.

Due to the worsened economic conditions, more provisions were made for loan defaults in 2008. Total provisioning for impairment losses therefore rose Group-wide by 49 per cent, or € 0.5 billion, to € 1.6 billion. In absolute terms, the increase of *provisioning for impairment losses* was the highest at € 220 million for credit assets in the CIS. A higher percentage plus of 51 per cent was registered in Southeastern Europe, but it was at a much lower absolute level.

*Loans and advances to banks* fell by 18 per cent and amounted to € 9 billion at the end of 2008. That decline is attributable to a reduction of deposits at commercial banks by 20 per cent, or € 1.3 billion, and of deposits at central banks by 16 per cent, or € 0.7 billion. The item's share of balance sheet assets dropped by 4 percentage points to 11 per cent.

**Structure of loans and advances to customers**



The total amount of securities came to € 8.9 billion at the end of the year, of which 80 per cent was invested in fixed-income securities. Compared with the preceding year, those increased by 28 per cent, or € 1.9 billion. The securities accounted for a 10 per cent share of the balance sheet total.

In the second half of 2008, a new IFRS rule was adopted by the International Accounting Standards Board and the EU, which permits a reclassification of *securities held for trading* into *securities held-to-maturity*. Only little use was made of that in the Group. In the year under review, securities totaling € 382 million were reclassified from trading assets into the held-to-maturity category. That had a positive effect of € 13 million in the income statement.

The share of other assets rose by 3 percentage points on the preceding year to 13 per cent. That is primarily due to the increase of the cash reserve, including particularly positive balances at central banks.

# Liabilities

The structure of the Group's liabilities showed a shift at the end of 2008 from *deposits from customers to deposits from banks*. Deposits from customers continued to dominate the liability side of the balance sheet with a share of 52 per cent, but their share of consolidated assets declined by 4 percentage points. On the other hand, deposits from banks increased by 4 percentage points to 31 per cent of the consolidated balance sheet total. The rest consisted of own funds at 9 per cent and other liabilities at 8 per cent (plus 2 percentage points).

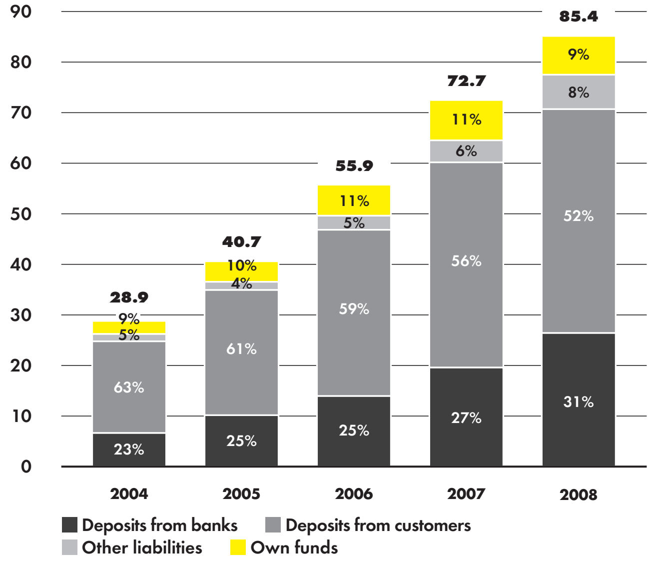
*Deposits from customers* rose altogether by 9 per cent, or € 3.7 billion, to € 44.2 billion. At € 3.4 billion, the increase in Central Europe was the largest. Deposits from retail customers went up 11 per cent to € 23.2 billion, while deposits from corporate customers grew by 3 per cent to € 18.4 billion.

The significant increase in deposits from banks by € 6.3 billion to € 26.2 billion is mainly attributable to expansion of long-term financing. Funding arrangements by way of international commercial banks and supranational institutions were expanded by 25 per cent to € 24.9 billion. Money market dealings were down by 5 per cent to € 6 billion as of the balance sheet date. The share of funding to banks through the RZB Group amounted to about 61 per cent at the end of 2008.

The share of *other liabilities* rose by 2 percentage points to 8 per cent. The *liabilities evidenced by paper* included in this item, i.e., funding from the capital market in the framework of debt security issues, grew by 46 per cent to € 3.4 billion. The share of the consolidated balance sheet total attributable to *own funds*, which consist of equity and subordinated capital, decreased to 9 per cent (minus 2 percentage points). The *subordinated capital* included in own funds rose by 10 per cent to € 1.7 billion due to new issues at individual network banks. Of those additional own funds, mainly needed for local regulatory purposes of subsidiary banks, 85 per cent were financed by the RZB Group, and 15 per cent by supranational institutions.

**Structure of balance sheet liabilities and equity**

**in € billion**



# Equity

## Equity on the balance sheet

Raiffeisen International's balance sheet equity including consolidated profit and minority interests amounted to € 6,518 million at the end of the year. Despite consolidated profit including minority interests of € 1,078 million, equity remained below the preceding year's level by 2 per cent, mainly due to currency devaluations.

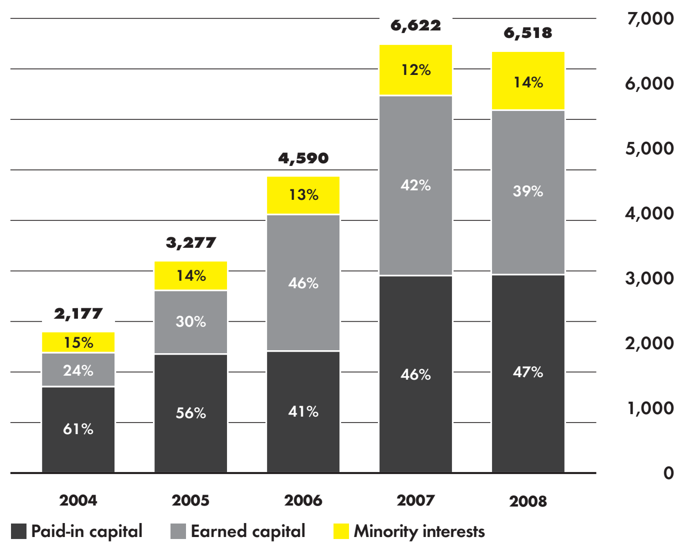
*Paid-in capital*, which consists of subscribed capital and capital reserves, remained nearly unchanged at € 3,037 million. The effects of share buy-backs and of amounts from the *Share Incentive Program* booked directly to equity reduced paid-in capital by € 20 million.

*Earned capital*, which consists of consolidated profit and retained earnings, declined by € 211 million to € 2,559 million. Consolidated profit rose by 17 per cent to € 982 million. However, the development of currency rates negatively influenced retained earnings, especially in the second half of the year. The changes in the exchange rates of some CEE currencies against the euro (minus € 857 million) and related capital hedging measures (minus € 66 million) caused retained earnings to decrease by € 923 million. The currency differences arising from using different currency rates for the income statement and the balance sheet reduced retained earnings by € 107 million. Cash flow hedge accounting was set up in Russia to hedge variable interest rate positions. Changes in the market value of hedging instruments had an impact on retained earnings in the amount of minus € 43 million. The dividend distribution for 2007 in the amount of € 0.93 per share, or a total payout of € 143 million, likewise reduced retained earnings.

*Minority interests* rose by 16 per cent, or € 128 million, to € 923 million. That increase resulted from a current annual result of € 96 million, from capital contributions in various Group units of € 87 million, and from changes of share in the scope of consolidation of € 7 million. Set against that as reducing factors were dividend distributions to outside share-holders of Group units in the amount of € 47 million and currency differences of minus € 16 million.

**Composition of consolidated equity**

in € million




## Equity according to the Austrian Banking Act

Raiffeisen International is not a separate banking group within the meaning of the Austrian Banking Act (BWG) and therefore is not itself subject as a group to the regulatory provisions for banks. Since the beginning of 2008, the solvency calculation has been performed in accordance with Basel II. Credit risk and market risk are calculated according to the Standardized Approach pursuant to Section 22 of the BWG. In December 2008, the financial market supervisory authority authorized RZB to calculate the risk-weighted assets (credit risk), in certain countries for certain product groups, according to the Internal Ratings-Based (IRB) approach. For Raiffeisen International, that concerned the network banks in Slovakia, the Czech Republic, and Hungary, which have been calculating loans and advances to banks, corporates and sovereigns according to the IRB approach since 1 December 2008. The following consolidated figures have been calculated according to the provisions of the BWG and are accounted for within the scope of the *RZB-Kreditinstitutsgruppe*.

Consolidated *own funds* pursuant to the BWG amounted to € 6,992 million at the end of 2008 (2007: € 6,684 million). Core *capital* rose by € 168 million to € 5,860 million. It was positively influenced primarily by the reporting year's profits. Set against that were negative effects on core capital of about € 692 million from changes in the exchange rates of currencies in Central Europe and the CIS.

*Additional own funds* showed an increase of 9 per cent, or € 89 million, to € 1,046 million. That primarily concerned subordinated capital (plus € 100 million). Needed mostly because of local supervisory regulations, this subordinated capital was financed for the most part by RZB.

Set against own funds was an *own funds requirement* pursuant to the BWG of € 5,767 million, which was above the preceding year's level by 34 per cent, or € 1,450 million, due to strong expansion and the switch to Basel II. Excess cover amounted to 21.2 per cent, or € 1,225 million, at the end of the year. In particular, the own funds requirement consists of requirements for credit risk (€ 4,831 million), market risk (€ 152 million), operational risk (€ 440 million), and open foreign exchange positions (€ 343 million).

The *core capital ratio* based on credit risk amounted to 9.7 per cent (minus 1.7 percentage points). The core capital ratio based on total risk-weighted assets yielded a value of 8.1 per cent at year's end (minus 2.4 percentage points). The *own funds ratio* decreased by 2.7 percentage points to 9.7 per cent compared with the preceding year's value, which was still calculated on the basis of Basel I at 12.4 per cent.

# Funding

## Refinancing markets under pressure

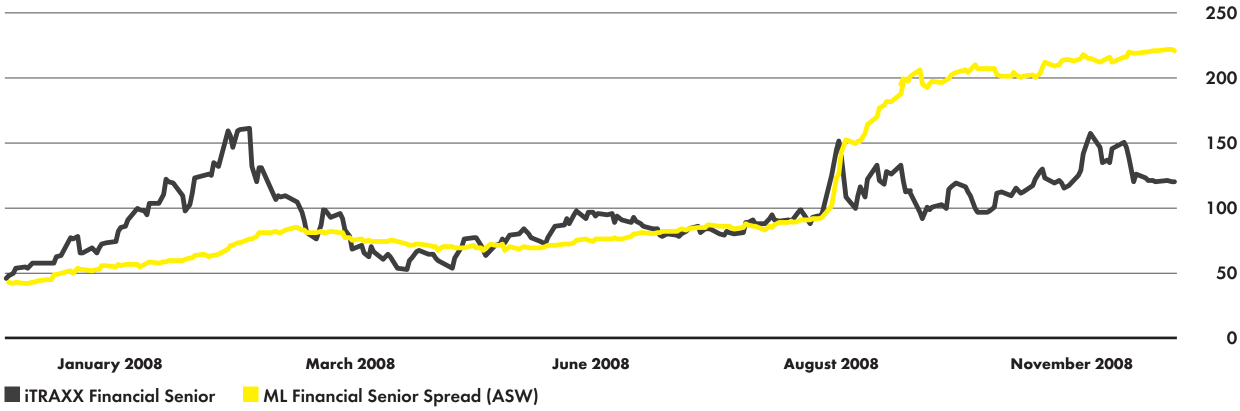
Banks typically refinance their operations with their own funds and customer deposits or by way of other external sources. The latter is known as wholesale funding and is performed partly by way of the interbank market. The effects of the financial crisis became especially evident there in 2008, as the loss of banks' confidence in one another inhibited mutual lending.

The loss of confidence caused the wholesale funding markets to dry up to an unprecedented extent in September 2008, which was reflected in a sharp rise of refinancing costs, especially in the fourth quarter. The spread on senior bank bonds increased from 42 basis points at the beginning of the year to 219 basis points at the end of 2008. In the same period, the price of senior bank credit default swaps rose from 45 basis points to 119 basis points.

This development affected refinancing for the entire banking sector. The situation eased slightly at the end of the year, however, thanks to capital injections and state guarantees as well as repeated key interest rate cuts by the ECB in the fourth quarter of 2008.

### Spread development 2008

**in basis points**




## Measures to optimize refinancing

In view of the difficult market environment, targeted use was made of the Group's advantages, and financing activities were bundled to a greater extent. Cooperation was intensified between Raiffeisen International (Treasury Coordination), RZB (Treasury & Global Markets), and the network banks in preparing structured treasury products and meeting wholesale funding needs. Raiffeisen International and RZB carried out a liquidity management project and set up a liquidity committee in the first half of 2008. In the middle of the year, an international sales network was established between RZB and the network banks, which now serves as a virtual platform for joint activities in development, placement, and trading of financial market products.

First use was made in the reporting period by a network bank of the opportunity to set up a Eurobond program. *ZAO Raiffeisenbank Moscow* registered a Euro Medium-Term Note (EMTN) program in the amount of US$ 5 billion in February 2008. This program is to be used as soon as market conditions permit. Among the syndications completed in 2008 for funding the network banks, a syndication loan to *Raiffeisenbank Moscow* in the amount of US$ 1 billion deserves special mention. It is the largest refinancing transaction of a Raiffeisen International network bank to date.

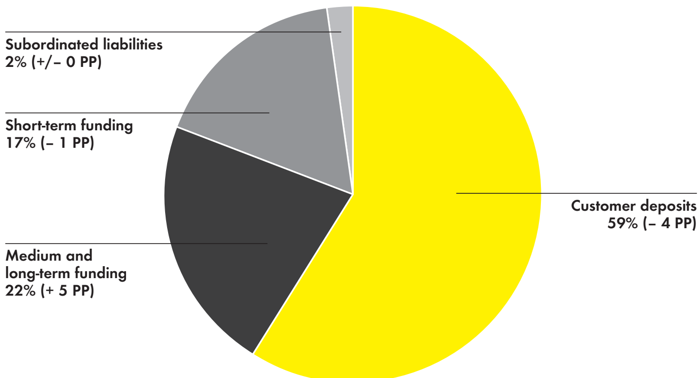
## Solid funding sources

Because of the difficulties in the wholesale sector, refinancing by way of traditional deposit-gathering business came to the fore in the reporting period. In all Raiffeisen International network banks, efforts were increased to gather deposits from both corporate and retail customers, supported by the introduction of new products. The effects of these measures unfolded particularly in the second half of 2008 and contributed to currency-adjusted growth.

Part of Raiffeisen International's funding needs in the last four months of 2008 were met by mostly medium-term loans from RZB, which derived partly from funds provided by Oesterreichische Kontrollbank.

Supranational institutions such as the EBRD and the IFC, with which close relations exist due to Raiffeisen International's involvement in Central and Eastern Europe, play a role in

### Structure of funding



its refinancing. The task of these institutions lies essentially in promoting the region's economic development by establishing and expanding a functioning banking and financial system. Among other things, they make financial resources available for that purpose. The Raiffeisen International Group fulfills all the prerequisites for distribution of such supranational credit to customers in the segment of small and medium-sized businesses. The importance of supranational institutions for Raiffeisen International's network is underscored by a refinancing total of € 1.4 billion outstanding at year's end, granted primarily on a long-term basis. A further intensification of this cooperation appears likely in 2009, especially in view of the financial market environment.

Raiffeisen International's funding has been based on several pillars for years. Customer deposits represented the largest share of that at 59 per cent, or € 44.2 billion, as of year's end. Wholesale funding contributed 39 per cent, or € 29.6 billion, of which 59 per cent derived from RZB.

The further development of international financing possibilities for the region of Central and Eastern Europe greatly depends on the successful resumption of issuing activity. The refinancing structure of the Raiffeisen International Group will be shaped in 2009, in addition to deposits, by the possibilities of refinancing through RZB, supranational institutions, and eventually its main bank partners.

# Risk management

Recognizing, quantifying, assessing, and actively controlling risks form an important core expertise of banks. Raiffeisen International has constantly developed its risk management in the past years, adapting it to the steadily changing environment.

Setting risk policy for the Raiffeisen International Group is one of the Managing Board's key functions. Risk and return are balanced against each other and managed for both the corporate and retail customer divisions. That was done very intensively in the second half of 2008 in particular, given the worsening financial crisis and likely effects on the real economy.

Among numerous other activities in risk management last year, applying Basel II in the entire Group was at the forefront. Raiffeisen International still uses the Standardized Approach to determine the amount of capital to be held in reserve according to Basel II regulations. As of 1 December 2008 the network banks in Slovakia, the Czech Republic, and Hungary were granted the permission by the regulatory authority to calculate credit risk of corporates, banks, and sovereigns according to IRB (internal ratings based approach). It is planned to move forward with the introduction of the IRB approach in the corporate customer division in 2009 and to begin introducing the Advanced IRB approach in the retail customer division.

For Raiffeisen International, using the IRB and Advanced IRB approaches has the advantage that portfolio risks can be quantified even more accurately and the risk can be managed more effectively. The supervisory body honors this approach as a rule, with lower equity requirements in comparison to the standard approach.

In the following an overview is given of the most important activities in retail and corporate risk management in the last year and the focus for the current year. More information about risk management may be found in the notes to the consolidated financial statements beginning on p. 175.

# Retail risk management

For private individuals and small businesses Raiffeisen International focused its risk management activities in 2008 on the following main areas:

- Developing the general risk management system
- Improving efficiency and widening functional responsibilities
- Continuing education of the risk management staff
- Preparing the introduction of the Basel II Advanced IRB approach
- Improving the reporting system, portfolio management, capital management tools, and data quality
- Expanding fraud management and loan servicing
- Adaption of credit risk guidelines for all network banks taking into account current market conditions
- Develop rating and scoring tools for use in loan decisions

In addition to these points, attention was focused on standardizing the range of services for private individuals and small businesses in cooperation with those responsible for the products. Almost 30 products or product groups throughout the network were thoroughly reviewed last year from the standpoint of risk. In the process, price structures in the various portfolios were also optimized.

Moreover, lending guidelines were reviewed and adjusted at regular intervals to cushion or minimize negative effects of the financial crisis. A package of measures recently developed for that purpose includes, among other things, higher rating requirements for customers, shorter loan terms, restrictions on lending in foreign currencies, especially Swiss francs, more cautious evaluation of customer income situations, and more selective lending to customers in certain business sectors.

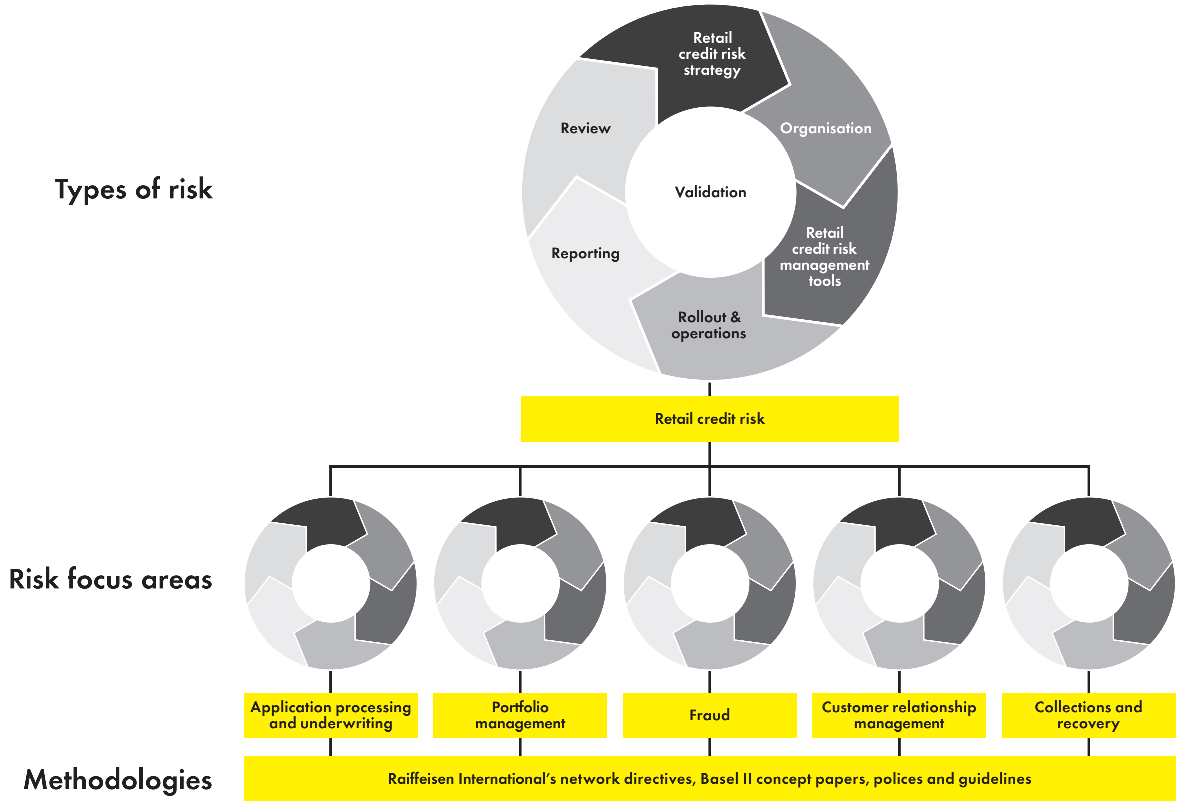
Also, more training was offered last year on the topic of dealing with retail risks. The risk management teams of the network banks received further training in the framework of several extensive courses and workshops. Training sessions were held on developing scorecards for micro-companies, reporting, portfolio management, loan servicing, and fraud management.

## Uniform Group-wide risk management system

The set of risk management tools introduced in 2006 was expanded in 2007 and 2008 into a set of standardized evaluation and planning instruments for the Group. All existing risk management standards, Basel II requirements, intra-Group principles and guidelines, and a number of best practice approaches now flow into the system that was developed further in 2008.

As a result, the more developed instruments form a standardized system with whose help all risks arising from the portfolios of the network banks and leasing companies can be reviewed and assessed.

The practical implementation of the system is based on five risk emphases: application and signing, portfolio management, fraud management, customer relationship management, and loan servicing.




In the area of private individuals and small businesses, most risk management activities were already conducted in accordance with the more developed instruments in 2008.

## Improvement in signing and portfolio management

Risk measurement and forecasting processes were further adjusted to changed market conditions in 2008. Significant improvements were achieved in risk assessment both at contract signing and during the term of loans. With the introduction of the further standardized lending practices, portfolios can be centrally controlled and optimized across the entire network. Furthermore, 40 new scorecards were developed for the application process and for the payment behavior of private individuals. Also, 14 new or revised scorecards for micro-companies were introduced.

A method was developed in the fourth quarter for adjusting the value of loans to small businesses that are bundled together in portfolios. Furthermore, Raiffeisen International initiated a Group-wide project to improve the forecasting power of the IRB rating model relevant for small businesses.

The second phase of a project to assess the quality of real estate and its revaluation in the entire network was also successfully completed. The result was a series of process improvements at the network banks and uniform minimum requirements, which have been implemented Group-wide since the beginning of 2009.

### Fraud management and loan servicing strengthened

Efforts to combat credit fraud were intensified within the entire Group in 2008. New standards for detecting and dealing with cases of fraud were defined and implemented for the entire Group. In support, a Group-wide workshop was held that offered the opportunity to exchange ideas and experience. That not only heightened awareness of credit fraud among the responsible staff members, but also improved prevention, detection, and investigation of these cases.

There was also regular exchange of ideas in the area of credit servicing to optimize processes within the Group, accompanied by workshops, training sessions, and an in-house competition throughout the network, resulting in significantly increased efficiency in this area.

### Expansion of retail risk management

The introduction of Basel II in the retail division is proceeding according to plan. Some concepts have been updated based on comments by supervisory authorities and initial experience with their application. Several network banks in Central and Eastern Europe are already in the launch phase of projects to introduce the Advanced IRB approach.

Further development of retail risk management is also planned for 2009. The negative effects of the significantly more difficult market environment are to be counteracted by means of tightened portfolio management and stricter lending criteria.

Raiffeisen International has already invested a great deal in the platform for risk measurement, the reporting related to it, and the improvement of data quality. The new platform for managing retail risk is now to be put into action in 2009. Its use is expected to contribute considerably to innovative and modern modeling of credit risks in the future.

Use of even more sophisticated scorecards, for measuring the loss-given-default ratio, and improvement of the model for simulating foreign currency risks are also planned for 2009. Further models, e.g., to control economic capital required for intra-bank purposes or to perform stress tests at the macro level, are to be available in the first half of 2009.

In continuation of the activities of 2008, it is also planned to further adapt the concept concerning portfolio valuation adjustment and implement minimum standards for real estate valuation and revaluation (third pillar of Basel II) in the entire Group by the end of 2009. Moreover, the efficiency of loan servicing is to be increased, and staff and technical capacities expanded.

## Corporate risk management

Two large topics dominated activities in corporate risk management last year. The first involved constant development of risk management and area-wide implementation of Basel II. The second arose from the effects of the financial crisis, especially in the second half of the year, which made it necessary to adjust lending guidelines to the changed market environment.

### Lending guidelines adjusted to market environment

Thanks to ongoing portfolio stress tests, Raiffeisen International's risk management is also well-prepared in the corporate customer business for the effects of the expected economic slowdown in Eastern Europe. A comprehensive adjustment of lending policy resulted from the analyses and stress scenarios prepared in the framework of those tests. Lending guidelines were made stricter, particularly for borrowers in cyclical sectors such as the construction and transportation industries. Attention was given in that connection to reducing unsecured lines, lowering lending limits, raising minimum requirements regarding loan repayment ability, and generally intensifying loan-related control and monitoring. In particular, lending standards were raised appreciably for foreign currency loans, and hence new lending in foreign currencies decreased significantly. In the area of real estate finance, Raiffeisen International adjusted its lending standards in cooperation with international experts and trend researchers. The changes in lending practices were made in accordance with the risk profiles of the respective national economies in which Raiffeisen International is represented in the network units.

Despite all these changes, however, expansion and strengthening of business relationships with long-standing customers continues to be at the fore of Raiffeisen International's lending policy.

## Continuous development of risk management

To advance development of risk management, the credit quality management team established a functional development planning process that subjects overall risk management to multiple-year planning. The functional development plan comprises all aspects of risk organization, such as risk functionalities, risk team strengths, risk processes, risk initiatives, and IT projects and constitutes in a structured form the medium-term plans of the chief risk officer worked out at the national level.

In a joint effort with the external consultant who also contributed to structuring the process itself, the results of the functional development plan were centrally evaluated. On that basis, the plan was harmonized and approved. Functional development planning and the measures derived from it are now an important component in the ongoing development and strengthening of risk functionality within Raiffeisen International.

## Status of Basel II implementation

Uniform process and valuation methods are the declared goal of all Raiffeisen International activities in the areas of Basel II and data quality management.

As in previous years, consistent and area-wide realization of Basel II was again one of Raiffeisen International's most important risk management projects in 2008. The goals went far beyond implementing methods of measuring credit risk for regulatory purposes. The key pillars of the credit management process, i.e., measurement and management of risks, were continuously developed and adapted to international quality benchmarks.

In cooperation with RZB, Raiffeisen International subjected itself in 2008 to the demanding IRB approval process. One of the greatest challenges was to meet the requirements of quite various supervisory authorities in a relatively short time. Thanks to the regulators' constructive approach and great effort on the part of the Basel II team, the approval process was successfully completed for the first network banks. Those units are now planning to apply for the Advanced IRB approval process for the retail portfolio in 2009.

The network banks in Croatia and Romania will undergo the Foundation IRB approval process for the non-retail portfolio in 2009 pursuant to the Group-wide implementation plan. Furthermore, IRB preparations for all other units are moving forward. Parallel to that, Basel II activities in Russia and Ukraine continue to have highest priority.

Raiffeisen International supported and coordinated the local project teams with a special center for excellence to ensure standardized calculation of risk assets in compliance with Austrian legal requirements and local options.

## Data quality management

Data quality management is also an important aspect of implementing Basel II. The quality of data is reviewed on a monthly basis based on centrally developed indicators. Any needed corrections are made immediately. In addition, deficiencies in data quality are proactively avoided by continuously optimizing credit processes both in the central office and for the local portfolios in the network units.

# Operations and IT

Raiffeisen International's priorities in the area of operations and IT in 2008 were to introduce and develop modern software solutions that take account of business growth and rising customer expectations, on the one hand, and to strive consistently to utilize opportunities for cost synergy and enhance the efficiency of all processes, on the other.

## IT

Considering the constantly increasing requirements and volumes of retail business, the search for a modern, scalable core banking system was a key emphasis in the area of IT. After a thorough evaluation, Raiffeisen International selected the System Finacle from Infosys, which is now to be used in an initial phase in Russia and the Czech Republic.

At the same time, necessary improvements were made to the existing core banking system in order to cope with Slovakia's adoption of the euro and customer growth in an efficient manner.

Furthermore, Raiffeisen International worked intensively on Group-wide implementation of a management information system and Basel II risk management systems. Development and control of these applications were centralized. The Group also identified standard factoring software and began its implementation in various countries.

In the area of retail operations, two solutions defined as Group-wide standards were introduced for processing collections (Debt Manager) and for processing loans in retail business (Capstone) in other countries.

Set as the Group standard and operated by RZB, the Global Treasury System (GTS) was also successfully introduced by the treasury unit in Hungary last year. Implementation of the system in other network banks operating in the treasury area will continue in 2009.

RI Group IT GmbH, which had already been working for Raiffeisen International, was merged retroactively as of 15 July 2007 into Raiffeisen International Bank-Holding AG to ensure closer collaboration with the business units.

## Shared service centers

The CRISP unit (Centralized Raiffeisen International Services & Payments), founded in Romania in 2007 for processing payment transfers, in particular SWIFT transactions, and other back-office activities for the Group, was further expanded in the reporting period according to plan. In addition to functioning as a SWIFT hub, CRISP is already checking transactions of many network banks for irregularities on a centralized basis. Implementation of centralized software for international transfer payments has begun. The first countries migrating to this new Group-wide platform are Bulgaria, Romania, and Hungary. In addition, work is under way to centralize software for reconciliation of nostro accounts maintained for clearing entries in payment transfers involving other banks and for inquiries into interbank and corporate customer transactions.

The Group's two card-processing centers, in Bratislava and Kiev, increased the number of cards processed to 13.4 million in 2008, and the number of transactions executed rose to over 500 million. The center in Kiev has also been working since last year on authorization of transactions by ATMs and at cashless payment terminals and in the area of e-commerce, also for network banks outside Ukraine.

## Increasing productivity and cutting costs

Raiffeisen International took additional cost control measures in view of the worsening financial crisis in the second half of 2008. In particular, expansion of the branch network was sharply curtailed relative to original plans. New branches will thus only be opened selectively in the future.

Moreover, the workforce will not be expanded further in 2009. At the same time, projects that are not absolutely necessary or do not promise a significantly positive earnings contribution in the medium term are being deferred. Nevertheless, Raiffeisen International continues to work vigorously on strategic projects that will enhance the Group's competitiveness on a medium-term horizon. Those include, for example, the core bank system and projects in the framework of shared services.

As in the past years, a large number of 6 sigma process optimization projects led in 2008 to a significant increase of productivity in the amount of about € 75 million. Well over 100 such projects were executed in the areas of credit application processing and payment transfers. One emphasis was the operational optimization of reminder and collection processes – not least in order to be best prepared to meet the expected increase of non-performing loans.

The rollout of i-procurement software to optimize purchasing processes in the Group was completed in 2008. In its centrally controlled purchasing, Raiffeisen International focused on data transfer/telephony, desktop computers, notebooks, and outfitting the branches (furnishings, outside advertising, etc.). Measurable economies of scale were realized by means of this bundling of Group-wide needs. Moreover, a training initiative was started to ensure specialized education of purchasing representatives in subsidiary banks on a broad basis.

Altogether, Raiffeisen International saved around € 95 million through centralized and network-bank-controlled purchasing activities in 2008.

# Human resources

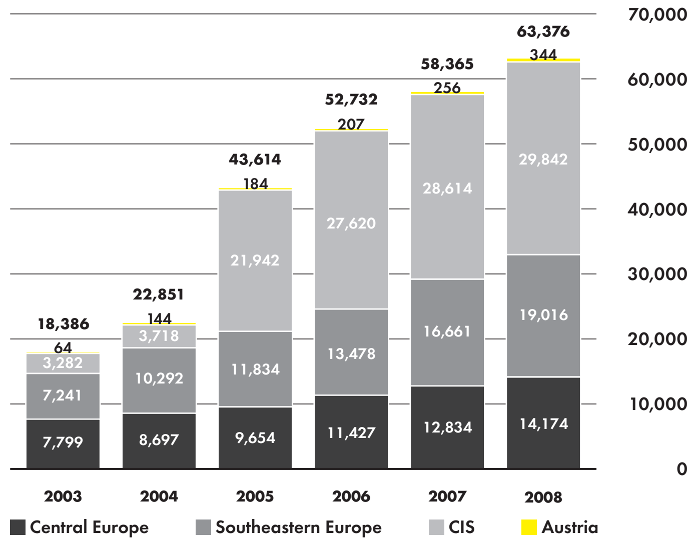
## Important employer in Central and Eastern Europe

Raiffeisen International had a total of 63,376 employees as of 31 December 2008, (measured in full-time equivalents), which is 8.6 per cent more than at the end of 2007. The Group did not acquire any additional banks in the reporting period, so this increase is due solely to organic growth.

The average age of employees in all network banks remained comparatively low at 33 years and thus reflects Raiffeisen International's role as a young and dynamic bank. The personnel structure also confirms how highly qualified the staff is. Raiffeisen International's ratio of university graduates was an impressive 72 per cent at the end of 2008. Women accounted for 70 per cent of the employees. However, because conditions in Raiffeisen International's markets vary considerably, there are divergences from these averages in some countries. The differences relate primarily to labor market structures, educational systems, and general economic conditions.

### Development of personnel

Number of staff on balance sheet date



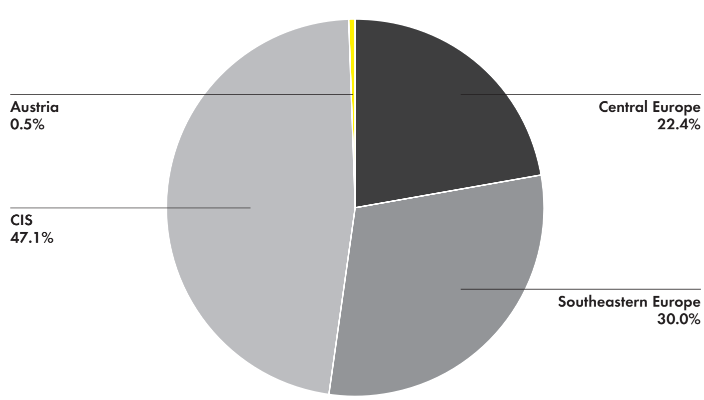

## Human resources controlling

Raiffeisen International began developing a human resources controlling system in 2008. The goal of this interdisciplinary project is to collect and evaluate data relevant to human resources within the Group and thus establish a basis for business decisions. The project should be completed and implemented in all countries in 2009.

## Corporate responsibility

The RZB Group and Raiffeisen International as a subgroup prepared their first corporate responsibility report in 2008, which was published at the beginning of 2009. The report provides comprehensive information concerning the Group's corporate principles and diverse activities in this area and will be published every two years in the future. Following the principles that "the best become better with us" and "diversity beats monotony," the report also deals with employee-related corporate responsibility topics and activities. The report can be requested at any time at **www.ri.co.at → Investor Relations → Financial Reports & Figures**.

### Number of employees as of the balance sheet date



# Commitment to performance and employee development

## Performance management

Setting transparent goals for individual employees in line with corporate goals ensures consistent commitment to performance and provides a fundamental basis for the success of Raiffeisen International. To achieve this, the already successfully established performance management system was continuously expanded and refined at all network banks in 2008. The performance management process is the foundation for the most important personnel processes and thus forms the basis for targeted staff development, career and succession planning, performance-based compensation, and for measures to ensure that top performers stay with the company.

## Talent management and leadership development

One of the main emphases of human resources management in 2008 was the establishment of a Group-wide international acceleration pool. Its aim is to offer high-potentials more opportunities for cross-border careers within the Raiffeisen International network. This makes it possible to fill vacant key positions both quickly and efficiently by means of cross-national rotation. In addition, expertise in the Group is passed on and augmented by means of international personnel exchange, reinforcing the common "Raiffeisen Culture" in all regions.

Special emphasis is also placed on targeted further development of high-potentials in the network banks in order to offer those employees appropriate professional development and career opportunities and thereby keep them in the company. In the framework of the "Spot! – Grow! – Lead!" program initiated in 2007, talent pools were established at individual network banks in order to identify employees with high potential, generally promote them, and specifically cultivate them for suitable (management) positions.

High priority continued to be given to succession planning for the managing boards and top management of the network banks in order to identify any possible personnel gaps early and provide for prompt, suitable replacement. The "top talent pool" already initiated in the framework of the "Spot! – Grow! – Lead!" program, which identifies possible candidates for managing board positions in the network, has already shown impressive results. Of 16 newly occupied board positions, 14 were filled internally in 2008 thanks to the "top talent pool".

The executive development program for managing board members and other top managers of Raiffeisen International is a further essential component for developing management talent. In preparation for a Group-wide strategy development process from 2008 to 2011, strategy development and implementation were key emphases of executive development in 2008. Furthermore, leadership themes formed the focus of the program's extensive scope.

# Qualification at all levels as key to success

Based on a standardized Group training architecture, Raiffeisen International vigorously continued its local and international training and educational activities in 2008. Consequently, 79 per cent of all employees took part in at least one continuing education measure in the past year.

The Group's training center for the former Yugoslavian countries, the Raiffeisen Training Center (RTC) in Zagreb, increased its training volume significantly in 2008. The number of RTC rose by

63 per cent from 87 to 139 compared with 2007.

### E-Learning

E-learning programs make it possible to help a large number of employees with their educational needs directly, comprehensively, promptly, and efficiently. In 2008, Raiffeisen International successfully continued on the path taken some years ago to use this modern learning method to ensure optimal qualification of its employees. As an important medium in the qualification of Raiffeisen International's employees, e-learning has now become a key component of the learning methods used at all levels.

Already seven network banks were offering their employees e-learning programs at the end of 2008. In the future, this form of learning will also be available to employees in Serbia, Albania, and Bosnia and Herzegovina. In addition to local initiatives, there was also more cooperation at regional and international levels in 2008.

# Outlook

## Economic outlook

After record growth in recent years, the economies of Central and Eastern Europe face a severe slowdown in 2009. The main reasons for this are the indirect effects of development on global financial markets, which also became more evident in the CEE countries in the second half of 2008.

Four factors that used to drive the economy in past years are now dimming growth prospects:

- First, the recession in the United States and Western Europe is dampening demand for exports from the CEE region. This is already apparent from the latest monthly data for industrial production and the trade balance.
- Second, a decline of foreign direct investment is emerging. Although Central and Eastern Europe might profit in the medium term as a result of an outsourcing wave from Western Europe, that will probably not suffice to offset the cyclically induced decline of capital investment in 2009.
- Third, the shortage and higher cost of external financing are causing credit growth to slow. It is not unlikely that the total amount of lending in the CEE region will actually fall in 2009. Even a nominal decline is not out of the question in some countries.
- Fourth, financing current account deficits and short-term foreign debt is likely to remain very difficult due to the continuing tension on global financial markets. Some Central and Eastern European currencies might therefore remain under devaluation pressure. Moreover, it is not out of the question that other countries will apply for financial assistance from the International Monetary Fund and the European Union. By extending such help to Hungary, the EU has already underscored its willingness and ability to support its member states in financial distress. That probably also applies to the candidate countries of Southeastern Europe, whose economic and political stability is very important to the EU.

A slowing of real GDP growth in the CEE economies to an average of about 1.3 per cent may be expected for 2009, after 5.1 per cent on average in the preceding year. This forecast is based on the assumption of a recession in the euro area (minus 1.5 per cent) and in the United States (minus 2.2 per cent). The reduction of the growth gap between the euro area and the CEE region to about 1.5 percentage points also reflects a correction of the very dynamic increase of lending volume, real estate prices, and current account deficits in the past year. In any case, this growth difference averaged 4.5 percentage points in the five-year period 2004-2008 and amounted to 5.5 percentage points in 2008. These large differences may be explained by the admission to the EU of the countries in question and the resulting improvement of economic and institutional conditions there. In the medium term, the growth gap is likely to settle in at 2.5 to 3 percentage points. That is also necessary in order to maintain long-term real convergence of per capita incomes.

Lower imports of consumer and capital goods and hence more balanced current accounts should be one important consequence of the decline in credit growth and direct investment. That is a positive thing inasmuch as current account deficits in some countries have already reached exceptionally high levels in the past years.

Nevertheless, the use of foreign funds to accelerate the transformation process continues to make good economic sense both for the CEE countries themselves and for the suppliers of the funds. Central and Eastern Europe is extremely attractive as a production location for the European market due to cheaper wages coupled with high level of education. That also explains the lively inflow of foreign direct investments since the beginning of the transformation. Productivity and incomes are rising at the same time in the Central and Eastern European countries due to the inflow of capital and know-how.

However, the shortage and rising cost of external financing and the decline of direct investment will slow this process in 2009, at least temporarily. That might be partly offset if efforts to raise the saving ratio succeed in the affected countries themselves. Conditions appear to be quite favorable for that, if one considers the strong growth of average incomes in the past years, the recently falling inflation rates, and the current economic uncertainty. An increase of the saving ratios would lead to stronger deposit growth for banks, which would support the stability and financial strength of the financial sector in a continuing difficult global environment.

# Outlook for Raiffeisen International

Against the background of the current financial and economic crisis, concerns have arisen in recent months about the economic stability and credit rating of some of the countries in the CEE region, as well as the financial institutions operating there. Due to the considerable currency fluctuations of some currencies against the euro, these concerns further deepened and have had a considerable impact on our business operations. Nevertheless, the countries of Central and Eastern Europe offer financial institutions interesting perspectives and attractive long-term business opportunities, which result from their catch-up potential with the countries of Western Europe. We continue to be convinced of this potential, and continue to regard the CEE region as our core market. As in the past, not all markets will develop at the same pace, and we therefore consider our presence in 17 markets in CEE, where we have a large network of branch offices, to be a strength.

We expect business with corporate customers to make the largest contribution to profit before tax again in 2009. This year we plan to continue our business model, which is based on integrated service and advisory solutions for our main bank customers, in the corporate customer division. Non-interest-bearing business, e.g. the further expansion of our leading position in cash management, will be one emphasis of our activities.

In the retail customer division we will continue to take advantage of our large branch network. Despite the difficult market conditions, we plan to further develop our product portfolio and segment specific value propositions particularly with respect to insurance, fee based liability products and affluent banking. We also plan to increase investment in customer relationship management technology in order to increase product penetration for all our key customer groups.

After a strong growth in lending to customers over the last several years, the focus this year will be on enhancing our active credit portfolio and risk management. We expect lending to customers in 2009 to be at the same level as the year before. In view of the unfavorable overall conditions for other forms of refinancing, the focus has shifted increasingly in the direction of customer deposits. Against this background, we will continue our efforts to gain customer deposits during the 2009 business year.

Moreover, we took a number of measures for the year 2009 that will moderate the increase in costs that was the result of our growth in recent years. Administrative expenses should therefore be at the level of the previous year. The number of branch offices will ultimately remain at the same level as in the business year 2008. In this context improvements in profitability will be given increasing attention.

# Segment reports

## Classification of segments

Raiffeisen International adopted IFRS 8 early, and it has been applied for the year 2008. Only the segmental reporting regulations laid out in IFRS 8 have been applied to this report.

Generally, internal management reporting in Raiffeisen International is carried out based on its matrix organizational structure. Under this organizational structure, members of the Managing Board are responsible for both specific countries and certain business areas. The highest decision making bodies, Raiffeisen International's Managing and Supervisory Boards, make important decisions, such as the allocation of resources, according to geographical standpoints. The same applies to the appraisal of financial strength and profitability, which is why this has been identified as the substantial reporting criterion.

Individual Central and Eastern European countries constitute the smallest Cash Generating Units – CGU. Countries that expect a similar long-term economic development and exhibit a similar economic profile are grouped together as regional segments. Four regional segments have been determined in consideration of the threshold values required by IFRS 8, whereby transparent and clearly represented reporting is achieved. The threshold values as defined by IFRS 8 are 10 per cent of certain parameters; these are operating income, profit after tax, and segment assets.

As of 31 December 2008 the following Group segments existed. The location of the respective business outlets served as the criterion for segment assignment:

### ■ Central Europe (CE)

This segment contains the five countries that joined the EU on 1 May 2004 – the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. They represent not only the most fully developed banking markets in Central and Eastern Europe, but also the markets in which Raiffeisen International had its earliest presence.

### ■ Southeastern Europe (SEE)

Southeastern Europe includes Albania, Bosnia and Herzegovina, Croatia, Kosovo, Moldova, Serbia, as well as Bulgaria and Romania, which joined the EU on 1 January 2007. Moldova has been included in this segment due to its close economic ties to Romania and the respective management structures within the Group.

### ■ Russia

This segment includes the assets and performance for those companies active in the Russian Federation on behalf of Raiffeisen International. The Group is represented in Russia by a bank, a leasing company and a capital management company.

### ■ Commonwealth of Independent States (CIS) other

This segment contains Belarus, Kazakhstan, and Ukraine.

The figures stated are derived from the financial statements prepared in accordance to the International Financial Reporting Standards (IFRS) that underlie the consolidated financial statements. Divergence from locally published data is possible, as they may be based on different valuation regulations or differing reporting deadlines.

Details on the calculation of segment results can be found in the segment report on page 121 in the notes.

# Segment overview

In the period under review, the *CIS* region registered the highest profit before tax of all segments at € 665 million. The earnings increase of 50 per cent, or € 223 million, is primarily attributable to high interest income and good trading profit. Balance sheet assets grew by 18 per cent on an annual basis. The CIS contributed 41 per cent to total profit before tax and was therefore 8 percentage points above the comparable value in the preceding year.

The region of *Southeastern Europe* achieved the second-largest profit before tax at € 534 million. The earnings increase of 12 per cent, or € 59 million, was based largely on solid growth of net interest income and net commission income and a relatively low rise of general administrative expenses. The contribution to profit before tax amounted to 33 per cent and was therefore 2 percentage points below the preceding year's value. Balance sheet assets grew by 12 per cent on annual comparison.

In *Central Europe*, profit before tax fell by 2 per cent, or € 11 million, to € 442 million, although it was positively influenced by increases in net interest income and net commission income. The segment's contribution to earnings therefore fell by 6 percentage points to 27 per cent. This disproportionate reduction of the segment's share was brought about by special effects in the preceding year due to changes in the scope of consolidation and by earnings growth in the CIS. The segment's balance sheet assets rose on annual comparison by 25 per cent.

Central Europe remained dominant in respect to consolidated assets with a share of 43 per cent (plus 2 percentage points). As in the preceding year, the Southeastern Europe segment accounted for the second-largest share at 30 per cent (minus 2 percentage points), followed by the CIS at 27 per cent.

# Central Europe

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Net interest income | 1,025 | 821 | 24.8% |
| of which current income from associates | 1 | 2 | (49.3)% |
| Provisioning for impairment losses | (265) | (122) | 117.0% |
| **Net interest income after provisioning** | **760** | **699** | **8.7%** |
| Net fee and commission income | 568 | 471 | 20.7% |
| Net trading income | 56 | 56 | (0.5)% |
| Net income from derivatives | (11) | 1 | – |
| Net income from financial investments | 2 | (7) | – |
| General administrative expenses | (930) | (791) | 17.6% |
| of which staff costs | (455) | (397) | 14.5% |
| of which other administrative expenses | (389) | (312) | 24.7% |
| of which depreciation/amortization/write-downs | (86) | (82) | 5.1% |
| Other net operating income | (10) | 0 | – |
| Net income from disposal of group assets | 8 | 24 | (67.0)% |
| **Profit before tax** | **442** | **453** | **(2.4)%** |
| Income taxes | (91) | (88) | 3.6% |
| **Profit after tax** | **351** | **365** | **(3.9)%** |
| Minority interests in profit | (90) | (91) | (0.6)% |
| **Consolidated profit** | **261** | **274** | **(4.9)%** |
| | | | |
| Share of profit before tax | 26.9% | 33.0% | (6.1) PP |
| Share of profit after tax | 27.5% | 33.2% | (5.7) PP |
| Risk-weighted assets (credit risk) | 23,533 | 20,775 | 13.3% |
| Own funds requirement | 2,401 | 1,743 | 37.8% |
| Total assets | 36,316 | 28,962 | 25.4% |
| Liabilities | 33,910 | 26,910 | 26.0% |
| Risk/earnings ratio | 25.9% | 14.9% | 11.0 PP |
| Cost/income ratio | 56.8% | 58.7% | (1.9) PP |
| Average equity | 2,607 | 2,007 | 29.9% |
| **Return on equity before tax** | **16.9%** | **22.6%** | **(5.7) PP** |
| Average number of employees | 13,265 | 12,079 | 9.8% |
| Business outlets | 572 | 532 | 7.5% |

In the year under review, earnings in the region of Central Europe remained slightly below the preceding year's. *Profit before tax* fell on the comparable period by 2 per cent, or € 11 million, to € 442 million. The *return on equity before tax* for Central Europe fell by 5.7 percentage points to 16.9 per cent. The main factors responsible for this decline were a 30 per cent increase of average equity on the comparable period, significantly higher provisioning for impairment losses in the region, and earnings-enhancing special effects in the preceding year.

*Net interest income* increased by 25 per cent in 2008 to € 1,025 million. The Group's assets in Central Europe grew by 25 per cent. The net interest margin improved by 2 basis points on the comparable period and amounted to 3.14 per cent. At 13 per cent, growth of risk-weighted assets from € 20.8 billion before to € 23.5 billion was significantly weaker than that of balance sheet assets. Their increase was based mainly on organic growth, but that was counteracted by the introduction of Basel II, which reduced the risk-weighted assets.

New allocations to *provisioning for impairment losses* rose by 117 per cent to € 265 million. That was mainly due to new allocations to individual provisions in Hungary and Poland, while portfolio-related provisions in the region remained at the preceding year's level. The *risk/earnings ratio* increased by 11.0 percentage points on the comparable period to 25.9 per cent. The share of the loan portfolio attributable to non-performing loans rose by 48 basis points on the comparable period to 3.12 per cent.

The region's *net fee and commission income* grew by 21 per cent, or € 98 million, to € 568 million. Foreign currency and precious-metals business and notes/coins business played a large part in that at € 257 million, as did payment transfers and account services at € 201 million. Loan and guarantee business contributed another € 55 million. The Group units in the Czech Republic and in Poland registered the largest increases in net fee and commission income. The share of operating income due to business affecting commission income was the highest of all segments in Central Europe at 35 per cent.

*Net trading income* in the region of Central Europe came to € 56 million and therefore remained at the comparable period's level. A positive result of € 85 million was achieved there from currency-related business. On the other hand, the region registered a loss of € 27 million in interest-related business, which was mainly caused by valuation losses on securities – primarily sovereigns – and derivative financial instruments.

*Net income from derivative financial instruments* amounted to minus € 11 million and was based on valuation losses from hedging transactions, which were used to minimize the currency and interest rate risk of the loan portfolio, mainly in Hungary and the Czech Republic.

*Net income from financial investments* amounted to € 2 million. The sale of shares valued at equity in Prague-based building society *Raiffeisen stavebni sporitelna, a.s.* by the local Raiffeisenbank made a positive contribution to earnings of € 11 million. On the other hand, valuation losses from securities in Hungary and the Czech Republic diminished earnings by € 10 million.

*General administrative expenses* rose on the comparable period by 18 per cent, or € 139 million, to € 930 million. Staff costs amounted to € 455 million, and the average number of employees increased by 10 per cent to 13,265. Other administrative expenses went up € 77 million to € 389 million. Depreciation/amortization/write-downs rose by € 4 million and reached a total of € 86 million. The number of business outlets increased on an annual basis by 8 per cent, or 40 outlets, to 572. That derived mainly from Hungary (plus 24 outlets). The region's *cost/income ratio* decreased by 1.9 percentage points to 56.8 per cent.

*Other net operating income* amounted to minus € 10 million and mainly comprised tax expense not dependent on income at Group units in Hungary and Slovakia. In the preceding year, the result was offset by income of € 9 million from the initial consolidation of asset management companies in Slovakia and Hungary.

*Net income from disposal of group assets*, which was primarily based on income from the sale of two Hungarian real estate project companies in the second quarter, amounted to about € 8 million. The higher value in the preceding year of € 24 million mainly resulted from the sale of a Hungarian energy generating company and a Hungarian real estate company.

*Income taxes* rose by 4 per cent on the comparable period to € 91 million. *Profit after tax and minority interests* amounted to € 261 million.

# Czech Republic

While the Czech economy registered GDP growth of more than 6 per cent on average in the years from 2005 to 2007, that growth slowed in the reporting period to 3.7 per cent. Inflation rose at the beginning of the year, influenced by a tax reform and external factors such as higher energy and food prices, but subsided again significantly toward the end of the year. The Czech koruna revalued by almost 10 per cent against the euro in the period to July 2008, but lost that gain in the second half of the year amidst the global financial market crisis. The country's banking sector was not affected all that much by the rising cost and shortage of external funding thanks to the Czech central bank's low-interest-rate policy. Total bank assets rose in 2008 by about 16 per cent. Expressed in euros, that represents an increase of about 14.5 per cent.

The merger of *eBanka a.s.*, in which Raiffeisen International acquired a majority interest in 2006, with *Raiffeisenbank a.s.*, which was founded in 1993, was successfully completed in July 2008. Since then, the two banks have been doing business jointly as *Raiffeisenbank*. All business outlets with the *eBanka* design have been remodeled over the past months in the style of Raiffeisen International's new Group-wide branch design.

Raiffeisen had about 2,654 employees at 107 business outlets in the Czech Republic as of 31 December 2008. It had 411,000 customers at that time and showed a balance sheet total of € 7.2 billion. That represents a market share of just under 4 per cent. *Raiffeisenbank* is thus one of the five largest banks in the country. Serving upscale private individuals and corporate customer business with small and medium-sized enterprises and large companies form the business emphases. In the past year, total deposits increased by 18.7 per cent to € 4.2 billion, while the loan portfolio grew by 25.6% per cent to € 5.5 billion.

Raiffeisen improved its cost/income ratio in the Czech Republic to 60.7 per cent in 2008, compared with 68.7 per cent in the preceding year. On this basis, it achieved profit before tax of € 68 million, which led to a return on equity before tax of 18.3 per cent. The return on equity after tax of 14.4 per cent is based on a taxed profit of € 53 million.

Raiffeisen International owned 51 per cent of Czech firm *Raiffeisenbank a.s.* at the end of 2008. Furthermore, *Raiffeisenlandesbank Niederösterreich-Wien AG* and *Raiffeisenlandesbank Oberösterreich AG* held nearly equal interests in the bank of 24 and 25 per cent, respectively.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **5,464** | 4,351 | 25.6% |
| Deposits from customers | **4,191** | 3,531 | 18.7% |
| Balance sheet total | **7,198** | 5,670 | 27.0% |
| Profit before tax | **68** | 46 | 49.5% |
| Profit after tax | **53** | 32 | 65.6% |
| Return on equity before tax | **18.3%** | 16.4% | 1.9 PP |
| Return on equity after tax | **14.4%** | 11.3% | 3.1 PP |
| Cost/income ratio | **60.7%** | 68.7% | (8.0) PP |
| Employees | **2,654** | 2,495 | 6.4% |
| Business outlets | **107** | 105 | 1.9% |

# Hungary

The Hungarian economy has been shaped by budget consolidation in recent years. After real GDP growth of 1.1 per cent in 2007, growth in the year under review came to 0.7 per cent. When the turmoil on the global financial markets put the Hungarian forint under heavy pressure in the second half of 2008, the Hungarian central bank raised its key interest rates temporarily despite declining inflation rates and requested financial assistance from the IMF and the EU. The growth of total bank assets in 2008 came to 12.5 per cent, or 8 per cent after conversion to euros.

*Raiffeisen Bank Zrt.*, one of the largest network banks in the Raiffeisen International Group, began business operations in 1987. At the end of 2008, it was Hungary's fifth-largest bank with a balance sheet total of about € 9.6 billion. In the framework of a multi-year expansion program, the number of Raiffeisen International's branches in Hungary increased in the year under review by 24 to over 164 business outlets. At the end of 2008, about 3,960 employees were serving more than 657,000 customers, whose number thus increased in the reporting period by 8.9 per cent. As a universal bank, *Raiffeisen Bank Zrt.* serves not only private individuals and small and medium-sized enterprises, but also a large number of corporate customers.

Based on an innovative and extensive product range, total lendings to customers rose by 13.3 per cent in 2008 to € 7.2 billion. At the same time, customer deposits increased by 16.4 per cent on annual comparison to € 5.7 billion.

The cost/income ratio of Raiffeisen in Hungary improved from 55.9 per cent in the preceding year to 58.5 per cent at the end of 2008. Profit before tax amounted to € 83 million, which meant a return on equity before tax of 14.5 per cent. The return on equity after tax of 11.7 per cent resulted from taxed profit € 67 million.

Raiffeisen International held 70 per cent interest at the end of 2008, making it the largest shareholder in *Raiffeisen Bank Zrt.* The remaining shares are held indirectly by several Raiffeisen Landesbanken.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **7,186** | 6,343 | 13.3% |
| Deposits from customers | **5,654** | 4,857 | 16.4% |
| Balance sheet total | **9,568** | 8,079 | 18.4% |
| Profit before tax | **83** | 145 | (42.6)% |
| Profit after tax | **76** | 118 | (43.0)% |
| Return on equity before tax | **14.5%** | 28.2% | (13.7) PP |
| Return on equity after tax | **11.7%** | 23.8% | (12.1) PP |
| Cost/income ratio | **58.5%** | 55.9% | 2.6 PP |
| Employees | **3,960** | 3,454 | 14.7% |
| Business outlets | **164** | 140 | 17.4% |

# Poland

The Polish economy achieved real GDP growth of 4.8 per cent in 2008, which was thus somewhat below the preceding year's 6.5 per cent. After a strong revaluation up to mid-year, the zloty came under devaluation pressure in the second half due to the global financial market crisis. The Polish banking sector was one of the few in Central and Eastern Europe to show a rise of asset growth in 2008. On an annual basis, total bank assets increased in the year under review by almost 27 per cent. Due to the devaluation of the zloty, that represents an increase of about 9 per cent, expressed in euros.

Raiffeisen International has been represented in Poland since the founding of *Raiffeisen Bank Polska S.A.* in 1991. In the year under review, it had about 290,000 customers, a balance sheet total of € 7.1 billion, and about 3,271 employees. As a universal bank, *Raiffeisen Bank Polska* serves corporate customers, small and medium-sized enterprises, and private individuals. The main focus in the past years has been on upscale private individuals.

Total lending by *Raiffeisen Bank Polska* rose in the year under review by 14.9 per cent to € 5.3 billion, while an increase of total deposits was registered by 3.6 per cent to € 3.5 billion.

In leasing business, Raiffeisen is the third-largest provider in Poland with a portfolio of about € 1.5 billion, and it even occupies the country's top spot in factoring. Selling the *Raiffeisen Capital Management* funds in all 123 business outlets also makes the bank one of the largest providers of foreign investment funds in the market.

Raiffeisen achieved profit before tax in Poland of about € 129 million in the year under review, with a cost/income ratio of 51.6 per cent. The return on equity (ROE) before tax came to 25.7 per cent. Profit after tax amounted to € 103 million. That put the return on equity after tax at 20.5 per cent.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---:|---:|---:|
| Loans and advances to customers | **5,319** | 4,631 | 14.9% |
| Deposits from customers | **3,516** | 3,394 | 3.6% |
| Balance sheet total | **7,108** | 5,958 | 19.3% |
| Profit before tax | **129** | 106 | 21.7% |
| Profit after tax | **103** | 91 | 13.2% |
| Return on equity before tax | **25.7%** | 28.0% | (2.3) PP |
| Return on equity after tax | **20.5%** | 24.5% | (4.0) PP |
| Cost/income ratio | **51.6%** | 59.2% | (7.6) PP |
| Employees | **3,271** | 2,870 | 14.0% |
| Business outlets | **123** | 116 | 6.0% |

# Slovakia

After record growth of 10.4 per cent in the preceding year, Slovakia's real GDP grew by 6.8 per cent in 2008. This dynamic development was borne by the huge investments of foreign businesses in the past years. In mid-2008, the ECOFIN Council of the EU, consisting of the economics and finance ministers of the member countries, confirmed Slovakia's fulfillment of all criteria for introduction of the euro at the beginning of 2009. The conversion rate of the Slovakian koruna against the euro amounted to 30.164. The successful launch of the euro at the beginning of this year has largely cushioned the turbulence of the global financial market in Slovakia. Total bank assets increased in 2008 by about 6 per cent. Expressed in euros, that represents growth of about 18 per cent.

Established in 1991 as Slovakia's first private bank, *Tatra banka, a.s.* is now the third-largest bank in the country. As of 31 December 2008, Raiffeisen had a balance sheet total of € 11 billion and a branch network of 162 business outlets (2007: 156) in Slovakia. Its 3,885 employees were serving about 744,000 customers at the end of the reporting period.

From the beginning, *Tatra banka* operated as one of the most successful banks in the country in both retail and corporate customer business. Although *Tatra banka* offers products and services in a high price segment, the personal customer segment has grown faster than the market. Total deposits rose in 2008 by 34.6 per cent to € 7.5 billion, while the loan portfolio increased by € 1.7 billion to € 6.2 billion. One business emphasis of *Tatra banka* is asset management. The subsidiary operating in that area, *Tatra Asset Management s.r.o.*, covers one-third of the Slovakian market.

Raiffeisen in Slovakia achieved profit before tax of about € 157 million last year, with the cost-income ratio improving from 56.2 per cent to 53.3 per cent. That yields a return on equity before tax of 28.9 per cent. Based on profit after tax of € 124 million, the return on equity reached a level of 22.8 per cent.

In December 2008, the bank received a rating of A1 with a stable outlook from *Moody's*, while the rating from Standard & Poor's was A- with a negative outlook.

Raiffeisen International held a stake of 63 per cent in *Tatra banka a.s.* as of 31 December 2008. The rest was held indirectly by Raiffeisenlandesbank Niederösterreich-Wien AG, by the bank's employees, or in free float.

The bank received numerous awards in the year under review, including *Best Bank* from *Euromoney* and *Bank of the Year* from *The Banker.*

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **6,215** | 4,508 | 37.9% |
| Deposits from customers | **7,454** | 5,539 | 34.6% |
| Balance sheet total | **10,973** | 7,845 | 39.9% |
| Profit before tax | **157** | 138 | 14.0% |
| Profit after tax | **124** | 109 | 13.4% |
| Return on equity before tax | **28.9%** | 28.8% | 0.1 PP |
| Return on equity after tax | **22.8%** | 22.5% | 0.3 PP |
| Cost/income ratio | **53.3%** | 56.2% | (2.9) PP |
| Employees | **3,885** | 3,652 | 6.4% |
| Business outlets | **162** | 156 | 3.8% |

# Slovenia

After real GDP growth of 6.8 per cent in 2007, the year of the euro launch, the Slovenian economy registered growth of 5 per cent in 2008. Above all, external factors such as increased energy and food prices contributed to a rise of inflation to an average of 5.7 per cent year-on-year. Total bank assets grew in 2008 by about 14.5 per cent.

In 2002, Raiffeisen acquired *Krekova banka*, which was founded in 1992 and today does business as *Raiffeisen Banka d.d.* At the end of 2008, the balance sheet total of Raiffeisen in Slovenia stood at € 1.5 billion. Its over 71,000 customers were being served at that time by about 344 employees in 16 business outlets and by almost 40 mobile bankers.

The business activities of *Raiffeisen Banka* focus on upscale private individuals and on small and medium-sized business customers. In total, lendings to customers rose by 10.4 per cent in 2008 to € 1.2 billion, and customer deposits by 23.3 per cent to € 545 million. To further increase business with upscale private individuals, the bank began implementation of an affluent banking concept after a successful pilot program in summer 2008. The launch of this special advisory and service concept in all business outlets will be completed during 2009. Great attention is also being placed on cross-border financing transactions in the corporate customer segment.

Raiffeisen's cost/income ratio in Slovenia stabilized in 2008 at a level of 87.6 per cent. Profit before tax of € 4 million was registered, while profit after tax amounted to € 3 million. The return on equity was 6 per cent before tax, and 4.3 per cent after tax.

Raiffeisen International held an 86 per cent interest in *Raiffeisen Banka d.d.* at the end of the reporting period. Except for a small free float, the remaining shares were owned by *Raiffeisen-Landesbank Steiermark AG* and by *Raiffeisenlandesbank Burgenland und Revisionsverband registrierte Genossenschaft mit beschränkter Haftung*.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **1,179** | 1,068 | 10.4% |
| Deposits from customers | **545** | 442 | 23.3% |
| Balance sheet total | **1,509** | 1,410 | 7.0% |
| Profit before tax | **4** | 13 | (70.0)% |
| Profit after tax | **3** | 10 | (71.2)% |
| Return on equity before tax | **6.0%** | 21.1% | (15.1) PP |
| Return on equity after tax | **4.3%** | 16.7% | (12.4) PP |
| Cost/income ratio | **87.6%** | 87.2% | 0.4 PP |
| Employees | **344** | 363 | (5.2)% |
| Business outlets | **16** | 15 | 6.7% |

# Southeastern Europe

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Net interest income | 947 | 732 | 29.3% |
| of which current income from associates | 0 | (3) | – |
| Provisioning for impairment losses | (159) | (59) | 170.8% |
| **Net interest income after provisioning** | **788** | **673** | **17.0%** |
| Net fee and commission income | 463 | 385 | 20.4% |
| Net trading income | 57 | 48 | 20.0% |
| Net income from derivatives | (5) | 0 | – |
| Net income from financial investments | (19) | 0 | – |
| General administrative expenses | (773) | (647) | 19.5% |
| of which staff costs | (344) | (290) | 18.9% |
| of which other administrative expenses | (339) | (283) | 19.6% |
| of which depreciation/amortization/write-downs | (90) | (74) | 21.3% |
| Other net operating income | 23 | 17 | 36.3% |
| **Profit before tax** | **534** | **476** | **12.3%** |
| Income taxes | (84) | (68) | 25.1% |
| **Profit after tax** | **450** | **408** | **10.2%** |
| Minority interests in profit | (21) | (26) | (17.3)% |
| **Consolidated profit** | **429** | **382** | **12.1%** |
| | | | |
| Share of profit before tax | 32.5% | 34.7% | (2.2) PP |
| Share of profit after tax | 35.3% | 37.1% | (1.8) PP |
| Risk-weighted assets (credit risk) | 18,939 | 16,278 | 16.3% |
| Own funds requirement | 1,704 | 1,324 | 28.7% |
| Total assets | 25,239 | 22,605 | 11.7% |
| Liabilities | 22,488 | 20,487 | 9.8% |
| Risk/earnings ratio | 16.8% | 8.0% | 8.8 PP |
| Cost/income ratio | 51.9% | 54.7% | (2.8) PP |
| Average equity | 2,072 | 1,572 | 31.8% |
| **Return on equity before tax** | **25.8%** | **30.3%** | **(4.5) PP** |
| Average number of employees | 18,261 | 15,043 | 21.4% |
| Business outlets | 1,184 | 973 | 21.7% |

In the region of Southeastern Europe, *profit before tax* amounted to € 534 million and was therefore significantly above the preceding year's comparable value of € 476 million. Profit grew by 12 per cent, mainly thanks to the strong increase of net interest income and net fee and commission income. The region registered the second-highest earnings of all segments. Because of a significantly higher equity base, the *return on equity* before tax fell by 4.5 percentage points to 25.8 per cent.

*Net interest income* in the region increased by 29 per cent, or € 215 million, to € 947 million, while balance sheet assets rose by 12 per cent to € 25.2 billion. That was achieved by means of an improved net interest margin, which went up 22 basis points to 3.96 per cent. Risk-weighted assets increased by 16 per cent from € 16.3 billion to € 18.9 billion. The Basel II effect was somewhat stronger because countries with lower ratings are included in this region.

Allocations to *provisioning for impairment losses* rose from a very low level by 171 per cent, or € 100 million, to € 159 million. This increase was primarily due to new allocations to portfolio-related provisions in nearly all of the region's Group units. Individual provisions grew mainly as a result of allocations in the Group's Serbian unit. The *risk/earnings ratio* therefore rose to 16.8 per cent (plus 8.8 percentage points). The share of the loan portfolio attributable to non-performing loans increased on an annual basis by 68 basis points to 2.26 per cent.

*Net fee and commission income* rose by 20 per cent from € 385 million to € 463 million. Payment transfers contributed € 175 million to that, and foreign currency and precious-metals business € 102 million. Loan administration and guarantee business rendered another € 91 million. The region's largest increases were booked by the unit strongest in commissions, *Raiffeisen Bank* in Romania (plus € 52 million).

*Net trading income* also registered positive development in the region of Southeastern Europe. Altogether, it increased by 20 per cent to € 57 million. At € 80 million, currency-related business was significantly above the comparable period's value (€ 26 million). Due to market influences, a loss of € 12 million was booked in interest-related business, and losses of € 11 million in stock-related business, especially due to positions in Croatia and Bosnia and Herzegovina.

*Net income from derivative financial instruments* amounted to minus € 5 million and was based on valuation losses from hedging transactions due to other derivatives, used to minimize the interest rate risk of the loan portfolio in the Group's unit in Kosovo.

*Net income from financial investments* amounted to minus € 19 million. After a balanced result in the preceding year, this decline was shaped by losses arising from the valuation of securities (outside of the trading portfolio) primarily in Romania and Croatia.

*General administrative expenses* increased altogether by 20 per cent to € 773 million. Staff costs grew from € 290 million to € 344 million. The average number of employees rose on the comparable period by 21 per cent, or 3,218, to 18,261. Despite strong business expansion, other administrative expenses came to € 339 million and were therefore only 20 per cent higher than in the preceding year. Depreciation/amortization/write-downs, mostly for investments in branch offices, increased to € 90 million. Starting from 973 business outlets at the end of the comparable period, their number rose by 22 per cent to 1,184, which means Southeastern Europe showed the largest increase of all segments, especially in Romania. The cost/income ratio improved significantly by 2.8 percentage points to 51.9 per cent.

*Other net operating income* increased on the comparable period by € 6 million and amounted to € 23 million. In addition to smaller expense items, the main contribution to this was made by income from operating leasing business at € 32 million in the year under review.

The inclusion of Bucharest-based investment banking firm *Raiffeisen Capital & Investment Romania S.A.* due to materiality resulted in a special effect from initial consolidation of € 4 million.

*Income taxes* rose on the comparable period by 25 per cent to € 84 million. *Profit after tax and minority interests* amounted to € 429 million.

# Albania

Real growth of the Albanian economy, which continues to have the lowest GDP per capita of all Central and Eastern European countries, has averaged 5.7 per cent per year in the last five years. It was 6 per cent in the reporting period. Because of the banking sector's relatively early stage of development there, Albania is one of the few countries of Central and Eastern Europe where customer deposits still far exceed lendings. Consequently, the country's banking sector is hardly affected by the rising cost and shortage of external funding due to the global financial crisis. Total bank assets rose in 2008 by about 18 per cent. Converted to euros, that represents about 16 per cent.

Raiffeisen International changed the name of *Banka e Kursimeve Sh.a.*, which was founded in 1992, to *Raiffeisen Bank Sh.a.* after acquiring it in 2004. The bank is currently the market leader in all business segments. In 2008, the Group's balance sheet total in Albania exceeded € 2 billion for the first time. The network was expanded by 4 more business outlets to 102, which gives Raiffeisen International full-area coverage in Albania. While the number of employees remained nearly unchanged on the preceding year at about 1,400, the number of customers increased to almost 532,000.

*Raiffeisen Bank's* attention in 2008 mainly focused on expanding business relationships with small and medium-sized enterprises and servicing affluent private individuals. Lendings to customers rose by 34 per cent in the year under review to € 692 million, while customer deposits remained that the level of the previous year with € 1.7 billion.

Founded in 2006, leasing subsidiary *Raiffeisen Leasing Sh.a.* also continued to expand its market position.

The cost/income ratio of Raiffeisen in Albania amounted to 39.8 per cent in 2008. Despite the difficult environment, profit before tax amounted to € 46 million, and profit after tax to € 41 million, thus remaining at nearly the preceding year's levels. On that basis, the return on equity came to 37.8 per cent before tax, and to 33.8 per cent after tax.

The bank received awards in 2008 both from *Global Finance* and from *Euromoney* as *Best Bank* in Albania.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **692** | 515 | 34.4% |
| Deposits from customers | **1,745** | 1,795 | (2.8)% |
| Balance sheet total | **2,048** | 1,952 | 5.0% |
| Profit before tax | **46** | 49 | (6.7)% |
| Profit after tax | **41** | 40 | 3.8% |
| Return on equity before tax | **37.8%** | 58.1% | (20.3) PP |
| Return on equity after tax | **33.8%** | 46.6% | (12.8) PP |
| Cost/income ratio | **39.8%** | 40.3% | (0.5) PP |
| Employees | **1,427** | 1,355 | 5.3% |
| Business outlets | **102** | 98 | 4.1% |

# Bosnia and Herzegovina

Bosnia and Herzegovina achieved real GDP growth of 5.5 per cent in 2008. The national currency, the convertible mark, has been pegged fix to the euro (previously the German mark) since 1997. Nevertheless, the inflation rate reached 7.4 per cent on average in 2008 due to increased energy and food prices. In relation to GDP per capita, the banking sector in Bosnia and Herzegovina shows a high rate of market penetration. On a euro basis, the banking sector's total assets grew by about 10 per cent in 2008 on annual comparison.

Raiffeisen entered the local banking market in 2000 with the acquisition of *Market Banka*, which was founded in 1992. After merging with *Hrvatska Postanska Banka* in 2002, *Raiffeisen Bank d.d. Bosna i Hercegovina* is now the country's second-largest bank.

The balance sheet total of Raiffeisen in Bosnia and Herzegovina amounted to over € 2.4 billion at the end of 2008. More than 1,700 employees were serving almost 740,000 customers as of 31 December 2008, including especially private individuals and small and medium-sized enterprises. Lendings to customers came to € 1.7 billion, set against customer deposits of € 1.5 billion. To continue meeting demands as a universal bank, the branch network was expanded again in 2008. It comprised 100 business outlets at the end of 2008, and hence 7 branches more than at the end of 2007.

Subsidiaries such as *Raiffeisen Leasing d.o.o.* Sarajevo and brokerage firm *Raiffeisen Brokers d.o.o.* complete the range of offerings in Bosnia and Herzegovina.

The cost/income ratio of Raiffeisen in Bosnia and Herzegovina improved to 64.3 per cent in 2008 from 64.5 per cent in the preceding year. Profit before tax for 2008 amounted to € 28 million (2007: € 24 million), while profit after tax came to € 16 million (2007: € 24 million). The return on equity thus declined to 15 per cent before tax, and 8.7 per cent after tax.

While Raiffeisen International held a clear majority of 97 per cent in *Raiffeisen Bank d.d. Bosna i Hercegovina* at the end of the reporting period, 3 per cent of the bank was held in indirect ownership by *Raiffeisen-Landesbank Steiermark AG*.

*Raiffeisen Bank d.d. Bosna i Hercegovina* was recognized in 2008 by both *Euromoney* and *Global Finance* as Bosnia's *Best Bank*.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **1,671** | 1,422 | 17.5% |
| Deposits from customers | **1,510** | 1,334 | 13.2% |
| Balance sheet total | **2,395** | 2,121 | 12.9% |
| Profit before tax | **28** | 24 | 18.1% |
| Profit after tax | **16** | 24 | (32.5)% |
| Return on equity before tax | **15%** | 17.8% | (2.8) PP |
| Return on equity after tax | **8.7%** | 17.8% | (9.1) PP |
| Cost/income ratio | **64.3%** | 64.5% | (0.2) PP |
| Employees | **1,776** | 1,553 | 14.4% |
| Business outlets | **100** | 93 | 7.5% |

# Bulgaria

The Bulgarian economy continued its strong growth of the past years – annual GDP growth averaged 6.3 per cent from 2004 to 2007 – with a real increase of 6 per cent in 2008. The country entered the EU at the same time as Romania at the beginning of 2007, and the Bulgarian lev has been pegged fix to the euro and originally to the German mark since 1997. Because of sharply higher energy and food prices, the inflation rate nevertheless averaged 12.3 per cent in 2008. The Bulgarian banking sector experienced a boom in the past year, which was reflected in an annual increase of total bank assets by about 22.5 per cent.

Raiffeisen International has been represented in Bulgaria since the founding of *Raiffeisenbank (Bulgaria) EAD* in 1994. It increased its balance sheet total by 20.2 per cent in the year under review to € 4.8 billion and employed about 3,700 employees at the end of the year. That represents a rise of 21.5 per cent compared with 2007. Set against that is an increase of customers by 22.9 per cent to 653,000 customers. The branch network in Bulgaria was expanded by 45 business outlets in 2008 to 197. The range of sales activities is completed by 272 mobile bankers.

The dynamic growth continued in 2008, particularly in business with private individuals and small and medium-sized enterprises. Total lending in that segment increased by 32.5 per cent to € 3.4 billion. At the same time, innovative products were marketed more intensively, which resulted in an increase of customer deposits by 20.7 per cent to € 2.2 billion.

Since commencing business operations in 2006, subsidiary *Raiffeisen Asset Management (Bulgaria) EAD* has defended its position among the country's top three. In the reporting period, it managed five local funds and distributed 14 investment funds from Austrian firm *Raiffeisen Capital Management*. It has a market share of about 15 per cent and managed funds with a volume of € 45.7 million.

The cost/income ratio improved in 2008 from 53.2 per cent to 47.4 per cent. Against that background, Raiffeisen International in Bulgaria achieved profit before tax of € 78 million, and profit after tax of € 70 million. The return on equity amounted to 23.4 per cent before tax, and to 21.0 per cent after tax.

The foreign currency deposit rating of *Raiffeisenbank* from *Moody's* is Baa3 with a stable outlook. *The Banker* gave the company, which now occupies fourth place on the Bulgarian market, its 2008 *Bank of the Year* award.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **3,364** | 2,539 | 32.5% |
| Deposits from customers | **2,230** | 1,848 | 20.7% |
| Balance sheet total | **4,766** | 3,963 | 20.2% |
| Profit before tax | **78** | 69 | 12.9% |
| Profit after tax | **70** | 62 | 12.9% |
| Return on equity before tax | **23.4%** | 38.2% | (14.8) PP |
| Return on equity after tax | **21.0%** | 34.5% | (13.5) PP |
| Cost/income ratio | **47.4%** | 53.2% | (5.8) PP |
| Employees | **3,708** | 3,051 | 21.5% |
| Business outlets | **197** | 152 | 29.6% |

# Croatia

The Croatian economy slowed significantly in 2008 with real GDP growth of 2.2 per cent compared with an increase of 5.6 per cent in 2007. As in previous years, the Croatian kuna reached its highs at the peak of the tourist season again in 2008. The Croatian banking sector, which has the highest rate of market penetration in all of Central and Eastern Europe after Slovenia, was hit relatively hard by the rising cost and shortage of external funding due to its high share of foreign currency loans. Total bank assets increased by about 3.5 per cent in 2008.

After the founding of *Raiffeisenbank Austria d.d.* in 1994, Raiffeisen successively expanded its presence Croatia. At the end of 2008, *Raiffeisenbank Austria* was the country's fourth-largest bank with a balance sheet total of € 6.0 billion, which represents an increase of 7.3 per cent compared with 2007. Not least due to the stronger growth of the branch network last year to 79 business outlets as of 31 December, the number of customers served rose in the reporting period by 29,300 to about 582,000. The number of employees grew in the same period by 244 to 2,333.

Besides serving private individuals, making loans to large and medium-sized corporate customers was another focus of *Raiffeisenbank Austria's* business activity as a universal bank. Total lendings to customers rose in the reporting period to € 3.9 billion, while customer deposits increased to € 3.3 billion.

After 54.1 per cent in the preceding year, the cost/income ratio of Raiffeisen in Croatia improved in 2008 to 61.2 per cent. Thanks primarily to the widely diversified range of services such as leasing, asset management, factoring, insurance, and pension plans, profit before tax rose in 2008 to € 76 million. Profit after tax amounted to € 61 million. The return on equity thus came to 11.7 per cent before tax, and to 9.3 per cent after tax.

Raiffeisen International was the largest shareholder in *Raiffeisenbank Austria d.d.* at the end of 2008 with a stake of 73 per cent, while several Raiffeisen Landesbanken held 24 per cent indirectly. The remaining shares were owned by employees.

*Raiffeisenbank Austria* was awarded the title of *Best Bank* in Croatia by *The Banker* in 2008.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **3,921** | 3,390 | 15.7% |
| Deposits from customers | **3,296** | 3,233 | 1.9% |
| Balance sheet total | **5,984** | 5,578 | 7.3% |
| Profit before tax | **76** | 120 | (36.7)% |
| Profit after tax | **61** | 96 | (36.5)% |
| Return on equity before tax | **11.7%** | 21.5% | (9.8) PP |
| Return on equity after tax | **9.3%** | 16.6% | (7.3) PP |
| Cost/income ratio | **61.2%** | 54.1% | 7.1 PP |
| Employees | **2,333** | 2,089 | 11.7% |
| Business outlets | **79** | 65 | 21.5% |

# Kosovo

According to an estimate of the International Monetary Fund, real GDP in Kosovo rose in 2008 by 6.1 per cent. Domestic demand was bolstered by contributions from international lender countries and continuing credit growth. At the same time, the inflation rate increased to 13 per cent in the first half of the year due to higher energy and food prices. The trade and current account deficits also grew.

*Raiffeisen Bank Kosovo J.S.C.* was the country's second-largest bank at the end of 2008 with a balance sheet total of € 598 million. Founded in 2001 as *American Bank of Kosovo*, it was acquired by Raiffeisen International in 2002. The bank is especially well-positioned in business with small and medium-sized enterprises, where it has a market share of 35 per cent as measured by lending business. Among large customers, it has a market share of 60 per cent.

Raiffeisen International had 720 employees in Kosovo at the end of 2008. The branch network was expanded by 9 in the year under review to 47 business outlets. Mobile bankers additionally supported the bank's position on this small, but dynamic market. The total number of customers increased by 32.6 per cent on an annual basis to about 229,000. Compared with 2007, total lendings rose by 25.1 per cent to € 424 million. The deposit portfolio increased by 26 per cent in 2008 to € 495 million.

The cost/income ratio of Raiffeisen in Kosovo improved to 45.2 per cent. Profit before tax amounted to € 20 million after € 18.3 million in the preceding year, while profit after tax stood at € 15 million. The return on equity thus came to 34.7 per cent before tax, and to 25.5 per cent after tax.

*Euromoney* awarded *Raiffeisen Bank Kosovo* the title of the country's *Best Bank* in 2008.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **424** | 339 | 25.1% |
| Deposits from customers | **495** | 393 | 26.0% |
| Balance sheet total | **598** | 473 | 26.4% |
| Profit before tax | **20** | 18 | 9.3% |
| Profit after tax | **15** | 15 | 2.0% |
| Return on equity before tax | **34.7%** | 41.5% | (6.8) PP |
| Return on equity after tax | **25.5%** | 33.3% | (7.8) PP |
| Cost/income ratio | **45.2%** | 43.3% | 1.9 PP |
| Employees | **720** | 554 | 30.0% |
| Business outlets | **47** | 38 | 23.7% |

# Romania

The Romanian economy achieved GDP growth of 7.2 per cent in 2008 not least thanks to a good harvest, after economic development in 2007 had suffered from weather-related crop failures. The inflation rate rose in this environment to 7.9 per cent on average mainly because of higher energy and food prices. Given the difficult financial market environment worldwide, the Romanian leu, which had registered slightly positive development until mid-year, came under devaluation pressure in the second half of the year. Although the Romanian banking sector has grown strongly in the past years, it still shows relatively low market penetration compared with other Central and Eastern European countries. Total bank assets grew by about 24 per cent in 2008. Due to the devaluation of the leu, that represents an increase of about 12.5 per cent on a euro basis.

Raiffeisen has had a presence in Romania since the founding of *Raiffeisen Bank S.A.* in 1998. At the end of 2008, it had a balance sheet total of € 6.6 billion, which is 17.1 per cent more than in the preceding year, and had about 6,899 employees. Raiffeisen Bank is the country's third-largest bank since its merger with *Banca Agricola* in 2002.

As a universal bank, *Raiffeisen Bank* offers a full range of financial services and products to its customers, who numbered about 2 million at the end of 2008. Its national network, which was expanded last year by 122 business outlets, consisted of 557 business outlets as of 31 December. The bank focused its attention in the past year mainly on expanding dealings with private individuals in all business areas. That included specific products for upscale private individuals and lending business with medium-sized corporate customers.

At the end of 2008, customer deposits in Romania stood with € 3.5 billion on preceding year's level, while lending to customers rose by 30.1 per cent on an annual basis to about € 4.6 billion.

In addition to banking business, Raiffeisen is also one of the leading firms in Romania in leasing, insurance, asset management, building society saving, and capital market dealings. *Raiffeisen Asset Management SA*, for example, is one of the three most important providers of asset management, and *Raiffeisen Capital & Investment SA* ranks as the second-largest investment bank. *Raiffeisen Leasing IFN SA* occupied third place among Romania's leasing companies in 2008, with total new business of € 150 million.

The cost/income ratio of Raiffeisen in Rumania improved last year to 53.3 per cent, which reflects strong centralization of all business processes. Against that background, profit before tax of € 193 million was achieved, which led to a return on equity before tax of 46.6 per cent. The return on equity after tax of 39.0 per cent resulted from a taxed profit of € 161 million.

Except for a small free float, *Raiffeisen Bank* was owned by Raiffeisen International as of 31 December 2008.

*Moody's* gives *Raiffeisen Bank* a foreign currency deposit rating of Baa3 with a stable outlook. *Global Finance* awarded the bank the title of *Best Consumer Internet Bank* in Romania in 2008.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **4,594** | 3,532 | 30.1% |
| Deposits from customers | **3,525** | 3,538 | (0.4)% |
| Balance sheet total | **6,561** | 5,603 | 17.1% |
| Profit before tax | **193** | 124 | 55.9% |
| Profit after tax | **161** | 101 | 60.2% |
| Return on equity before tax | **46.6%** | 30.8% | 15.8 PP |
| Return on equity after tax | **39.0%** | 25.0% | 14.0 PP |
| Cost/income ratio | **53.3%** | 63.5% | (10.2) PP |
| Employees | **6,899** | 5,948 | 16.0% |
| Business outlets | **557** | 435 | 28.0% |

# Serbia

Growth of Serbia's GDP amounted to 6.5 per cent in the reporting period, while inflation averaged 12.8 per cent in 2008 due to the rise of energy and food prices. After revaluing until about mid-year, the Serbian dinar came under devaluation pressure in the second half because of the global financial market crisis. Serbia's total bank assets increased by about 11 per cent in 2008. They remained nearly unchanged on a euro basis, however, due to the dinar's devaluation.

Raiffeisen International had a balance sheet total of € 2.9 billion in Serbia at the end of 2008. It founded *Raiffeisen banka a.d.* there in 2001. Now the country's second-largest lending institution, this universal bank offers financial services in all customer segments. Its wide range of bank products and services is completed by the *Raiffeisen Leasing d.o.o.*, *Raiffeisen Voluntary Pension Fund*, and an asset management company.

In retail and corporate customer business and in the treasury and investment banking areas, *Raiffeisen banka* is one of the best addresses in the Serbia banking market. Business with affluent customers was expanded in 2008. In addition, the successful course taken in the area of small and medium-sized enterprises was continued. Consequently, total lendings to customers increased by about € 2.0 billion in 2008, and customer deposits totaled € 1.2 billion at year's end. Altogether, *Raiffeisen banka* and its subsidiaries had 2,210 employees serving over 585,000 customers in 103 business outlets at the end of 2008.

The improvement of the cost/income ratio from 58.9 per cent to 49.2 per cent in 2008 was reflected in profit before tax of € 87 million. Profit after tax amounted to € 80 million. On that basis, the return on equity reached 19.8 per cent before tax, and 18.1 per cent after tax.

Both *Euromoney* and *Global Finance* awarded *Raiffeisen banka a.d.* the title of *Best Bank* in Serbia in 2008.

| **Monetary values in € million** | **2008** | **2007** | **Change** |
|---|---|---|---|
| Loans and advances to customers | **1,963** | 1,704 | 15.2% |
| Deposits from customers | **1,205** | 1,329 | (9.3)% |
| Balance sheet total | **2,913** | 2,914 | (0.1)% |
| Profit before tax | **87** | 62 | 41.4% |
| Profit after tax | **80** | 61 | 31.1% |
| Return on equity before tax | **19.8%** | 20.5% | (0.7) PP |
| Return on equity after tax | **18.1%** | 20.3% | (2.2) PP |
| Cost/income ratio | **49.2%** | 58.9% | (9.7) PP |
| Employees | **2,210** | 2,111 | 4.7% |
| Business outlets | **103** | 92 | 12.0% |

# CIS

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Net interest income | 1,297 | 921 | 40.7% |
| Provisioning for impairment losses | (356) | (176) | 102.6% |
| **Net interest income after provisioning** | **941** | **745** | **26.2%** |
| Net fee and commission income | 457 | 393 | 16.2% |
| Net trading income | 161 | 47 | 239.7% |
| Net income from derivatives | (8) | (31) | (72.5)% |
| Net income from financial investments | (8) | (3) | 206.9% |
| General administrative expenses | (853) | (691) | 23.3% |
| of which staff costs | (425) | (357) | 19.0% |
| of which other administrative expenses | (362) | (269) | 34.4% |
| of which depreciation/amortization/write-downs | (66) | (65) | 0.9% |
| Other Net operating income | (23) | (21) | 9.0% |
| Net income from disposal of group assets | – | 3 | – |
| **Profit before tax** | **665** | **442** | **50.4%** |
| Income taxes | (192) | (116) | 65.3% |
| **Profit after tax** | **474** | **326** | **45.1%** |
| Minority interests in profit | 3 | (17) | (118.4)% |
| **Consolidated profit** | **477** | **311** | **53.3%** |
| | | | |
| Share of profit before tax | 40.5% | 32.3% | 8.3 PP |
| Share of profit after tax | 37.2% | 29.7% | 7.5 PP |
| Risk-weighted assets (credit risk) | 18,063 | 15,344 | 17.7% |
| Own funds requirement | 1,594 | 1,278 | 24.7% |
| Total assets | 22,980 | 19,537 | 17.6% |
| Liabilities | 20,428 | 17,405 | 17.4% |
| Risk/earnings ratio | 27.5% | 19.1% | 8.4 PP |
| Cost/income ratio | 45.1% | 51.6% | (6.5) PP |
| Average equity | 1,965 | 1,482 | 32.6% |
| **Return on equity before tax** | **33.9%** | **29.9%** | **4.0 PP** |
| Average number of employees | 29,665 | 28,197 | 5.2% |
| Business outlets | 1,475 | 1,510 | (2.3)% |

*Profit before tax* of this segment grew in the period under review by 50 per cent, or € 223 million, to € 665 million. The increase of earnings in the region was significantly greater than in the rest of the Group. It resulted mainly from very high growth of net interest income and trading profit. The *return on equity before tax* rose accordingly by 4.0 percentage points to 33.9 per cent.

With a plus of 41 per cent, or € 375 million, to € 1,297 million, development of the region's net interest income was significantly more dynamic than that of balance sheet assets, which increased by 18 per cent, or € 3.4 billion, to € 22.9 billion. An important reason for that was a significantly improved net interest margin, which rose by 64 basis points to 6.10 per cent.

Risk-weighted assets increased in line with balance sheet assets by 18 per cent to € 18.1 billion. That development was shaped by opposing influences. Growing retail business benefited from the more favorable Basel II calculation, since the preceding year's comparable values had still been based on the Basel I calculation. On the other hand, expansion of business with corporates led to a comparatively stronger increase in risk-weighted assets.

The allocation to *provisioning for impairment losses* doubled from € 176 million in the comparable period to € 356 million in the year under review. This increase was mainly due to extensive portfolio-related provisions, formed in connection with loans to private individuals in Ukraine. The reason for that was the sharp currency decline, which has led to higher debt service payments for customers. On the other hand, the increase of individual provisions came to only 37 per cent and was mostly a consequence of retail customers. The *risk/earnings ratio* rose by 8.4 percentage points to 27.5 per cent. The share of the loan portfolio attributable to non-performing loans increased by 186 basis points and reached 3.61 per cent.

*Net fee and commission income* registered growth in 2008 of € 64 million to € 457 million. Payment transfer business was the most important source at € 261 million. Foreign currency and precious-metals business contributed € 146 million.

*Net trading income* grew from € 47 million to € 161 million. Currency-related business gave rise here to income of € 199 million. Most of that (€ 145 million) derived from hedging transactions in the Group's Russian unit aimed at minimizing the currency risk of certain loan portfolios. On the other hand, interest-related business brought a loss of € 50 million, which was mainly based on valuation losses on securities of corporates in Russia.

*Net income from derivative financial instruments* amounted to minus € 8 million in the year under review. That was largely based on a valuation result in Russia, where interest rate swaps had been entered into to reduce yield curve risk.

*Net income from financial investments* also amounted to minus € 8 million. A positive earnings contribution of € 10 million derived from the sale of other participations of the Russian network bank. On the other hand, the valuation losses of the securities portfolio, which were incurred primarily at the Group's Ukrainian subsidiary, had a negative effect.

*General administrative expenses* rose by 23 per cent, or € 161 million, to € 853 million. Staff costs went up 19 per cent, or € 68 million, to € 425 million. The region showed the highest average number of employees at 29,665, with the increase on the comparable period amounting to 1,468. Other administrative expenses rose by 34 per cent, or € 93 million, to € 362 million, for which a significant increase of rental expenses in the Group's Russian units was mainly responsible. At € 66 million, depreciation/amortization/write-downs remained at the comparable period's level. The region's *cost/income ratio* improved significantly by 6.5 percentage points to 45.1 per cent.

The segment's *other net operating income* amounted to minus € 23 million and remained at the preceding year's level. Expenses for taxes not dependent on income and allocations to other provisions for expenses and provisions for restructuring (the latter in Russia) were mainly responsible for that result.

In the preceding year, net income from disposal of Group assets of € 3 million had to be taken into account. In the period under review, there were no disposals from the scope of consolidation from the region.

*Income taxes* rose by 65 per cent on the comparable period and came to € 192 million. Because of the different bases for tax assessment, they grew somewhat more strongly than earnings before tax did. *Minority interests in profit* fell in the period under review through elimination of non-Group losses of a Russian Group unit. *Earnings after tax and minority interests* increased to € 477 million, which means a plus of 53 per cent.

# Belarus

The Belarusian economy achieved real GDP growth of 10 per cent in 2008. Although the central bank kept the Belarusian rouble stable relative to the US$ throughout the year, the inflation rate averaged 14.8 per cent. Despite strong growth in recent years, the Belarusian banking sector exhibits relative low market penetration compared with other Central and Eastern European countries. Total bank assets registered growth of almost 60 per cent in 2008.

Founded in 1989 as a commercial customer bank, *Priorbank, OAO* is now the country's third-largest bank, measured by balance sheet totals. Operating in Belarus since 2002, Raiffeisen had a balance sheet total of about € 1.6 billion at the end of 2008. It had about 2,170 employees, serving almost 856,000 customers in 103 business outlets. Raiffeisen has built up a dynamic personal customer business in Belarus in recent years and expanded its branch network by 20 business outlets in 2008. In addition to a network of mobile bankers, it cooperates in distribution with post office branches, which are very successful, particularly in selling simple savings products. Moreover, Raiffeisen offers home financing by way of its own mortgage centers. It thus acquired on average more than 10,000 new customers per month in 2008.

One of the country's leading leasing companies, *SOOO Raiffeisen Leasing* generated new business in the amount of € 54.9 million in 2008. The lending business of *Priorbank* reached a total of € 1.2 billion as of 31 December 2008, while deposit business grew by 16.2 per cent to € 0.6 billion thanks to an enlarged branch network and new joint marketing arrangement with the Belarusian postal service.

Despite expansion in personal customer business, the cost/income ratio of Raiffeisen in Belarus reached 47.8 per cent in the reporting period, which underscores the high cost efficiency of operations in Belarus. Profit before tax amounted to € 54 million and led to a return on equity before tax of 38.4 per cent. The return on equity after tax of 27.1 per cent resulted from profit after tax of about € 38 million.

Raiffeisen International held a clear majority in *Priorbank, OAO* of 88 per cent at the end of the reporting period. The remaining shares were in free float.

*Priorbank* was again awarded the title of *Best Bank* in Belarus by the financial magazine *Euromoney* in the year under review.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **1,249** | 837 | 49.2% |
| Deposits from customers | **645** | 555 | 16.2% |
| Balance sheet total | **1,646** | 1,081 | 52.3% |
| Profit before tax | **54** | 39 | 38.5% |
| Profit after tax | **38** | 27 | 40.7% |
| Return on equity before tax | **38.4%** | 37.4% | 1.0 PP |
| Return on equity after tax | **27.1%** | 26.0% | 1.1 PP |
| Cost/income ratio | **47.8%** | 50.5% | (2.7) PP |
| Employees | **2,168** | 1,899 | 14.2% |
| Business outlets | **103** | 83 | 24.1% |

# Russia

The Russian economy registered real GDP growth of 5.6 per cent in 2008. Strong performance in the first half of the year, supported largely by the rise of crude oil prices to historical highs, was followed by a slump in the second half, which was reflected in, among other things, a devaluation of the Russian rouble against the currency basket. However, high reserves have allowed the government and central bank to give the financial sector and important enterprises massive support. Total bank assets registered growth of about 25 per cent in 2008. Converted to euros, that amounted to about 8.5 per cent due to the devaluation of the ruble.

Founded in 1996, *ZAO Raiffeisenbank* is now one of Russia's leading banks. The balance sheet total of Raiffeisen International in Russia rose by 22.8 per cent in the year under review to around € 15 billion, and by expanding its network further in 2008, the bank is now represented in 45 of 83 regions of the Russian Federation. As a universal bank, *Raiffeisenbank* offers its products to both retail and corporate customers.

The corporate customer segment registered significant growth of lending in the year under review. The loan portfolio increased by 4.2 per cent on 2007 to € 6.1 billion at the end of 2008. The number of corporate customers served rose to about 9,500 in the year under review. Total deposits of corporate customers at *ZAO Raiffeisenbank* amounted to € 2.9 billion at the end of 2008.

*Raiffeisenbank* likewise successfully defended its strong position in the retail customer segment and continued the positive trend of recent years. The number of retail customers grew by 16.9 per cent to 1.65 million at the end of 2008. The loan portfolio in this segment registered an increase of 19.3 per cent in 2008 to € 2.7 billion as of year's end, while deposits from retail customers rose to € 2.9 billion. Jointly with subsidiaries *OOO Raiffeisen Leasing*, *OOO Raiffeisen Capital Asset Management*, and *NPF Raiffeisen*, *Raiffeisenbank* had 1.7 million customers and 10,276 employees in 236 business outlets in the year under review.

Taking up a syndicated loan of US$ 1 billion – the largest funding transaction of a Raiffeisen International network bank to date – was an important measure in the past year.

The cost/income ratio of Raiffeisen in Russia improved to 42.6 per cent in 2008 from 49.1 per cent in the preceding year. Profit before tax amounted to € 438 million at the end of 2008 (2007: € 260 million), and profit after tax to € 313 million (2007: € 197 million). The resulting return on equity was 36.2 per cent before tax and 25.8 per cent after tax.

*Standard & Poor's* last rated *Raiffeisenbank* at BBB with a stable outlook, which was better than the agency's rating for the country overall. *Fitch Ratings* gave the bank an A- with a negative outlook, which was also better than Russia's rating. The rating from *Moody's* is Baa1 with a stable outlook and is thus slightly below the Russian government's rating.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **9,381** | 8,536 | 9.7% |
| Deposits from customers | **6,065** | 5,650 | 7.3% |
| Balance sheet total | **14,952** | 12,171 | 22.8% |
| Profit before tax | **438** | 260 | 68.3% |
| Profit after tax | **313** | 197 | 58.8% |
| Return on equity before tax | **36.2%** | 26.6% | 9.6 PP |
| Return on equity after tax | **25.8%** | 20.2% | 5.6 PP |
| Cost/income ratio | **42.6%** | 49.1% | (6.5) PP |
| Employees | **10,276** | 8,915 | 15.3% |
| Business outlets | **236** | 240 | (1.7)% |

# Ukraine

Ukraine was among the first Central and Eastern European countries that claimed financial support from the IMF in the second half of 2008. The global financial market crisis called into question both the stability of the country's economy and confidence in its currency. Against that background, the Ukrainian hryvnia dropped sharply in value. The Ukrainian banking sector, which has experienced a boom in recent years, suffered greatly from the rising cost and shortage of external funding because of its high proportion of foreign currency loans. It registered growth again in 2008, but because of the crisis in the second half of the year, that came almost entirely from the first half. Total bank assets increased by about 55 per cent in 2008. Expressed in euros, that represents an increase by about 8.3 per cent due to the sharp devaluation of the hryvnia.

Founded in 1992, *VAT Bank Aval* developed within a few years into one of Ukraine's leading banks. It was taken over by Raiffeisen in 2005, and its name was changed to *Raiffeisen Bank Aval* the following year. Measured by its balance sheet total, it was the country's second-largest bank as of 31 December 2008. As a universal bank, it serves both private individuals and small and medium-sized enterprises as well as corporate customers. Its range includes a wide variety of credit and investment products, completed by the services of *LLC Raiffeisen Leasing Aval* and *Raiffeisen Asset Management* companies.

With 1,134 business outlets, Raiffeisen in Ukraine has one of the country's largest distribution networks, which was further optimized in 2008. The customer base in Ukraine included around 4.5 million private individuals and about 210,000 small and medium-sized enterprises in addition to about 6,800 corporate customers in the year under review.

The loan portfolio of *Raiffeisen Bank Aval* increased by 2.7 per cent in 2008 to € 5.3 billion, while deposits declined by 20.6 per cent to € 2.4 billion. The balance sheet total increased by 1.9 per cent to € 6.3 billion. As a consequence of the financial crisis, however, the staff had to be reduced in the fourth quarter of 2008 by 412 to 17,368 employees.

Restructuring and increased cost control in Ukraine, which began immediately after the takeover, found expression last year in an improved cost/income ratio of 48.2 per cent and growing financial strength. The return on equity rose to 23.3 per cent on profit before tax of € 176 million. The return on equity after tax of 16.8 per cent resulted from profit after tax of € 127 million.

After acquiring 94 per cent of *VAT Bank Aval* in October 2005, Raiffeisen International increased its stake to 96 per cent by the end of December 2008. The remaining shares were in free float.

In the context of a general downgrade of the Ukrainian government, the bank's rating was changed in 2008 by *Moody's* to B2 with a stable outlook.

| Monetary values in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Loans and advances to customers | **5,261** | 5,125 | 2.7% |
| Deposits from customers | **2,399** | 3,023 | (20.6)% |
| Balance sheet total | **6,285** | 6,166 | 1.9% |
| Profit before tax | **176** | 142 | 24.3% |
| Profit after tax | **127** | 101 | 25.7% |
| Return on equity before tax | **23.3%** | 19.3% | 4.0 PP |
| Return on equity after tax | **16.8%** | 13.8% | 3.0 PP |
| Cost/income ratio | **48.2%** | 62.0% | (13.8) PP |
| Employees | **17,368** | 17,780 | (2.3)% |
| Business outlets | **1,134** | 1,186 | (4.4)% |

# Business divisions

As well as the regional segmentation Raiffeisen International is structured into business divisions which reflect the internal organization and reporting structure. Business is divided into the following divisions:

- **Corporate customers**
- **Retail customers**
- **Treasury**
- **Participations and other**

The **corporate customers** division comprises business with large corporates and mid market companies from Central and Eastern Europe (CEE) as well as with companies from other countries that are operating in the CEE region, including especially multinationals. Sales volume is used as the relevant criteria between large corporates and mid market companies. Small and medium-sized companies are considered corporate customers if their annual sales are at least € 5 million or they are clearly project or trade finance companies. All other small and medium-sized enterprises are included in the *small entities* sub-division of the retail customers division.

The *public sector* and companies owned by state-owned entities and institutions are also part of the corporate customers division. The public sector comprises all public sector entities such as ministries, provinces, municipalities and similar public corporations. Embassies and trade representations also belong to this division.

Moreover, business with banks, providers of financial services, or insurance companies is reported in this division *(financial institutions)*. This excludes transactions that are connected to proprietary trading with financial instruments or invested for the asset and liability management as those are allocated to the treasury division. The banks subdivision encompasses national and international commercial, retail and private banks. Banks also include supranational institutions like the *World Bank*, the *European Bank for Reconstruction and Development (EBRD)*, the *European Investment Bank (EIB)*, and the *International Monetary Fund (IMF)*. Financial service providers include brokers and asset managers such as investment banks, investment fund companies, leasing companies. Insurance companies consist of all kind of insurers and reinsurers. They include property, health, life and pension insurers.

Because of the minor importance of *public sector* and financial institutions for the consolidated results of Raiffeisen International, their results are included in the corporate customers division.

The **retail customers** division includes private individuals *(consumers)* and small and medium-sized enterprises with an annual turnover of less than € 5 million *(small enterprises)*. There may be minor deviations in some countries. Small enterprises engaged in project or trade finance related activities are not included. Furthermore, *micro* customers, whose annual revenues are less than € 1 million and where exposure is lower than € 100 thousand are included. They are offered standardized products such as savings accounts, time deposits, current and salary accounts, consumer credits, overdraft lines, credit cards, and mortgages as well as other earmarked loans.

Earnings arising from *private banking* provided by a number of Group units are also included in this customer division. For *high-net-worth individuals* an individualized advisory approach is applied and asset management services are offered.

The **treasury** division encompasses the treasury's proprietary trading and investment banking activities, which are carried out only in a few Group units.

Own-account trading involves on-balance and off-balance sheet interest and currency products (futures, and options), which include money market transactions, currency transactions, cash management, refinancing and asset/liability management (maturity conversion). Proprietary trading in financial instruments is centrally controlled and subject to strictly monitored limits. In addition, Raiffeisen International has a portfolio of medium-term and long-term financial investments.

Whereas the entirety of the Group's proprietary trading is shown in the treasury division, treasury activities carried out on customers' account are recognized in other divisions like corporate customers and retail customers. That part of proceeds exceeding market prices is assigned to the customer divisions.

Besides non-banking activities, the **participations and other** division encompasses the management of participations. Moreover, other general activities are involved, including especially those carried out by the parent company Raiffeisen International Bank-Holding AG.

# Business division overview

## Financial year 2008

| in € million | Corporate Customers | Retail Customers | Treasury | Participations and Other | Total |
|---|---|---|---|---|---|
| Net interest income | 1,113 | 1,844 | 172 | 103 | 3,232 |
| Provisioning for impairment loss | (269) | (507) | (3) | (1) | (780) |
| **Net interest income after provisioning** | **844** | **1,337** | **169** | **102** | **2,452** |
| Net fee and commission income | 531 | 962 | 5 | (1) | 1,496 |
| Net trading income | 1 | 1 | 169 | (3) | 168 |
| Net income from derivatives | – | – | (20) | – | (20) |
| Net income from financial investments | 1 | 0 | (48) | 21 | (26) |
| General administrative expenses | (526) | (1,876) | (108) | (123) | (2,633) |
| Other net operating income | 33 | 12 | 0 | (61) | (16) |
| Net ncome from disposal of group assets | – | – | – | 8 | 8 |
| **Profit before tax** | **884** | **435** | **166** | **(56)** | **1,429** |
| Risk-weighted assets, credit risk | 31,132 | 19,063 | 6,879 | 3,313 | 60,388 |
| Own funds requirement | 2,642 | 1,779 | 1,075 | 271 | 5,767 |
| Average number of staff | 9,760 | 48,062 | 1,529 | 2,103 | 61,454 |
| Cost/income ratio | 31.3% | 66.6% | 31.3% | – | 54.0% |
| Average equity | 3,348 | 1,949 | 648 | 538 | 6,483 |
| **Return on equity before tax** | **26.4%** | **22.3%** | **25.6%** | **–** | **22.0%** |

### Financial year 2007

| in € million | Corporate Customers | Retail Customers | Treasury | Participations and Other | Total |
|---|---|---|---|---|---|
| Net interest income | 798 | 1,441 | 151 | 28 | 2,419 |
| Provisioning for impairment loss | (134) | (218) | 0 | (4) | (357) |
| **Net interest income after provisioning** | **664** | **1,223** | **151** | **24** | **2,062** |
| Net fee and commission income | 420 | 799 | 22 | 8 | 1,250 |
| Net trading income | 5 | 3 | 129 | (9) | 128 |
| Net income from derivatives | 0 | (9) | (22) | – | (30) |
| Net income from financial investments | 1 | 0 | (9) | (1) | (9) |
| General administrative expenses | (447) | (1,537) | (83) | (116) | (2,184) |
| Other net operating income | 27 | 7 | 0 | (39) | (5) |
| Net income from disposal of group assets | – | – | – | 27 | 27 |
| **Profit before tax** | **669** | **487** | **188** | **(106)** | **1,238** |
| Risk-weighted assets,credit risk | 24,743 | 18,978 | 1,780 | 4,301 | 49,802 |
| Own funds requirement | 1,980 | 1,518 | 475 | 344 | 4,317 |
| Average number of staff | 8,089 | 44,582 | 1,244 | 1,635 | 55,550 |
| Cost/income ratio | 35.8% | 68.3% | 27.6% | – | 57.6% |
| Average equity | 2,215 | 1,649 | 572 | 374 | 4,810 |
| **Return on equity before tax** | **30.2%** | **29.5%** | **32.9%** | **–** | **25.7%** |

# Corporate customers

The corporate customers division registered strong earnings growth in the year under review. *Profit before tax* increased by 32 per cent on the comparable period to € 884 million. Operating business developed positively in all respects. *Net interest income* rose by 39 per cent to € 1,113 million, and *net fee and commission income* registered a significant plus of 26 per cent to € 531 million. Altogether, the division's operating income rose by 34 per cent from € 1,250 million to € 1,678 million. *Provisioning for impairment losses* doubled to € 269 million.

*General administrative expenses* grew by a moderate 18 per cent to € 526 million, which further improved the *cost/income ratio* to 31.3 per cent. *Other net operating income* rose by 25 per cent to € 33 million, to which operating leasing contributed the most at € 28 million. Risk-weighted assets for credit risk according to Basel II amounted to € 31.1 billion, which means an increase of 26 per cent on the preceding year's comparable value, still calculated according to Basel I. In addition to business expansion, the new method of calculation, which in particular burdens loans and advances to banks and to the public sector with higher risk weightings, was also responsible for this.

Despite high profit, the *return on equity before tax* declined by 3.8 percentage points to 26.4 per cent due to a sharply increased equity base. This division's share of total earnings rose by 8 percentage points to 62 per cent.

For the corporate customer division, the past year was shaped by two opposing business developments. On the one hand, the division registered profit before tax of € 884 million, its best result in Raiffeisen International's history, and once again proved to be a foundational core business of the Group. On the other hand, the final months of 2008 were already characterized by the effects of the financial crisis.

Against this background, the strategy of concentrating acquisition efforts on mid-market customers and on long-term customer relationships with main bank status has proved its value. Raiffeisen International is achieving great proximity to customers with this business model, which enables it to recognize opportunities and risks early and adjust to them accordingly. Moreover, the company's mid-market strategy has led to a corresponding diversification of its customer portfolio, which may be regarded as a strong advantage given the difficult market environment.

With a business model based on close customer relationships and with wide regional and sectoral diversification, Raiffeisen International is well-prepared for the expected effects of the financial crisis. The focus of the corporate customer division in 2009 will be primarily on deposit business, corporate cash management, and factoring products.

The long-standing cooperation between the risk management teams of the network banks and the sales force was further intensified and optimized in the past year. That made it possible to analyze the risks of certain products, customers, and sectors, e.g., from real estate projects, and to develop measures early to avoid or manage them.

## Concentration on mid-market

A key measure to boost the company's position in the mid-market is "Formula Uno", a marketing project. Proceeding from a detailed market analysis, trend forecasts have been prepared for each country based on a market model. That is the foundation for setting individual acquisition and cross-selling targets for each customer adviser with the help of an international customer portfolio and product need analysis.

Raiffeisen International has always supplied leading Western European banks that have no branches of their own in Central and Eastern Europe with services for their mid-market customers in the framework of cooperative relationships. The customers of these cooperating banks are referred to international desks. That ensures an especially service-oriented reception for Western European customers by highly qualified contact persons.

The corporate customer division benefited again in 2008 from cultivating and intensifying these cooperative relationships. The focus was on advising and supporting Western European businesses of very high credit standing in opening offices and establishing companies in Central and Eastern Europe. Since these new customers already have a corresponding track record in their home countries, Raiffeisen International can offer simplified, customer-friendly solutions thanks to the support provided – in consultation with the customer – by the respective cooperating bank. With the help of this strategy, Raiffeisen International again expanded its leading position with international customers in 2008.

In 2009, Raiffeisen International will continue its proven business model in the corporate customer division with emphasis on full service for its main bank customers.

# Retail customers

*Profit before tax* in the retail customers division fell by 11 per cent on the comparable period to € 435 million. A 133 per cent increase of new allocations to *provisioning for impairment losses* (€ 507 million) and a rise of *general administrative expenses* by 22 per cent to € 1,876 million due to continuing investments in the branch network were mainly responsible for this decline.

Operating income from the retail customers division grew by 25 per cent to € 2,819 million. The greatest increase was achieved in *net interest income* with a plus of 28 per cent to € 1,844 million. *Net fee and commission income* rose by 20 per cent and reached € 962 million. Despite continued high general administrative expenses, the *cost/income ratio* fell by 1.7 percentage points to 66.6 per cent. Risk-weighted assets amounted to € 19.1 billion at the end of the period under review and therefore remained at the preceding year's level. Despite organic growth, the Basel II rules led to a lower weighting of total lendings to retail customers compared with the preceding year's value calculated according to Basel I.

The *return on equity before tax* fell sharply by 7.2 percentage points to 22.3 per cent due to strong growth of the equity base in the past year and the decline in profit. The division's share of total earnings dropped by 9 percentage points to 30 per cent.

## Unique network in Central and Eastern Europe

In the retail customer segment, Raiffeisen International was serving almost 14.7 million private individuals and small enterprises at the end of the reporting period through business outlets, ATMs, and internet and phone banking. Customers had at their disposal the 3,231 branches of the largest banking network in Central and Eastern Europe, almost 6,600 ATMs, and more than 60 mortgage centers for their daily banking and financial transactions. More than 20,000 advisers helped customers with all questions related to checking and savings accounts, payment transfers, real estate financing, consumer loans, and credit cards. Moreover, Raiffeisen International offered its customers the possibility of financing with more than 1,500 automobile dealers and 2,150 retailers.

Raiffeisen International's focus increasingly shifted last year to attracting customer deposits. Numerous marketing campaigns were initiated for this purpose and led in the fourth quarter to a strong inflow of customer deposits, which thus returned to the level before the financial crisis escalated. In December, the retail customer segment registered the highest monthly inflows of customer deposits to date. The intensive marketing activities and efforts in this direction are to continue in 2009.

## Retail business continues to grow

Raiffeisen International opened 216 new business outlets in the past year and is thus present with its network now in most large cities of Central and Eastern Europe. Now that expansion of the branch network has been suspended temporarily because of the financial crisis, the focus is shifting to continuously improving service quality. Optimizing processes and strengthening complaint management are initially at the forefront in the effort to increase customer satisfaction and reduce account closings by customers.

Raiffeisen International further expanded its offering of credit and debit cards in 2008. That involved not only increasing the number of cards issued, but also promoting their active use by cardholders to raise contribution margins. Altogether, the number of credit cards issued rose in the reporting period to 1.7 million, and that of debit cards to 8.2 million. Transaction volume increased from € 15 billion in the preceding year to € 21.4 billion in the reporting period. Various new products were also launched on the market in 2008, including for example products introduced by Raiffeisen Bank Aval in cooperation with MTS, the third-largest mobile phone carrier in Ukraine.

Raiffeisen International also offers card processing services for retailers in 11 of its 15 markets. In 8 of those, the Group's network banks rank among the country's top three and thus make Raiffeisen International one of the most important regional providers in this area.

All-finance business continues to develop as a key element of Raiffeisen International's retail strategy. Total commissions generated by selling insurance thus increased by 44 per cent on an annual comparison. That development was positively influenced by the launch of new products, higher sales goals in the entire network, and a strategic partnership with insurance company *UNIQA Versicherungen AG*. A large part of the net commission income resulted from products connected with lending to retail customers. In view of the expected growth decline in lending business, however, other products such as life insurance, for example, are likely to play an important role for further growth in this area in the years ahead.

Because of the turmoil on the stock markets worldwide, assets under management declined by 28 per cent in 2008 to € 3.4 billion. On the other hand, about 60 per cent of the money from returned investment fund shares was kept in the Group as customer deposits. In the expectation of a more positive environment, Raiffeisen International is now developing in cooperation with *Raiffeisen Capital Management* both specific local products and international investment funds.

Despite the significantly worsened economic situation, Raiffeisen International registered good business development in 2008 in the area of small businesses. That was attributable in particular to non-interest-bearing business. Deposit business again benefited from higher margins. Business with self-employed persons (businesses with sales of less than € 1 million) was further expanded by means of extensive marketing initiatives and measures in the product, process, and risk areas.

Raiffeisen International also achieved great progress in 2008 in business with affluent private individuals (assets above € 25,000). This new business area was taken up in Croatia, the Czech Republic, Romania, Russia, and Serbia, and more countries are to follow in 2009. The goal is appeal to discriminating customers with a balanced offering of sales and advice. Income from business with affluent private individuals contributed around 11 per cent to the retail segment's total result in 2008 and is expected to continue growing in the years ahead.

Raiffeisen International's retails business will be shaped by four factors in 2009, which are expected to strengthen the distribution network. An important goal is to increase customer deposits. Also, the infrastructure of customer relationship management is to be further developed. It is also planned to realize a customer service initiative in all network banks and to expand the range and distribution capacities for affluent private individuals and self-employed individuals.

# Treasury

The treasury division achieved *profit before tax* of € 166 million (minus 12 per cent). The positive earnings contribution was achieved despite a loss from financial investments and current financial assets thanks mainly to a 31 per cent increase of trading profit. That rose despite a special effect that yielded a loss of € 88 million due to the release of a capital hedge primarily because of high valuation gains from foreign currency derivatives. The *loss from financial investments* amounted to € 48 million and was explained by the devaluation of securities following the financial crisis.

*General administrative expenses* rose by 30 per cent in the year under review. The *cost/income ratio* also went up 3.7 percentage points to 31.3 per cent. The own funds requirement and risk-weighted assets increased sharply due to the initial application of Basel II rules, which link investments in sovereigns and banks to the corresponding rating. The preferential weightings according to Basel I may no longer be applied.

The division's *return on equity before tax* fell by 7.3 percentage points to 25.6 per cent due to the fall in profit and rise of the own funds requirement and of equity calculated on that basis.

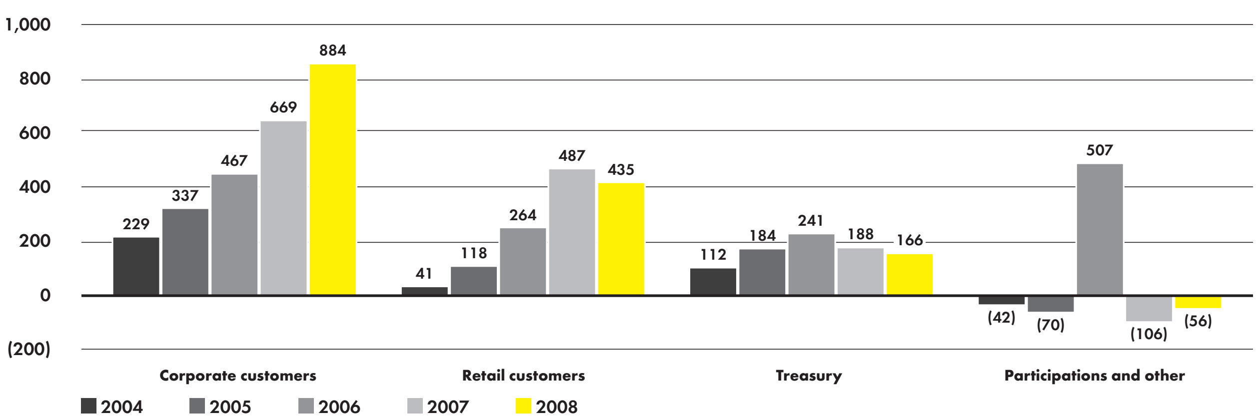
# Participations and other

*Profit before tax* in the participations and other division improved by 47 per cent on the comparable period to minus € 56 million. The result is negative mainly because in addition to net income from participations and non-banking activities, the division includes the costs of central group management. Those remain in the division and are not distributed to the other business areas.

The division also includes the computational results from the investment of equity, which rose sharply in the period under review due to the high interest rate level in the CEE region.

## Profit before tax by divisions

**in € million**



# Consolidated financial statements

## Income statement

| €000 | Notes | 2008 | 2007 | Change |
|---|---|---|---|---|
| Interest income | | 6,183,278 | 4,606,007 | 34.2% |
| Current income from associates | | 603 | (691) | – |
| Interest expenses | | (2,951,871) | (2,186,467) | 35.0% |
| **Net interest income** | (2) | **3,232,010** | **2,418,849** | **33.6%** |
| Provisioning for impairment losses | (3) | (780,301) | (356,977) | 118.6% |
| **Net interest income after provisioning** | | **2,451,709** | **2,061,872** | **18.9%** |
| Fee and commission income | | 1,764,236 | 1,474,635 | 19.6% |
| Fee and commission expense | | (267,867) | (224,800) | 19.2% |
| **Net fee and commission income** | (4) | **1,496,369** | **1,249,835** | **19.7%** |
| Net trading income | (5) | 167,642 | 127,891 | 31.1% |
| Net income from derivatives | (6) | (19,921) | (30,170) | (34.0)% |
| Net income from financial investments | (7) | (25,638) | (9,243) | 177.4% |
| General administrative expenses | (8) | (2,633,030) | (2,184,020) | 20.6% |
| Other net operating income | (9) | (15,856) | (5,078) | 212.2% |
| Net income from disposal of group assets | (10) | 7,860 | 26,517 | (70.4)% |
| **Profit before tax** | | **1,429,135** | **1,237,604** | **15.5%** |
| Income taxes | (11) | (350,880) | (264,149) | 32.8% |
| **Profit after tax** | | **1,078,255** | **973,455** | **10.8%** |
| Minority interests in profit | | (96,269) | (132,197) | (27.2)% |
| **Consolidated profit** | | **981,986** | **841,258** | **16.7%** |

| in € | Notes | 2008 | 2007 | Change |
|---|---|---|---|---|
| **Earnings per share** | (12) | **6.39** | **5.80** | **0.59** |

There were no conversion or option rights outstanding, so undiluted earnings per share are equal to diluted earnings per share.

# Profit development

## Quarterly results

| €000 | Q1/2008 | Q2/2008 | Q3/2008 | Q4/2008 |
|---|---|---|---|---|
| Net interest income | 711,123 | 786,471 | 844,086 | 890,330 |
| Provisioning for impairment losses | (93,032) | (108,342) | (164,163) | (414,764) |
| **Net interest income after provisioning** | **618,091** | **678,130** | **679,923** | **475,566** |
| Net fee and commission income | 330,866 | 371,989 | 394,925 | 398,588 |
| Net trading income | 37,578 | 54,598 | 35,187 | 40,280 |
| Net income from derivatives | (36,712) | 44,109 | (6,292) | (21,026) |
| Net income from financial investments | (1,536) | 884 | 10,782 | (35,768) |
| General administrative expenses | (584,430) | (665,458) | (689,650) | (693,492) |
| Other net operating income | 5,753 | (16,996) | (6,384) | 1,771 |
| Net income from disposal of group assets | — | 5,834 | (188) | 2,213 |
| **Profit before tax** | **369,609** | **473,090** | **418,304** | **168,133** |
| Income taxes | (90,227) | (106,027) | (99,324) | (55,303) |
| **Profit after tax** | **279,382** | **367,063** | **318,980** | **112,830** |
| Minority interests in profit | (24,940) | (55,813) | (23,191) | 7,675 |
| **Consolidated profit** | **254,442** | **311,250** | **295,788** | **120,506** |

| €000 | Q1/2007 | Q2/2007 | Q3/2007 | Q4/2007 |
|---|---|---|---|---|
| Net interest income | 505,009 | 573,764 | 625,012 | 715,063 |
| Provisioning for impairment losses | (75,948) | (77,319) | (88,835) | (114,875) |
| **Net interest income after provisioning** | **429,061** | **496,445** | **536,178** | **600,188** |
| Net fee and commission income | 275,075 | 297,151 | 322,765 | 354,844 |
| Net trading income | 35,605 | 43,721 | 41,435 | 7,130 |
| Net income from derivatives | (2,683) | 6,836 | (26,336) | (7,987) |
| Net income from financial investments | 806 | (7,964) | (2,894) | 809 |
| General administrative expenses | (476,533) | (526,211) | (534,963) | (646,313) |
| Other net operating income | 16,986 | 3,933 | (2,455) | (23,542) |
| Net income from disposal of group assets | 14,144 | 204 | 13,080 | (911) |
| **Profit before tax** | **292,462** | **314,115** | **346,809** | **284,218** |
| Income taxes | (61,696) | (67,865) | (87,219) | (47,369) |
| **Profit after tax** | **230,765** | **246,250** | **259,590** | **236,849** |
| Minority interests in profit | (38,207) | (37,435) | (35,266) | (21,290) |
| **Consolidated profit** | **192,558** | **208,816** | **224,324** | **215,560** |

# Balance sheet

| Assets<br>€000 | Notes | 31.12.2008 | 31.12.2007 | Change |
|---|---|---|---|---|
| Cash reserve | (14,35) | 7,129,860 | 3,664,187 | 94.6% |
| Loans and advances to banks | (15,35,36) | 9,038,096 | 11,053,202 | (18.2)% |
| Loans and advances to customers | (16,35,36) | 57,902,304 | 48,879,806 | 18.5% |
| Impairment losses on loans and advances | (17) | (1,641,262) | (1,103,166) | 48.8% |
| Trading assets | (18,35,36) | 3,763,178 | 2,809,362 | 34.0% |
| Derivatives | (19,35,36) | 864,944 | 92,325 | >500.0% |
| Financial investments | (20,35,36) | 5,136,607 | 4,133,415 | 24.3% |
| Investments in associates | (21,35,36) | 2,526 | 23,994 | (89.5)% |
| Intangible fixed assets | (22,24,35) | 951,888 | 1,136,809 | (16.3)% |
| Tangible fixed assets | (23,24,35) | 1,263,769 | 1,153,596 | 9.6% |
| Other assets | (25,35,36) | 985,075 | 899,275 | 9.5% |
| **Total assets** | | **85,396,985** | **72,742,805** | **17.4%** |

| Equity and liabilities<br>€000 | Notes | 31.12.2008 | 31.12.2007 | Change |
|---|---|---|---|---|
| Deposits from banks | (26,35,36) | 26,213,163 | 19,926,970 | 31.5% |
| Deposits from customers | (27,35,36) | 44,205,906 | 40,457,266 | 9.3% |
| Liabilities evidenced by paper | (28,35,36) | 3,393,383 | 2,320,428 | 46.2% |
| Provisions for liabilities and charges | (29,35,36) | 436,767 | 315,008 | 38.7% |
| Trading liabilities | (30,35,36) | 1,460,135 | 541,010 | 169.9% |
| Derivatives | (31,35,36) | 831,896 | 154,265 | 439.3% |
| Other liabilities | (32,35,36) | 653,073 | 873,954 | (25.3)% |
| Subordinated capital | (33,35,36) | 1,684,456 | 1,531,766 | 10.0% |
| Equity | (34,35) | 6,518,206 | 6,622,138 | (1.6)% |
| Consolidated equity | | 4,613,194 | 4,986,179 | (7.5)% |
| Consolidated profit | | 981,986 | 841,258 | 16.7% |
| Minority interests | | 923,026 | 794,701 | 16.1% |
| **Total equity and liabilities** | | **85,396,985** | **72,742,805** | **17.4%** |

# Statement of changes in equity

| €000 | Subscribed capital | Capital reserves | Retained earnings | Consolidated profit | Minority interests | Total |
|---|---|---|---|---|---|---|
| **Equity as of 1.1.2007** | **433,719** | **1,426,575** | **943,307** | **1,182,126** | **603,856** | **4,589,583** |
| Capital increases | 36,287 | 1,183,546 | – | – | 85,496 | 1,305,329 |
| Transferred to retained earnings | – | – | 1,081,007 | (1,081,007) | – | – |
| Dividend payments | – | – | – | (101,119) | (38,216) | (139,335) |
| Comprehensive income | – | – | (64,535) | 841,258 | 131,365 | 908,087 |
| Own shares/share incentive program | (1,722) | (21,481) | – | – | – | (23,203) |
| Other changes | 931 | (931) | (30,524) | – | 12,200 | (18,324) |
| **Equity as of 31.12.2007** | **469,215** | **2,587,709** | **1,929,255** | **841,258** | **794,701** | **6,622,138** |

| €000 | Subscribed capital | Capital reserves | Retained earnings | Consolidated profit | Minority interests | Total |
|---|---|---|---|---|---|---|
| **Equity as of 1.1.2008** | **469,215** | **2,587,709** | **1,929,255** | **841,258** | **794,701** | **6,622,138** |
| Capital increases | – | – | – | – | 87,580 | 87,580 |
| Transferred to retained earnings | – | – | 698,485 | (698,485) | – | – |
| Dividend payments | – | – | – | (142,773) | (46,855) | (189,628) |
| Comprehensive income | – | – | (943,324) | 981,986 | 80,669 | 119,331 |
| Own shares/share incentive program | (618) | (19,706) | – | – | – | (20,325) |
| Other changes | – | – | (107,822) | – | 6,932 | (100,889) |
| **Equity as of 31.12.2008** | **468,597** | **2,568,003** | **1,576,594** | **981,986** | **923,026** | **6,518,206** |

Further details to the above mentioned changes are reported under note (34) *equity*.

Other changes in equity are due to currency differences between the income statement and the balance sheet and changes in shares in Group units.

## Comprehensive income

| €000 | Group equity 31.12.2008 | Group equity 31.12.2007 | Minority interests 31.12.2008 | Minority interests 31.12.2007 |
|---|---|---|---|---|
| Consolidated profit | 981,986 | 841,258 | 96,269 | 132,197 |
| Exchange differences | (856,901) | (160,026) | (15,600) | (1,196) |
| Capital Hedge | (65,613) | 103,778 | – | – |
| Cash-Flow Hedge | (42,771) | (7,941) | – | 363 |
| Valuation result of available-for-sale financial assets | 19,541 | (320) | | |
| Sundry income and expenses directly recognized in equity | – | (27) | – | – |
| Deferred taxes on income and expenses directly recognized in equity | 2,420 | – | – | – |
| **Comprehensive income** | **38,662** | **776,722** | **80,669** | **131,365** |

## Retained earnings

Items booked directly in retained earnings developed as follows:

| €000 | Exchange differences | Capital hedge | Cash flow hedge | Valuation of a-f-s financial assets |
|---|---|---|---|---|
| As of 1.1.2007 | (62,821) | 52,833 | – | 316 |
| Net changes in financial period | (160,026) | 103,778 | (7,941) | (320) |
| **As of 31.12.2007** | **(222,847)** | **156,611** | **(7,941)** | **(4)** |

| €000 | Exchange differences | Capital Hedge | Cash-Flow Hedge | Valuation of a-f-s financial assets |
|---|---|---|---|---|
| As of 1.1.2008 | (222,847) | 156,611 | (7,941) | (4) |
| Net changes in financial period | (856,901) | (65,613) | (42,771) | 19,541 |
| **As of 31.12.2008** | **(1,079,748)** | **90,998** | **(50,712)** | **19,537** |

# Cash flow statement

| €000 | 2008 | 2007 |
|---|---|---|
| **Profit after tax** | **1,078,255** | **973,455** |
| Non-cash positions in profit and transition to net cash from operating activities: | | |
| Write-downs/write-ups of tangible fixed assets and financial investments | 216,302 | 218,452 |
| Net provisioning for liabilities and charges and impairment losses | 948,903 | 321,236 |
| Gains (losses) from disposals of tangible fixed assets and financial investments | 2,754 | 2,648 |
| Other adjustments (net) | 754,581 | (322,702) |
| **Subtotal** | **3,000,795** | **1,193,089** |
| Changes in assets and liabilities arising from operating activities after corrections for non-cash positions: | | |
| Loans and advances to banks and customers | (11,617,659) | (20,652,322) |
| Trading assets/trading liabilities (net) | (307,099) | 119,932 |
| Other assets/other liabilities (net) | (501,221) | (578,055) |
| Deposits from banks and customers | 10,398,098 | 15,046,200 |
| Liabilities evidenced by paper | 765,797 | 772,460 |
| Interest received | 5,800,753 | 4,324,635 |
| Dividends received | 2,900 | 1,266 |
| Interest paid | (2,626,455) | (1,612,673) |
| Income taxes paid | (117,618) | (121,546) |
| **Net cash from operating activities** | **4,798,291** | **(1,507,014)** |
| Proceeds from sale of: | | |
| Financial investments and equity participations | 1,099,311 | 1,883,523 |
| Tangible and intangible fixed assets | 113,988 | 158,099 |
| Proceeds from disposal of group assets | 8,011 | 31,530 |
| Payments for purchase of: | | |
| Financial investments and equity participations | (1,544,858) | (1,601,710) |
| Tangible and intangible fixed assets | (663,110) | (593,179) |
| Payments for acquisition of subsidiaries | – | (1,308) |
| **Net cash from investing activities** | **(986,658)** | **(123,045)** |
| Capital increases | 87,580 | 1,305,329 |
| Inflows/outflows of subordinated capital | 152,690 | 115,606 |
| Dividends paid | (189,628) | (139,335) |
| **Net cash from financing activities** | **50,642** | **1,281,600** |

| €000 | 2008 | 2007 |
|---|---|---|
| **Cash and cash equivalents at the end of previous period** | **3,664,187** | **4,063,633** |
| Net cash from operating activities | 4,798,291 | (1,507,014) |
| Net cash from investing activities | (986,658) | (123,045) |
| Net cash from financing activities | 50,642 | 1,281,600 |
| Effect of exchange rate changes | (396,600) | (50,987) |
| **Cash and cash equivalents at the end of period** | **7,129,860** | **3,664,187** |

The cash flow statement shows the structure and changes in cash and cash equivalents during the financial year and is broken down into three sections: operating activities, investing activities and financing activities.

Net cash from operating activities comprises inflows and outflows from loans and advances to banks and customers, from deposits from banks and customers as well as liabilities evidenced by paper. Further, inflows and outflows from trading assets and liabilities, from derivatives, as well as from other assets and other liabilities are shown in operating activities. The interest and dividend received from operating activities are also reflected in net cash from operating activities.

Net cash from investing activities shows inflows and outflows from financial investments, tangible and intangible assets, proceeds from disposal of group assets, and payments for acquisition of subsidiaries.

Net cash from financing activities consists of inflows and outflows of equity and subordinated capital. This covers capital increases, dividend payments, and changes in subordinated capital.

Cash and cash equivalents include the *cash reserve* recognized in the balance sheet, which consists of cash in hand and balances at central banks due at call. It does not include loans and advances to banks that are due at call, which belong to operating activities.

# Segment reporting

## Classification of segments

Raiffeisen International adopted IFRS 8 early, and it has been applied for the year 2008. Only the segmental reporting regulations laid out in IFRS 8 have been applied to this report.

Generally, internal management reporting in Raiffeisen International is carried out based on its matrix organizational structure. Under this organizational structure, members of the Managing Board are responsible for both specific countries and certain business areas. The highest decision making bodies, Raiffeisen International's Managing and Supervisory Boards, make important decisions, such as the allocation of resources, according to geographical standpoints. The same applies to the appraisal of financial strength and profitability, which is why this has been identified as the substantial reporting criterion.

Individual Central and Eastern European countries constitute the smallest Cash Generating Units – CGU. Countries that expect a similar long-term economic development and exhibit a similar economic profile are grouped together as regional segments. Four regional segments have been determined in consideration of the threshold values required by IFRS 8, whereby transparent and clearly represented reporting is achieved. The threshold values as defined by IFRS 8 are 10 per cent of certain parameters; these are operating income, profit after tax, and segment assets.

As of 31 December 2008 the following Group segments existed. The location of the respective business outlets served as the criterion for segment assignment:

- **Central Europe**
  This segment contains the five countries that joined the EU on 1 May 2004 – the Czech Republic, Hungary, Poland, Slovakia, and Slovenia. They represent not only the most fully developed banking markets in Central and Eastern Europe, but also the markets in which Raiffeisen International had its earliest presence.
- **Southeastern Europe**
  Southeastern Europe includes Albania, Bosnia and Herzegovina, Croatia, Kosovo, Moldova, Serbia, as well as Bulgaria and Romania, which joined the EU on 1 January 2007. Moldova has been included in this segment due to its close economic ties to Romania and the respective management structures within the Group.
- **Russia**
  This segment includes the assets and performance for those companies active in the Russian Federation on behalf of Raiffeisen International. The Group is represented in Russia by a bank, a leasing company and a capital management company.
- **Commonwealth of Independent States (CIS) other**
  This segment includes Belarus, Kazakhstan and Ukraine.

The figures stated are derived from the financial statements prepared in accordance to the International Financial Reporting Standards (IFRS) that underlie the consolidated financial statements. Divergence from locally published data is possible, as they may be based on different valuation regulations or differing reporting deadlines.

# Assessment of segment profit and loss

The segment reporting according to IFRS 8 shows the segment performance on the basis of internal management reporting, supplemented with the reconciliation of the segment results to the group results. Raiffeisen International's management reporting is based on IFRS. Therefore, no differences occur in the recognition and measurement principles between segment reporting and consolidated financial accounts.

In order to ensure a transparent and significant segment reporting, the following control and reporting indicators were used to evaluate the performance of a CGU.

- The **return on equity before tax** measures the rentability of every CGU. This figure shows the proportion between the profit before tax and the average capital employed. Additionally, the return on equity shows the return of the capital employed in each segment. For a broad rentability measurement, the Return on Risk Adjusted Capital Ratio (RORAC) is used within the internal management reporting system. The figure shows the return of the risk adjusted equity (economic equity). This figure is no indicator according to IFRS.
- The **cost/income ratio** represents the cost efficiency of the segment. The cost/income ratio shows the proportion of the administrative expenses and the sum of interest income, net fee and commission income, net trading income and the other net operating income.
- The growth of the **risk-weighted assets** reflects the increase of the business volume and is an important growth indicator. The risk-weighted assets according to Austrian Banking Act (based on Basel II) illustrates a sector specific addition to the segment assets of which the own funds requirement of 8 per cent is based.

The presentation of segment performance is based on the income statement. Profit and loss are attributed to the country in which the profit is generated. Income positions are the net interest income, net fee and commission income, net trading income and the other net operating income. Additionally, the current income from associates which are accounted at equity is stated. The material expense positions, which are part of the segment reporting, are included in the income statement. The segment performance is reported up to the consolidated profit. The segment assets are represented by the balance sheet total and the risk-weighted assets. The item liabilities includes all positions of the liabilities side except the equity.

The reconciliation implies the amounts resulting from the elimination of intra-group results, the consolidation between the segments and headquarters' results. It also includes the refinancing of the participations in the holding company. Finally, financial ratios – usual in line of business – are added to evaluate the results.

| Financial year 2008 €000 | Central Europe | Southeastern Europe | Russia | CIS other | Reconciliation | Total |
|---|---|---|---|---|---|---|
| Net interest income | 1,024,538 | 946,789 | 763,894 | 532,945 | (36,157) | 3,232,010 |
| of which current income from associates | 919 | (316) | – | – | – | 603 |
| Provisioning for impairment losses | (265,365) | (159,177) | (175,322) | (180,969) | 532 | (780,301) |
| **Net interest income after provisioning** | **759,173** | **787,612** | **588,572** | **351,976** | **(35,625)** | **2,451,709** |
| Net fee and commission income | 568,379 | 463,136 | 223,046 | 233,594 | 8,214 | 1,496,369 |
| Net trading income | 55,713 | 57,077 | 101,977 | 58,658 | (105,783) | 167,642 |
| Net income from derivatives | (10,929) | (4,958) | (7,302) | (1,121) | 4,390 | (19,921) |
| Net income from financial investments | 1,753 | (18,923) | 5,383 | (13,836) | (15) | (25,638) |
| General administrative expenses | (930,035) | (772,706) | (455,870) | (396,656) | (77,763) | (2,633,030) |
| of which staff expenses | (454,853) | (344,411) | (217,015) | (208,030) | (51,705) | (1,276,014) |
| of which other administrative expenses | (389,498) | (338,589) | (211,976) | (149,906) | (23,510) | (1,113,480) |
| of which depreciation | (85,684) | (89,706) | (26,878) | (38,720) | (2,548) | (243,536) |
| Other net operating income | (10,160) | 23,044 | (17,840) | (5,150) | (5,750) | (15,856) |
| Net income from disposal of group assets | 7,860 | – | – | – | – | 7,860 |
| **Profit before tax** | **441,755** | **534,282** | **437,967** | **227,464** | **(212,333)** | **1,429,135** |
| Income taxes | (90,695) | (84,262) | (125,218) | (66,564) | 15,858 | (350,880) |
| **Profit after tax** | **351,060** | **450,020** | **312,749** | **160,900** | **(196,475)** | **1,078,255** |
| Minority interests in profit | (90,488) | (21,456) | 13,765 | (10,881) | 12,791 | (96,269) |
| **Consolidated profit** | **260,572** | **428,564** | **326,514** | **150,019** | **(183,683)** | **981,986** |
| Share of profit before tax | 26.9% | 32.5% | 26.7% | 13.9% | – | 100.0% |
| Share of profit after tax | 27.5% | 35.3% | 24.5% | 12.6% | – | 100.0% |
| Risk-weighted assets (credit risk) | 23,532,546 | 18,939,238 | 9,551,204 | 8,511,732 | (147,157) | 60,387,563 |
| Own funds requirement | 2,400,956 | 1,704,413 | 845,343 | 748,479 | 67,623 | 5,766,815 |
| Total assets | 36,316,186 | 25,239,486 | 14,952,381 | 8,027,668 | 861,264 | 85,396,985 |
| Liabilities | 33,909,679 | 22,487,774 | 13,381,115 | 7,046,516 | 2,053,696 | 78,878,779 |
| Risk/earnings ratio | 25.9% | 16.8% | 23.0% | 34.0% | – | 24.1% |
| Cost/income ratio | 56.8% | 51.9% | 42.6% | 48.4% | – | 54.0% |
| Average equity | 2,606,729 | 2,071,959 | 1,113,543 | 851,873 | – | 6,482,786 |
| **Return on equity before tax** | **16.9%** | **25.8%** | **39.3%** | **26.7%** | **–** | **22.0%** |
| Average number of staff | 13,265 | 18,261 | 9,654 | 20,011 | 263 | 61,454 |
| Business outlets | 572 | 1,184 | 237 | 1,238 | – | 3,231 |

The values for 2007 were adapted according to IFRS 8:

| **Financial year 2007 €000** | **Central Europe** | **Southeastern Europe** | **Russia** | **CIS other** | **Reconciliation** | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 821,029 | 732,026 | 547,265 | 374,119 | (55,591) | 2,418,849 |
| of which current income from associates | 1,813 | (2,504) | – | – | – | (691) |
| Provisioning for impairment losses | (122,306) | (58,780) | (119,973) | (55,917) | – | (356,977) |
| **Net interest income after provisioning** | **698,724** | **673,246** | **427,292** | **318,202** | **(55,591)** | **2,061,872** |
| Net fee and commission income | 470,780 | 384,819 | 195,368 | 197,482 | 1,385 | 1,249,835 |
| Net trading income | 56,015 | 47,551 | 42,786 | 4,500 | (22,961) | 127,891 |
| Net income from derivatives | 714 | (284) | (30,600) | – | – | (30,170) |
| Net income from financial investments | (6,591) | 104 | (3,278) | 524 | (2) | (9,243) |
| General administrative expenses | (790,941) | (646,716) | (364,709) | (326,671) | (54,983) | (2,184,020) |
| of which staff expenses | (397,189) | (289,692) | (183,429) | (173,775) | (40,763) | (1,084,847) |
| of which other administrative expenses | (312,239) | (283,063) | (156,618) | (112,555) | (12,140) | (876,615) |
| of which depreciation | (81,513) | (73,962) | (24,661) | (40,341) | (2,080) | (222,558) |
| Other net operating income | 182 | 16,904 | (7,583) | (13,499) | (1,082) | (5,078) |
| Net income from disposal of group assets | 23,805 | – | 2,711 | – | – | 26,517 |
| **Profit before tax** | **452,689** | **475,624** | **261,988** | **180,538** | **(133,235)** | **1,237,604** |
| Income taxes | (87,519) | (67,348) | (63,006) | (53,043) | 6,767 | (264,149) |
| **Profit after tax** | **365,170** | **408,276** | **198,981** | **127,495** | **(126,468)** | **973,455** |
| Minority interests in profit | (91,062) | (25,958) | (646) | (15,035) | 504 | (132,197) |
| **Consolidated profit** | **274,109** | **382,319** | **198,335** | **112,460** | **(125,964)** | **841,258** |
| Share of profit before tax | 33.0% | 34.7% | 19.1% | 13.2% | – | 100.0% |
| Share of profit after tax | 33.2% | 37.1% | 18.1% | 11.6% | – | 100.0% |
| Risk-weighted assets (credit risk) | 20,774,820 | 16,278,479 | 9,376,028 | 5,967,819 | (2,594,838) | 49,802,310 |
| Own funds requirement | 1,742,912 | 1,324,009 | 800,818 | 477,426 | (28,045) | 4,317,119 |
| Total assets | 28,962,370 | 22,605,026 | 12,171,401 | 7,365,525 | 1,638,483 | 72,742,805 |
| Liabilities | 26,910,045 | 20,487,100 | 11,012,594 | 6,392,495 | 1,318,433 | 66,120,667 |
| Risk/earnings ratio | 14.9% | 8.0% | 21.9% | 14.9% | – | 14.8% |
| Cost/income ratio | 58.7% | 54.7% | 46.9% | 58.1% | – | 57.6% |
| Average equity | 2,006,552 | 1,572,269 | 905,591 | 576,406 | – | 4,810,194 |
| **Return on equity before tax** | **22.6%** | **30.3%** | **28.9%** | **31.3%** | **–** | **25.7%** |
| Average number of staff | 12,079 | 15,043 | 8,516 | 19,681 | 231 | 55,550 |
| Business outlets | 532 | 973 | 240 | 1,270 | – | 3,015 |

# Notes

## Reporting entity

*Raiffeisen International Bank-Holding AG* is a financial holding company domiciled at Am Stadtpark 3, A-1030 Vienna and registered in the Companies Register at the Vienna Commercial Court (Handelsgericht Wien) under Companies Register number FN 122.119m. The shares have been listed on the *Prime Market* of the Vienna Stock Exchange since 25 April 2005. *Raiffeisen Zentralbank Österreich Aktiengesellschaft*, Vienna, holds the majority stake in the company, totalling 70.8 per cent of its issued share capital as of the balance sheet date.

The company also belongs to the Group of *Raiffeisen-Landesbanken-Holding GmbH*, Vienna, which is the ultimate parent company. This financial holding owns the majority stake in Raiffeisen Zentralbank Österreich Aktiengesellschaft. Moreover Raiffeisen International is also included in the consolidated financial statements of Raiffeisen Zentralbank Österreich Aktiengesellschaft.

Raiffeisen International specialises in providing banking and financial services in Central and Eastern Europe (CEE). The Group includes universal banks in 15 countries that operate a broad network of local business outlets. Raiffeisen International renders a comprehensive range of banking and financial services. These services range from account and cash management, deposit-taking, lending, trade finance, and credit card services to mortgages and leasing. The Group's diversified client base comprises multinationals and large local groups, small and medium-sized enterprises, public sector institutions, and retail customers.

These consolidated financial statements were signed by the Managing Board on 26 February 2009 and subsequently submitted to the Supervisory Board for review and approval (ascertainment).

# Principles underlying the consolidated financial statements

## Policies

The consolidated financial statements for the financial year 2008 and the comparative figures for the financial year 2007 were prepared in accordance with the *International Financial Reporting Standards (IFRS)* published by the *International Accounting Standards Board (IASB)* and the international accounting standards adopted by the EU on the basis of *IAS Regulation (EC) 1606/2002* including the *interpretations* of the *International Financial Reporting Interpretations Committee (IFRIC/SIC)* that were already applicable. All standards published by the IASB to be applied to financial statements for 2008 and adopted by the EU, have been applied.

All standards and interpretations to be applied to financial statements 2008 have been applied. IAS 20, IAS 31, IAS 41, IFRS 4 and IFRS 6 are not applied as there were no relevant business transactions in the Group.

The new interpretations effective since 2008 had no material effects on the recognition and measurement methods of the bank: IFRIC 12 (Service Concession Arrangements), IFRIC 13 (Customer Loyalty Programmes), IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset Minimum, Funding Requirements and their Interaction), IFRIC 15 (Agreements for the Construction of Real Estate) and IFRIC 16 (Hedging of a Net Investment in a Foreign Operation).

IFRS 8 (Operating Segments) published in November 2006 by the IASB replaces IAS 14 and defines the segment reporting on the basis of operative segments. According to IFRS 8, segments are components of an entity. Financial information is disclosed for each segment which is controlled by the chief operating decision maker on a regular basis (management approach). IFRS 8 has to be applied for periods beginning on or after 1 January, 2009. But the Group applies IFRS 8 starting with the year end 2008. In order to ensure comparability, the figures for the year 2007 were adapted and reported according to operating segments.

Relevant Standards and Interpretations published but not effective have not yet been applied: The adapted IAS 1 (Presentation of Financial Statements, effective date: periods beginning on or after 1 January 2009), IAS 23 (Borrowing Costs; effective date: periods beginning on or after 1 January 2009), IAS 32 (Financial Instruments: Presentation; effective date: periods beginning on or after 1 January 2009), IFRS 2 (Share-based Payment; effective date: periods beginning on or after 1 January 2009) and changes within the scope of the improvement project.

Due to the modified IAS 39.50, adopted by the EU in October 2008, non-derivative financial instruments are permitted to be reclassified in rare circumstances from the category held-for-trading to held-to-maturity (until 31 October 2008 also retroactively as of 1 July 2008). Because of the current financial turmoil and the fact that certain financial instruments are no longer traded, the possibility to transfer the affected financial instruments from held-for-trading to held-to-maturity category has been applied.

The consolidated financial statements are based on the reporting packages of all fully consolidated Group members which are prepared according to uniform Group standards and IFRS rules. All fully consolidated companies prepared their annual financial statements as of 31 December. Figures in these financial statements are stated in thousands of euros.

A financial asset is recognized when it is probable that the future economic benefits will flow to the enterprise and the cost or value can be reliably measured. A financial liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation and the amount at which the settlement will take place can be measured reliably.

If estimates or assessments are necessary for the recognition and measurement according to IAS/IFRS, they are made in accordance with the respective standards. They are based on past experience and other factors such as planning and expectations or forecasts of future events that appear likely from the current perspective. Basically, this applies to impairment losses on loans and advances, fair value and impairment of financial instruments, deferred taxes, provisions for retirement and similar benefits, calculations for the recoverability of goodwill and intangible fixed assets which are recognized in the course of business combinations. The actual figures may deviate from the estimated values.

Deferred taxes were not separately shown in the income statement and on the balance sheet. Details are provided under the appropriate headings in the notes.

## Consolidation methods

Raiffeisen International consolidates all material subsidiaries, in which *Raiffeisen International Bank-Holding AG* directly or indirectly, holds either more than 50 per cent of the voting rights or otherwise has control over the financial and operating policies. On principle, these subsidiaries are firstly integrated on the date when the Group obtains control of the company and are excluded when the group no longer has control of the company. Special purpose vehicles founded for securitization transactions which are – from an economic point of view – controlled by the Group, are integrated according to SIC 12.

In the case that further shares are acquired under existing control or shares are sold without loss of control, such transactions are recognized directly in equity during the course of continuing consolidation.

Material interests in associated companies – the Group exerts a significant influence on financial and operating polices of these companies – are valued at equity and reported under *investments in associates*. Profit or losses occurring in companies valued at equity are shown net in *current income from associates*. The same rules apply to companies valued at equity (offsetting acquisition costs against proportional fair net asset value) as apply to fully consolidated companies. On principle, IFRS financial statements of associated companies are used. Changes in equity of companies valued at equity are also treated in the consolidated accounts as changes in equity.

Shareholdings in subsidiaries not included in the consolidated financial statements because of their minor significance and shareholdings in companies which have not been valued at equity are shown under *financial investments* and are measured at amortized cost.

**Business combinations**

In the course of capital consolidation, all identifiable assets, liabilities and contingent liabilities of the subsidiary are measured at their fair values on the acquisition date according to IFRS 3. The acquisition costs are offset with the proportional net assets. The resulting positive differences are capitalized as goodwill. The goodwill is tested annually for impairment. Negative differences in the course of first integration are recognized in the income statement.

On each balance-sheet date, goodwill is examined with a view to their future economic utility on the basis of Cash Generating Units. The Cash Generating Units are defined by the management. The carrying value of the Cash Generating Unit (including any allocated goodwill) is compared with their recoverable value. The recoverable value represents the higher of an item's value in use and the fair value less cost to sell. It is based on the expected cash flows in accordance with the business plan of the units. They are discounted at an interest rate reflecting the risk involved. The estimation of future earnings requires judgement of the past and actual performance and the expected development in the respective markets and overall macro-economic environment.

The estimation of the future development of the Cash Generating Units starts with macro-economic facts (gross domestic product, inflation expectations) and considers specific market conditions and the business policy. In order to better reflect the mid-term development, a ten-year detail planning period was decided.

The data is used to capture the terminal value on a going concern concept. The profit after tax in compliance with the solvency regulations considering a security reserve serves as basis for the calculation. Discounting is made on different country-specific equity capital cost rates which are based on the capital asset pricing model. The individual components (risk-free interest rate, inflation difference, market risk premium, country-specific risks and beta factors) are defined by using external information sources. The inflation-adjusted discount rates used in 2008 for the Cash Generating Units range from 10.14 per cent to 31.51 per cent.

The annual impairment test for goodwill for 2008 and 2007 did not result in an impairment loss as the recoverable amount for all Cash Generating Units was higher than their respective carrying amount.

Companies of Raiffeisen International Group use brands to differentiate their services from the competition. According to IFRS 3, brands of acquired companies have been recognized separately under the item *intangible fixed assets*. Brands have an indefinite useful life and are therefore not subject to scheduled amortization. Brands have to be tested annually for impairment and additionally, whenever indications of impairment arise.

The value of brands was determined using the comparable historical cost approach, because neither immediately comparable transactions nor a market with observable prices were available at the time of purchase price allocation. Documentation of brand-related marketing expenses in the previous years was taken as the data base for the historical cost approach.

If customer contracts and associated customer relationships are acquired in a business combination, they must be recognized separately from goodwill, if they are based on contractual or other rights. The acquired companies meet the criteria for a separate recognition of non-contractual customer relationships for existing customers. The customer base is valued using the multi-period excess earnings method based on projected future income and expenses allocable to the respective customer base. The projections are based on planning figures for the corresponding years.

**Consolidation entries**

Intra-group balances between parent company and subsidiaries and intra-group balances between subsidiaries are eliminated in the consolidated accounts. Remaining temporary differences are recognized under *other assets/other liabilities*.

Intra-group income and expenses are off-set and timing differences resulting from bank business transactions are shown in *net interest income*. Other differences were shown in *other net operating income*.

Intra-group results are eliminated insofar as they had a material effect on the items of the income statement. Bank business transactions between Group members are usually executed in arm's length transaction.

# Consolidated group

The number of fully consolidated companies and companies valued at equity changed as follows:

| | Fully consolidated | | Equity method | |
|---|---|---|---|---|
| **Number of units** | **2008** | **2007** | **2008** | **2007** |
| As of 1.1. | 121 | 105 | 3 | 3 |
| Included for the first time in the financial period | 19 | 29 | – | – |
| Merged in the financial period | (2) | (3) | – | – |
| Excluded in the financial period | (7) | (10) | (2) | – |
| **As of 31.12.** | **131** | **121** | **1** | **3** |

Because of their minor importance in giving a view of the Group's assets, and financial and earnings position, 87 subsidiaries were not included in the consolidated financial statements (2007: 84). They were recognized at amortized cost under *financial investments*. The balance sheet total of the companies not included in the Group came to less than 1 per cent of the Group's aggregated balance sheet total.

A list of fully consolidated companies, companies valued at equity and other equity participations may be found on page 214 f.

In the financial year 2008, the following companies were included into the consolidated financial statements for the first time:

| Name | Share | Included as of | Fact |
|---|---|---|---|
| **Financial institutions** | | | |
| Appolon Property, s.r.o., Prague (CZ) | 69.0% | 1.9. | Materiality |
| Central Eastern European Finance Agency B.V., Amsterdam (NL) | 100.0% | 1.8. | Foundation |
| Gama Project CZ, s.r.o., Prague (CZ) | 69.0% | 1.8. | Acquisition |
| Holeckova Property s.r.o., Prague (CZ) | 69.0% | 1.6. | Acquisition |
| Luna Property, s.r.o., Prague (CZ) | 69.0% | 1.1. | Foundation |
| Matejska 24 s.r.o., Prague (CZ) | 69.0% | 1.8. | Acquisition |
| Orchideus Property, s.r.o., Prague (CZ) | 69.0% | 1.2. | Materiality |
| Raiffeisen Capital & Investment S.A., Bucharest (RO) | 99.5% | 1.1. | Materiality |
| Raiffeisen Factoring Ltd., Sofia (BG) | 100.0% | 1.7. | Foundation |
| Raiffeisen Finance d.o.o., Sarajevo (BA) | 85.8% | 1.8. | Foundation |
| RB Russia Finance Limited, Dublin (IE) | 0.0% | 1.1. | Materiality |
| REAL ESTATE RENT 3 DOO, Belgrade (RS) | 75.0% | 1.4. | Foundation |
| Real Estate Rent 4 d.o.o., Belgrade (RS) | 75.0% | 1.9. | Foundation |
| Residence Park Trebes, s.r.o., Prague (CZ) | 69.0% | 1.8. | Acquisition |
| ROOF Consumer Bulgaria 2007 – 1 B.V., Amsterdam (NL) | 0.0% | 1.3. | Materiality |
| ROOF Consumer Romania 2008 – 1B.V., Amsterdam (NL) | 0.0% | 1.7. | Foundation |
| UPC Real, s.r.o., Prague (CZ) | 69.0% | 1.12. | Foundation |
| **Companies rendering banking-related ancillary services** | | | |
| Rb Kereskedhöház Kft, Budapest (HU) | 70.3% | 1.1. | Materiality |
| **Other companies** | | | |
| Raiffeisen Energy Serivce Ltd., Budapest (HU) | 72.7% | 1.8. | Materiality |

## Business combinations

The following table shows the assets and liabilities revalued as of the acquisition date:

| €000 | Total |
|---|---|
| Assets | 4,327 |
| Liabilities | (3,753) |
| **Net assets** | **574** |
| Acquisition cost | 30 |
| **Balance Goodwill/(Badwill)** | **(544)** |

The effect of acquired subsidiaries on liquidity was immaterial.

## Included units

Due to the control principle from an economic point of view (SIC-12), the following companies were firstly integrated in the consolidated financial statements:

*RB Russia Finance Limited*, Dublin, a special purpose vehicle to raise capital for *ZAO Raiffeisenbank*, Moscow, was integrated as of 1 January 2008.

*ROOF Consumer Bulgaria 2007 – 1 B.V.*, Amsterdam, and *ROOF Consumer Romania 2008 – 1 B.V.*, Amsterdam, were founded in connection with a securitization of unsecured consumer loans and were integrated as of 1 March and 1 July 2008.

## Mergers

In the third quarter 2008, two mergers took place: *eBanka a.s.*, Prague, was merged with *Raiffeisenbank a.s.*, Prague, as of 7 July 2008 and *Raiffeisen International GROUP IT GmbH*, Vienna, with *Raiffeisen International Bank-Holding AG*, Vienna, as of 15 July 2008.

## Excluded units

*SCTO Bécsi Út Real Estate Development Kft.*, Budapest, was sold at the end of April and therefore excluded from the Group. Income from disposal of group assets amounted to € 1.9 million. In May 2008, two Hungarian leasing companies – *SCTD Kondorosi út Kft.*, Budapest, and *SCTH Budaörs Kft.*, Budapest, were sold and excluded. This resulted in an income of € 5.2 million. The Hungarian *Raiffeisen Real Estate Mangement Zrt*, Budapest, was sold to *CEU-REM Holding Zrt.*, Budapest, and excluded in July 2008. The result was minus € 0.3 million. In the fourth quarter 2008, two further companies – *SCT Csörsz utca Kft.*, Budapest, and *RLRE & EUBE OC - TERRONIC II., s.r.o.*, Prague, – were sold. The income from this disposal was € 1 million.

In the financial year 2008, the following companies were excluded from the Group:

| Name | Share | Excluded | Fact |
|---|---|---|---|
| **Financial institutions** | | | |
| Raiffeisen Real Estate Mangement Zrt, Budapest (HU) | 72.7% | 29.7. | Sale |
| RLRE & EUBE OC - TERRONIC II., s.r.o., Prague (CZ) | 69.0% | 1.12. | Sale |
| SCT Csörsz utca Kft., Budapest (HU) | 74.7% | 29.11. | Sale |
| SCTD Kondorosi út Kft., Budapest (HU) | 74.7% | 20.5. | Sale |
| SCTH Budaörs Kft., Budapest (HU) | 60.4% | 30.5. | Sale |
| SCTO Bécsi Út Real Estate Development Kft., Budapest (HU) | 74.5% | 29.4. | Sale |
| Tellmer s.r.o., Prague (CZ) | 69.0% | 1.12. | Immaterial |

The following table shows the income arising from disposal of group assets and the two largest transactions separately:

| €000 | Total | SCTD[1] | SCT0BU[2] |
|---|---|---|---|
| Assets | (71,008) | (5,736) | (23,535) |
| Liabilities | 71,003 | 5,296 | 24,078 |
| **Net assets** | **(5)** | **(440)** | **543** |
| Minority interests | 85 | – | 109 |
| **Net assets after minority interests** | **80** | **(440)** | **435** |
| Goodwill | (230) | – | – |
| Selling price | 8,010 | 5,277 | 1,432 |
| **Income from disposal of group assets** | **7,860** | **4,837** | **1,867** |

*1 SCTD Kondorosi út Kft., Budapest*
*2 SCTO Bécsi Út Real Estate Development Kft., Budapest*

The effect of sold subsidiaries on liquidity is equal to selling price as there were no liquid funds.

# Foreign currency translation

Financial statements of fully consolidated companies prepared in foreign currencies were translated into euros employing the modified current rate method in accordance with IAS 21. Equity was translated at its historical exchange rates while all other assets, liabilities and the notes were translated at the prevailing foreign exchange rates as of the balance sheet date. Differences arising from the translation of equity (historical exchange rates) were offset against retained earnings and not recognized in income statement.

The items of the income statement were translated at the average exchange rates during the year calculated on the basis of month-end rates. Differences arising between the exchange rate as of the balance sheet date and the average exchange rate applied in the income statement were offset against equity and not recognized in the income statement.

In the case of one subsidiary not headquartered in the euro-area *(GSI Group Software Investment AG*, Zug*)*, the euro was the reporting currency for measurement purposes given the economic substance of the underlying transactions. *Roof Russia S.A.*, Luxemburg, carries out its business transactions and refinancing in US$, therefore the functional currency is the US$. The following exchanges rates were used for currency translation:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| **Rates in units per €** | **As of 31.12.** | **Average** | **As of 31.12.** | **Average** |
| Albanian lek (ALL) | 123.800 | 122.931 | 121.780 | 123.647 |
| Belarusian rouble (BYR) | 3,077.140 | 3,157.684 | 3,149.320 | 2,945.327 |
| Bosnian marka (BAM) | 1.956 | 1.956 | 1.956 | 1.956 |
| Bulgarian lev (BGN) | 1.956 | 1.956 | 1.956 | 1.956 |
| Croatian kuna (HRK) | 7.356 | 7.230 | 7.331 | 7.335 |
| Czech koruna (CZK) | 26.875 | 25.161 | 26.628 | 27.713 |
| Hungarian forint (HUF) | 266.700 | 251.255 | 253.730 | 251.405 |
| Kazakh tenge (KZT) | 170.890 | 177.714 | 177.170 | 168.613 |
| Moldovan leu (MDL) | 14.741 | 15.432 | 16.644 | 16.657 |
| Polish zloty (PLN) | 4.154 | 3.533 | 3.594 | 3.779 |
| Romanian leu (RON) | 4.023 | 3.693 | 3.608 | 3.344 |
| Russian rouble (RUB) | 41.283 | 36.691 | 35.986 | 35.076 |
| Serbian dinar (RSD) | 88.601 | 81.704 | 79.236 | 80.002 |
| Slovak koruna (SKK) | 30.126 | 31.314 | 33.583 | 33.821 |
| Ukrainian hryvnia (UAH) | 10.855 | 7.869 | 7.419 | 6.932 |
| US-Dollar (USD) | 1.392 | 1.473 | 1.472 | 1.375 |

# Recognition and measurement principles

## Financial instruments: Recognition and measurement (IAS 39)

According to IAS 39, financial assets, financial liabilities and derivative financial instruments are to be recognized on the balance sheet. A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Measurement of financial instruments is effected according to the measurement categories to which they belong. They are defined as follows:

1. Financial assets or liabilities at fair value through profit and loss
   a. Trading assets/liabilities
   b. Designated financial instruments at fair value
2. Financial assets held-to-maturity
3. Loans and advances
4. Financial assets available-for-sale
5. Financial liabilities

**1. Financial assets or liabilities at fair value through profit and loss**

**1 a. Trading assets/liabilities**

Trading assets/liabilities are acquired or incurred principally for the purpose of generating profit from short-term fluctuations in market prices. Securities (including short selling of securities) and derivative financial instruments held for trading are recognized at their fair values. If securities are listed, the fair value is based on stock exchange prices. Where such prices are not available, internal prices based on present value calculations for originated financial instruments and futures or option pricing models for options are applied. Present value calculations are based on the *zero-coupon curve*. As option price formulas Black-Scholes 1972, Black 1976 or Garman-Kohlhagen are applied depending on the kind of option.

Derivative financial instruments held for trading are also shown under *trading assets* or *trading liabilities*. Positive fair values including accrued interest (*dirty price*) are shown under *trading assets*. Negative fair values are recorded under *trading liabilities*. Positive and negative fair values are not netted. Changes in *dirty prices* are recognized in the income statement under *net trading income*.

**1 b. Designated financial instruments at fair value**

This category comprises mainly all those financial assets which are irrevocably designated as financial instrument at fair value (so called fair value option) upon initial recognition in the balance sheet independent of the intention to trade. An entity may use this designation only when doing so results in more relevant information, because a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis. These instruments are debt securities and other fixed-interest securities or equities and other variable-yield securities.

These instruments are measured at fair value according to IAS 39. They are stated under the balance sheet item *financial investments*, current income is shown under *net interest income*, and valuation gains and losses and proceeds from sale are stated in *net income from financial investments.*

**2. Financial assets held-to-maturity**
Non-derivative financial assets (securities with fixed or determinable payments and fixed maturities) purchased with the intention and ability to hold them to maturity are reported under the balance sheet item *financial investments*. They are recognized at amortized cost and differences are amortized over the term to maturity and recognized in the income statement under *net interest income*. Coupon payments are also recognized under net interest income. A sale of these financial instruments is only allowed in cases as stated in IAS 39.

**3. Loans and advances**
Loans and advances are recognized at their nominal value without deduction of impairment losses. Accrued interest is recognized in the income statement if there is a high probability that it would be received. Moreover, debt instruments are also stated there if there is no active market. Derecognition of financial assets within the framework of securitizations is – after checking if the securitized special purpose vehicle has to be integrated into the consolidated accounts – done on a risk and rewards or control test according to IAS 39 in case of loss of control over the contractual rights arising from the financial asset.

**4. Financial assets available-for-sale**
The category of financial assets available-for-sale contains those financial instruments (mainly equity participations for which there is no active market) that did not qualify for any of the other three categories. They are stated at fair value, if a fair value is reliably measurable. Measurement differences are shown directly in equity and only recognized in the income statement if there is an objective indication of impairment. Only in the case of debt instruments, a reversal of impairment is recognized in the income statement. In case of equity instruments, such reversals of impairment are booked versus equity. This kind of financial instruments is reported under *financial investments.*

**5. Financial liabilities**
Liabilities are recognized at amortized cost. Discounted debt securities and similar obligations are measured at their present value.

## Fair value

The fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

**Quotation on an active market (level I)**
If official market prices are available, the fair value is reflected by the market price. This category contains equity instruments traded on a stock exchange, debt instruments traded on the interbank market and derivatives which are traded on the stock exchange.

**Measurement techniques based on observable market data (level II)**
When current bid and asking prices for financial instruments are unavailable, the prices of similar financial instruments provide evidence of the current fair value or are determined by accepted measurement methods enclosing observable prices and parameters (in particular present value calculation or option price model). These methods concern the majority of the OTC-derivates and non-quoted debt instruments.

**Measurement techniques not based on observable market data (level III)**
If no observable stock exchange prices or prices are available, the fair value will be measured by adequate measurement models. The utilization of these models requires assumptions and estimates of the management. The scope of assumptions and estimates depend on the price transparency of the financial instrument, the market and the complexity of the instrument.

## Categories of financial instruments according to IFRS 7

As the nature of the financial instruments is already shown by the classification of balance sheet items, the formation of categories is built in line with balance sheet items which include financial instruments. Categories of financial instruments on the asset side are cash reserve, loans and advances to banks, loans and advances to customers, trading assets, derivative financial instruments, derivatives for hedge accounting and financial investments (among this category separately stated financial assets not traded on an active market and which are shown at cost). Categories of financial instruments on the liability side are liabilities from trading activities, derivative financial instruments, derivatives for hedge accounting, deposits from banks, deposits from customers, liabilities evidenced by paper and subordinated capital.

| Classes | Measurement | | | Category according to IAS 39 |
|---|---|---|---|---|
| | Fair value | Amortized cost | Others | |
| **Asset classes** | | | | |
| Cash reserve | | | Nominal value | n/a |
| Trading assets | X | | | Trading assets |
| Derivatives | X | | | Trading assets |
| Loans and advances to banks | | X | | Loans and advances |
| Loans and advances to customers | | X | | Loans and advances |
| of which finance lease business | | X | | n/a |
| Financial investments | X | | | At fair value through profit or loss |
| Financial investments | X | | | Available-for-sale |
| Financial investments | | X | | Held-to-maturity |
| of which financial investments not traded on an active market | | | At cost | Available-for-sale |
| Positive fair values of derivatives for hedge accounting (IAS 39) | X | | | n/a |
| **Liability classes** | | | | |
| Trading liabilities | X | | | Trading liabilities |
| Derivatives | X | | | Trading liabilities |
| Deposits from banks | | X | | Financial liabilities |
| Deposits from customers | | X | | Financial liabilities |
| Liabilities evidenced by paper | | X | | Financial liabilities |
| Subordinated capital | | X | | Financial liabilities |
| Negative fair values of derivatives for hedge accounting (IAS 39) | X | | | n/a |

## Derivatives

Derivatives used by the Group include swaps, standardized forward contracts, futures, credit derivatives, options and similar contracts. Within the operating activity, the Group carries out different transactions with derivative financial instruments for trading and hedging purposes. The Group applies derivatives, in order to meet the requirements of the clients concerning the risk management, to manage and secure the risks and to generate profit in proprietary trading.

# Hedge Accounting

If derivates are held for the purpose of risk management and if the respective transactions meet specific criteria, the group uses hedge accounting. Within the financial accounting, three types of hedging relations are distinguished which are treated different in accounting.

**a) Fair value hedge according to IAS 39**

Hedge accounting according to IAS 39 applies for those derivatives which are used to hedge the fair values of financial assets and liabilities. Especially, the credit business is subject to such fair value risks if it deals with fixed-interest loans. *Interest-rate swaps* that satisfy the prerequisites for hedge accounting are contracted to hedge against the interest-rate risks arising from loans and refinancing. Hedges are formally documented, continuously assessed, and rated to be highly effective. In other words, throughout the term of a hedge, one can assume that changes in the fair value of a hedged item will be nearly completely offset by a change in the fair value of the hedging instrument and that the actual outcome will lie within a band of 80 to 125 per cent.

Derivative instruments held to hedge the fair values of individual balance sheet items (except trading assets/liabilities) are recognized at their fair values (*dirty prices)* under *derivatives (*on the assets side: positive dirty prices; on liabilities side: (negative dirty prices). Changes in the carrying amounts of hedged items (assets or liabilities) are allocated directly to the corresponding balance sheet items and reported separately in the notes.

Both the effect of changes in the carrying values of positions requiring hedging and the effects of changes in the clean prices of the derivative instruments are recorded under *net income from derivatives* (net income from hedge accounting).

**b) Cash flow hedge according to IAS 39**

Cash flow hedge accounting according to IAS 39 applies for those derivatives which are used to hedge against the risk of fluctuating future cash flows. Variable-interest liabilities are particularly subject to such cash flow risks. *Interest rate swaps* used to hedge against the risk of fluctuating cash flows arising from specific variable interest-rate items, were recognized as follows: The hedging instrument was recognized at fair value; changes in its *clean price* are recorded as separate item in equity without affecting income.

**c) Hedging of a net investment (capital hedge)**

In the Group, hedges of investments in economically independent sub-units (IAS 39.102) were made in order to reduce differences arising from the translation of equity. Liabilities in foreign currency, currency options, currency futures and currency swaps are mainly used as hedging instruments. The resulting gains and losses from currency translation are shown in equity without affecting profit and are separately disclosed in the statement of changes in equity, insofar as the hedging relation is effective. The ineffective part of this hedge relation is recognized in profit under *net trading income*. The related interest components are shown in net interest income. There were no deferred taxes calculated due to the applied exception regulations according to IAS 12.39.

**d) Credit derivatives**

Credit derivatives are derivative financial instruments whose price or value derives from the expected future occurrence or non-occurrence of a specific credit event. Changes in the fair value are recognized in the income statement under *net income from derivatives.*

**e) Other derivative instruments**

Derivative instruments held to hedge against market risks (except trading assets/liabilities) that are based on an inhomogeneous portfolio do not satisfy the requirements for hedge accounting according to IAS 39. They are captured as follows: *Dirty prices* are recognized under *derivatives (*on the assets side: positive market values; on the liabilities side: negative market values). The effect of re-measuring those derivative instruments on a clean price basis is recognized under *net income from derivatives* (net income from other derivative instruments); interest is recorded under *net interest income.*

## Offsetting

In the case of identity of borrower and creditor, offsetting of loans and liabilities with matching maturities and currencies occurs, only if a legal right, by contract or otherwise exists and offsetting is in line with the actually expected course of the business.

## Cash reserve

The cash reserve includes cash in hand and balances at central banks that are due on call. They are shown with their nominal value.

## Impairment losses on loans and advances

At each balance sheet date it is assessed whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred, when:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset until the balance sheet date (a 'loss event'),
- that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and
- the amount can be reliably estimated.

Credit risk is accounted for by making specific impairment provisions and portfolio-based impairment provisions. The latter comprise impairment provisions for portfolios of loans with identical risk profiles that may be compiled under certain conditions. In the retail division, provisions are built according to product portfolio and past due days. Specific and portfolio-based impairment provisions are not netted against corresponding receivables but are stated separately in the balance sheet.

For credit risks related to loans and advances to customers and banks, provisions are made in the amount of expected loss according to homogeneous Group-wide standards. Risk of loss is deemed to exist if the discounted projected repayment amounts and interest payments are below the carrying value of the loans, taking collateral into account. Portfolio-based impairments are calculated according to valuation models that estimate expected future cash flows for the loans in the respective loan portfolio based on loss experience history. This is carried out by considering the economic environment. For retail portfolios without a documented loss history of their own, *peer group* benchmark figures serve as a comparative base.

The entirety of the provision for impairment losses arising from on-balance-sheet loans (individual loan loss provisions and portfolio-based provisions) is shown as a separate item on the assets side of the balance sheet, below *loans and advances to banks and customers*. The provision for impairment losses arising from off-balance-sheet transactions is recorded under *provisions for liabilities and charges*.

## Derecognition of financial assets and liabilities

**Derecognition of financial assets**

A financial asset is derecognized when the contractual rights to the cash flows arising from a financial asset expire or when the Group has transferred the rights or if the Group has the obligation – in case that certain criteria occur – to transfer the cash flows to one or more receivers. A transferred asset is derecognized if all risks and rewards of ownership of the assets are transferred.

**Securitization transactions**

The Group securitises several financial assets from transactions with private customers and business customers by selling them to a special purpose vehicle which issues securities to investors. The assets transferred are derecognized fully or partly by applying the relevant accounting principles. Rights to securitized financial assets can be retained in the form of junior or subordinated tranches, interest claims or other remaining claims.

## Genuine sale and repurchase agreements

In a genuine sale and repurchase transaction, the transferor sells assets to a third party and agrees at the same time to repurchase these assets at an agreed price and time. The assets remain in the balance sheet of the transferor and are measured like the balance sheet item where they are shown. Cash inflows arising from a sale and repurchase transaction are recognized in the balance sheet depending on the counterparty as *deposits from banks* or *deposits from customers*.

Under reverse repurchase agreements, assets are acquired with the obligation to sell them in the future. Cash outflows arising from reverse repurchase agreements are recorded in the balance sheet under *loans and advances to banks* or *loans and advances to customers*. Interest expense from sale and repurchase agreements and interest income from reverse sale and repurchase agreements are accrued in a straight line over their term to maturity and are shown under *net interest income*.

## Finance lease business

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset to the lessee. Pursuant to IAS 17, the present value of all future lease payments and any residual values are shown as *loans and advances to banks* or *customers* in the balance sheet of the lessor. The lessee recognizes the assets as tangible fixed assets to which refer a corresponding leasing liability.

## Equity participations

Shareholdings in subsidiaries not included in the consolidated financial statements because of their minor significance and shareholdings in companies that are not valued at equity are shown under *financial investments* and are measured at amortized cost if no share prices are available.

Other shareholdings are recognized in the category financial assets available-for-sale. Changes in value are directly recognized in equity without effecting income statement. Impairments are shown in the income statement.

## Intangible fixed assets

Under this item, internally developed and acquired software, brand rights, acquired customer bases and especially goodwill are stated. Goodwill and other intangible fixed assets (e.g. brand rights) without definite useful lives are tested for impairment at every balance sheet date. Whenever events or changes in circumstances indicate that the expected benefit no longer exists, impairment must be made pursuant to IFRS 3.

Acquired intangible fixed assets with determinable useful lives (software and customer base) are capitalized at acquisition cost and amortized over their estimated useful lives.

Internally developed intangible fixed assets comprise without exemption software. Software is capitalized if it is probable that the future economic benefits attributable to the asset will accrue to the enterprise and the cost of the asset can be measured reliably. The useful life of software is between four and six years and may be longer for major software projects. The useful life of the acquired customer base was set at seven years for corporate customers and for the acquired customer base in the retail division of *VAT Raiffeisen Bank Aval* at 20 years and for *OAO Impexbank* (meanwhile merged with *ZAO Raiffeisenbank)* and *eBanka a.s.* (meanwhile merged with *Raiffeisenbank a.s.*) at five years.

## Tangible fixed assets

Tangible fixed assets are measured at cost of acquisition or conversion less scheduled depreciation. The straight-line method is used for depreciation and is based on the following useful life figures:

| Useful life | Years |
|---|---|
| Buildings | 25 – 50 |
| Office furniture and equipment | 5 – 10 |
| Hardware | 3 – 5 |

If a permanent impairment was to be expected, extraordinary write-downs were carried out. In the event that the reason for the write-down no longer applies, a write-up will take place up to the amount of the amortized cost of the asset.

## Investment property

Investment property is reported at amortized cost using the *cost model* permitted by IAS 40 and is shown under fixed assets because of minor importance. Income resulting from investment property is shown in *other net operating income*.

## Operating lease

An operating lease exists if the lessor bears all risks and enjoys the rewards of ownership. The leased assets are reported by the lessor under *fixed assets* and depreciated in accordance with the principles applicable to the type of fixed assets involved.

## Inventory

*Inventories* are measured at the lower of cost or net realizable value. Write-downs are made if the acquisition cost is above the net realizable value as of the balance sheet date or if limited usage or longer periods for storage have impaired the value of the inventory.

## Provisions for liabilities and charges

All defined benefit plans relating to so-called social capital (provisions for pensions, provisions for severance payments, provisions for anniversary bonuses) are measured using the *Projected Unit Credit Method* in accordance with IAS 19 – Employee Benefits.

The actuarial calculation of pension obligations for active employees is based on the following assumptions:

| Per cent | 2008 | 2007 |
|---|---|---|
| Interest rate | 6.0 | 5.0 |
| Effective salary increase for active employees | 3.0 | 3.0 |
| Individual career trend for active employees | 2.0 | 2.0 |
| Expected increase in retirement benefits | 2.0 | 2.0 |
| Expected return on plan assets | 4.25 | 4.25 |

Calculations are based on an assumed retirement age of 65 years and are subject to transitional statutory regulations and special arrangements in individual contracts. Actuarial gains or losses calculated for pension obligations are recognized immediately in profit. The right to vote according to IAS 19.92 ("*corridor method*") was not applied.

The actuarial computation of severance payments and anniversary bonuses is based on the following assumptions:

| Per cent | 2008 | 2007 |
|---|---|---|
| Interest rate | 6.0 | 5.0 |
| Average increase in salary | 3.0 | 3.0 |
| Individual career trend | 2.0 | 2.0 |

The biometrical basis for the calculation of provisions for pensions, severance payments and anniversary bonuses of Austrian companies is provided by *AVÖ 2008-P-Rechnungsgrundlagen für die Pensionsversicherung* (Computational Framework for Pension Insurance) – *Pagler & Pagler,* using the variant for salaried employees and considering a long-life factor. In other countries, similar actuarial parameters are used for calculation.

Other provisions are made to uncertain liabilities to third parties in the amount of the expected claim. These provisions are not discounted because the resulting interest effect is immaterial.

## Defined contribution plans

Under defined contribution plans, the company pays fixed contributions into a separate entity (a fund). These payments are recognized as *staff expense* in the income statement.

## Subordinated capital

The balance sheet item comprises subordinated capital and supplementary capital. Liabilities, documented or undocumented, are subordinated if, in the event of liquidation or bankruptcy, they can only be met after the claims of the other – not subordinated – creditors have been satisfied. Supplementary capital contains all paid in own funds which are available for the company for more than eight years with the creditor renouncing prior notice, for which interest is paid only from the profit (before reserve transactions) and which can be repaid in the case of solvency only after all other debtors are satisfied.

## Own shares

Own shares held by *Raiffeisen International Bank-Holding AG* as of the balance sheet date are deducted from equity. No gain or loss may be recognized in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

## Share-based remuneration

The Managing Board of *Raiffeisen International Bank-Holding AG* obtained Supervisory Board approval to institute a *share incentive program* (SIP) offering performance-based allotments of company shares for eligible employees at home and abroad for a given period of time. All Managing Board members of *Raiffeisen International Bank-Holding AG*, managing board members of associated bank subsidiaries, and selected upper management personnel of *Raiffeisen International Bank-Holding AG* and its affiliated enterprises are eligible to participate.

The number of common shares in *Raiffeisen International Bank-Holding AG* to be actually transferred will depend on meeting two performance criteria: the targeted average return on equity (ROE) and the total shareholder return (TSR) for *Raiffeisen International Bank-Holding AG* shares in relation to TSRs of shares in the DJ Euro Stoxx Banks index after a three-year holding period. Moreover, beneficiaries have to be in active service for Raiffeisen International. SIP participation is voluntary.

All share-based remunerations are recognized according to IFRS 2 (*Share-based Payment*) as staff expenses and booked directly against equity.

## Net interest income

*Interest and similar income* mainly includes interest income on loans and advances to banks and customers and from fixed-interest securities. In addition current income from shares and other variable-yield securities (especially dividends), income from equity participations and from investments accounted for at equity, and similar income calculated as interest are also reported under interest and similar income. Interest paid and similar charges mainly include interest paid on deposits from banks and customers and on liabilities evidenced by paper and subordinated capital. Interest income and interest expenses are accrued.

## Net fee and commission income

*Net fee and commission income* mainly includes income and expenses arising from payment transfers, credit business and foreign exchange business. Fee and commission income and expenses are accrued in the reporting period.

## Net trading income

Net trading income comprises the customer margins resulting from the foreign exchange business, results due to foreign exchange revaluations and all realized and unrealized gains and losses from financial assets and liabilities at fair value. In addition, it includes all interest and dividend income attributable to trading activities and related refinancing costs.

## General administrative expenses

General administrative expenses include staff and other administrative expenses as well as amortization/depreciation and impairment losses for fixed and intangible fixed assets.

## Income taxes

Deferred taxes are recognized and calculated in accordance with IAS 12 applying the liability method. Deferred taxes are based on all temporary differences that result from comparing the carrying amounts of assets and liabilities in the IFRS accounts with the tax bases of assets and liabilities and will reverse in the future. Deferred taxes are calculated by using tax rates applicable in the countries concerned. A deferred tax asset should also be recognized on tax loss carry-forwards if it is probable that sufficient taxable profit will be available against which the tax loss carry-forwards can be utilized within the same entity. Deferred tax assets and deferred tax liabilities within the same entity are netted.

Income tax credits and income tax obligations were recorded separately under *other assets* and *tax provisions* respectively.

## Fiduciary business

Transactions arising from the holding and placing of assets on behalf of third parties are not shown in the balance sheet. Fees arising from these transactions are shown under *net fee and commission income*.

## Financial guarantees

According to IAS 39, a financial guarantee is a contract under which the guarantor is obliged to make payments that compensate the party to whom the guarantee is issued for a loss arising in the event that a particular debtor does not meet payment obligations on time as stipulated in the original terms of the debt instrument. At the date of recognition of a financial guarantee, the initial fair value corresponds under market conditions to the premium at the date of signature of the contract. For subsequent valuations, a check has to be performed if the credit commitment has to be designated at fair value through profit and loss or if it has to be presented as provision according to IAS 37. The higher of the two amounts has to be recognized.

## Notes to nature and extent of risks

Information about risks arising from financial instruments is disclosed in the particular notes. Especially, the risk report contains detailed information in the sections credit risk, participation risk, market risk and liquidity risk.

## Capital management

Information on capital management, regulatory own funds and risk-weighted assets are disclosed in the Notes (50).

# Notes to the income statement

## (1) Income statement according to measurement categories

The following table shows income statement according to IAS 39 measurement categories:

| €000 | 2008 | 2007 |
|---|---|---|
| **Net gains (losses) on financial assets and liabilities held-for-trading** | **46,058** | **(24,612)** |
| **Financial assets and liabilities at fair value through profit or loss** | **51,960** | **78,381** |
| Net interest income | 98,560 | 86,910 |
| Net gains (losses) on financial assets and liabilities at fair value through profit or loss | (46,600) | (8,529) |
| **Financial assets available-for-sale** | **29,552** | **(41)** |
| Net interest income | 8,552 | 871 |
| Net realized gains (losses) on financial assets not measured at fair value through profit or loss | 24,171 | 2,284 |
| Impairment on financial assets not measured at fair value through profit and loss | (3,171) | (3,196) |
| **Loans and receivables** | **4,981,293** | **3,953,498** |
| Net interest income | 5,761,594 | 4,310,474 |
| Net realized gains (losses) on financial assets not measured at fair value through profit or loss | – | 549 |
| Impairment on financial assets not measured at fair value through profit and loss | (780,301) | (357,525) |
| **Financial assets held-to-maturity** | **166,291** | **148,796** |
| Net interest income | 166,330 | 148,598 |
| Net realized gains (losses) on financial assets not measured at fair value through profit or loss | (38) | 198 |
| **Impairment on financial assets not measured at fair value through profit and loss** | **(2,942,090)** | **(2,182,878)** |
| Interest expenses | (2,942,090) | (2,182,878) |
| **Derivatives (hedging)** | **(8,117)** | **462** |
| Net interest income | (686) | 58 |
| Net gains (losses) from hedge accounting | (7,432) | 404 |
| **Net revaluations from exchange differences** | **248,845** | **177,436** |
| Other operating income/expenses | **(1,144,657)** | **(913,436)** |
| **Total profit before tax from continuing operations** | **1,429,135** | **1,237,604** |

# (2) Net interest income

The *net interest income* position includes income and expenses from items of banking business, dividend income and commissions with interest-like characteristics.

| €000 | 2008 | 2007 |
|---|---:|---:|
| **Interest income** | **6,164,628** | **4,600,156** |
| from balances at central banks | 206,147 | 120,250 |
| from loans and advances to banks | 298,548 | 418,011 |
| from loans and advances to customers | 4,902,210 | 3,529,643 |
| from financial investments | 263,702 | 235,229 |
| from leasing claims | 354,957 | 241,458 |
| from derivative financial instruments (non-trading), net | 139,064 | 55,565 |
| **Current income** | **9,138** | **1,150** |
| from shares and other variable-yield securities | 1,188 | 279 |
| from shares in affiliated companies | 2,829 | 545 |
| from other interests | 5,121 | 326 |
| **Interest-like income** | **9,512** | **4,701** |
| **Interest and interest-like income, total** | **6,183,278** | **4,606,007** |
| **Current income from associates** | **603** | **(691)** |
| **Interest expenses** | **(2,943,553)** | **(2,180,569)** |
| on deposits from central banks | (9,780) | (3,589) |
| on deposits from banks | (1,105,222) | (816,451) |
| on deposits from customers | (1,582,564) | (1,178,430) |
| on liabilities evidenced by paper | (152,719) | (98,672) |
| on subordinated capital | (93,268) | (83,427) |
| **Interest-like expenses** | **(8,318)** | **(5,898)** |
| **Interest expenses and interest-like expenses, total** | **(2,951,871)** | **(2,186,467)** |
| **Net interest income** | **3,232,010** | **2,418,849** |

The interest margin on the respective averages of the stated base is as follows:

| Per cent | 2008 | 2007 |
|---|---:|---:|
| Interest margin (balance sheet total) | 3.99 | 3.86 |
| Interest margin (risk-weighted assets, credit risk) | 5.46 | 5.67 |

Interest income includes interest income (unwinding) from impaired loans to customers and impaired loans to banks in the amount of € 178,525 thousand (2007: € 48,415 thousand).

# (3) Provisioning for impairment losses

*Provisioning for impairment losses* on balance sheet and off-balance sheet items is made as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| **Individual loan loss provisions** | **(501,961)** | **(281,430)** |
| Allocation to provisions for impairment losses | (682,898) | (505,296) |
| Release of provisions for impairment losses | 230,362 | 260,155 |
| Direct write-downs | (72,703) | (50,700) |
| Income received on written-down claims | 23,278 | 14,411 |
| **Portfolio-based loan loss provisions** | **(278,340)** | **(76,096)** |
| Allocation to provisions for impairment losses | (407,908) | (162,214) |
| Release of provisions for impairment losses | 129,568 | 86,118 |
| **Gains from the sales of loans** | – | **549** |
| **Total** | **(780,301)** | **(356,977)** |

Details on risk provisions are shown under note 17 *impairment losses on loans and advances.*

| Ratios | 2008 | 2007 |
|---|---|---|
| Net provisioning ratio (average risk-weighted assets, credit risk) | 1.32% | 0.84% |
| Net provisioning ratio (total loans outstanding) | 0.80% | 0.50% |
| Loss rate | 0.11% | 0.12% |
| Portfolio rate (total loans outstanding) | 1.75% | 1.65% |
| Risk/earnings ratio | 24.14% | 14.76% |

# (4) Net fee and commission income

| €000 | 2008 | 2007 |
|---|---|---|
| Payment transfer business | 643,179 | 563,118 |
| Loan administration and guarantee business | 200,545 | 157,573 |
| Securities business | 45,173 | 49,943 |
| Foreign currency and precious-metals business | 504,917 | 363,005 |
| Management of investment and pension funds | 37,975 | 44,025 |
| Agency services for own and third party products | 30,448 | 5,392 |
| Credit derivatives business | (1,494) | – |
| Other banking services | 35,626 | 66,779 |
| **Total** | **1,496,369** | **1,249,835** |

# (5) Net trading income

The position *net trading income* also includes interest and dividend income, refinancing costs, commissions and any changes in fair value of trading portfolios.

| €000 | 2008 | 2007 |
|---|---|---|
| Interest-based transactions | (88,310) | 27,173 |
| Currency-based transactions | 257,947 | 89,650 |
| Equity-/index-based transactions | (1,418) | 8,970 |
| Other transactions | (577) | 2,098 |
| **Total** | **167,642** | **127,891** |

Currency-based transactions include a loss of € 93,936 thousand resulting from the ineffective part of capital hedge for investments in the Ukrainian and Belarus network unit.

# (6) Net income from derivatives

| €000 | 2008 | 2007 |
|---|---|---|
| Net income from hedge accounting | (7,432) | 404 |
| Net income from credit derivatives | 3,191 | 3,677 |
| Net income from other derivatives | (15,680) | (34,251) |
| **Total** | **(19,921)** | **(30,170)** |

Net income from hedge accounting comprises on the one hand, a valuation result of derivatives in fair value hedges amounting to € 8,199 thousand (2007: € 1,627 thousand) and on the other hand, changes in the carrying amounts of the fair value hedged items totalling minus € 15,631 thousand (2007: minus € 1,223 thousand).

The item net income from other derivatives includes valuation results and results from early termination of derivatives which are held to hedge against market risks (except trading assets/liabilities). They are based on an inhomogeneous portfolio and do not satisfy the requirements for hedge accounting according to IAS 39.

# (7) Net income from financial investments

The position net income from financial investments comprises valuation results and net proceeds from disposal of financial investment portfolio, from securities at fair value through profit and loss and equity participations which include shares in affiliated companies, companies valued at equity, and other equity investments.

| €000 | 2008 | 2007 |
|---|---|---|
| **Net income from financial investments held-to-maturity** | **(38)** | **198** |
| Net proceeds from sales of financial investments held-to-maturity | (38) | 198 |
| **Net income from equity participations** | **20,999** | **(912)** |
| Net valuations of equity participations | (3,171) | (3,196) |
| Net proceeds from sales of equity participations | 24,170 | 2,284 |
| **Net income from securities at fair value through profit and loss** | **(46,599)** | **(8,529)** |
| Net valuations of securities at fair value through profit and loss | (44,997) | (8,637) |
| Net proceeds from sales of securities at fair value through profit and loss | (1,602) | 108 |
| **Total** | **(25,638)** | **(9,243)** |

# (8) General administrative expenses

*General administrative expenses* contain staff expenses, other administrative expenses and depreciation on tangible and intangible assets. They break down as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| **Staff expenses** | **(1,276,014)** | **(1,084,847)** |
| Wages and salaries | (990,608) | (835,884) |
| Social security costs and staff related taxes | (231,698) | (208,402) |
| Other voluntary social expenses | (37,049) | (26,159) |
| Expenses on severance payments and retirement benefits | (5,817) | (6,690) |
| Expenses on share incentive program (SIP) | (10,842) | (7,712) |
| **Other administrative expenses** | **(1,113,480)** | **(876,615)** |
| Office space expenses | (314,378) | (227,538) |
| IT costs | (153,406) | (115,759) |
| Communication expenses | (86,624) | (75,397) |
| Legal, advisory and consulting expenses | (108,615) | (69,412) |
| Advertising, PR and promotional expenses | (132,928) | (113,539) |
| Deposit insurance fees | (57,024) | (50,886) |
| Office supplies | (43,723) | (34,681) |
| Car expenses | (23,241) | (18,350) |
| Security expenses | (38,818) | (36,587) |
| Travelling expenses | (26,490) | (20,740) |
| Training expenses for staff | (24,429) | (16,988) |
| Sundry administrative expenses | (103,804) | (96,739) |

| €000 | 2008 | 2007 |
|---|---|---|
| **Depreciation on intangible and tangible fixed assets** | **(243,536)** | **(222,558)** |
| Tangible fixed assets | (149,262) | (135,119) |
| Intangible fixed assets | (67,638) | (69,924) |
| Leased assets (operating lease) | (26,636) | (17,515) |
| **Total** | **(2,633,030)** | **(2,184,020)** |

Legal, advisory and consulting expenses include audit fees of the group companies which comprise expenses paid for the audit of financial statements amounting to € 6,774 thousand (2007: € 5,884 thousand) and tax advisory as well as other additional consulting services provided by the auditors amounting to € 2,305 thousand (2007: € 986 thousand).

Amortization of intangible fixed assets capitalized in the course of initial consolidation was € 7,233 thousand (2007: € 11,998 thousand). This is due to scheduled amortization of the acquired customer base.

## (9) Other net operating income

The position *other net operating income* captures, among other things, sales revenues and expenses from non-banking activities, income and expenses from disposal as well as income from the revaluation of tangible and intangible fixed assets.

| €000 | 2008 | 2007 |
|---|---|---|
| Sales revenues from non-banking activities | 194,863 | 64,786 |
| Expenses arising from non-banking activities | (195,881) | (44,338) |
| Revenues from additional leasing services | 80,303 | 58,954 |
| Expenses from additional leasing services | (78,167) | (62,705) |
| Rental income from real estate | 2,555 | 3,216 |
| Rental income from other operating lease | 38,426 | 22,021 |
| Net proceeds from disposal of tangible and intangible fixed assets | (2,716) | (2,846) |
| Other taxes | (58,074) | (43,153) |
| Income from release of negative goodwill | 3,627 | 12,862 |
| Net expense from allocation and release of other provisions | 4,516 | (17,158) |
| Sundry operating income | 31,737 | 29,251 |
| Sundry operating expenses | (37,045) | (25,968) |
| **Total** | **(15,856)** | **(5,078)** |

## (10) Net income from disposal of group assets

*Income from disposal of group assets* amounting to € 7,860 thousand (2007: € 26,517 thousand) is mainly due to income arising from the disposal of project companies in Hungary and the Czech Republic.

# (11) Income taxes

*Income taxes* break down as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Current income taxes | (366,308) | (246,900) |
| Austria | 20,771 | 4,078 |
| Foreign | (387,079) | (250,978) |
| Deferred taxes | 15,428 | (17,249) |
| **Total** | **(350,880)** | **(264,149)** |

*Raiffeisen International Bank-Holding AG* and two of its domestic subsidiaries are members of a joint tax entity headed by *Raiffeisen Zentralbank Österreich Aktiengesellschaft.* This enables them to allocate Group member losses to the Group parent's tax income. As tax apportionment, *Raiffeisen International Bank-Holding AG* received a tax equalization of € 28,682 thousand (2007: € 11,344 thousand) from *Raiffeisen Zentralbank Österreich Aktiengesellschaft.*

The following transition shows the relation between profit before tax and the effective tax burden:

| €000 | 2008 | 2007 |
|---|---|---|
| **Profit before tax** | **1,429,135** | **1,237,604** |
| **Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 per cent** | **(357,284)** | **(309,401)** |
| Effect of divergent foreign tax rates | 96,456 | 61,620 |
| Tax deductions because of tax-exempted income from equity participations and other income | 37,521 | 64,209 |
| Tax increases because of non-deductible expenses | (59,450) | (69,835) |
| Other tax deductions and tax increases | (68,123) | (10,742) |
| **Effective tax burden** | **(350,880)** | **(264,149)** |
| **Tax rate in per cent** | **24.6** | **21.3** |

Other tax deductions and tax increases include group taxation, belated tax payments for prior periods and effects resulting from changes in future tax rates for the calculation of deferred taxes.

# (12) Earnings per share

| €000 | 2008 | 2007 |
|---|---|---|
| Consolidated profit | 981,986 | 841,258 |
| Average number of ordinary shares outstanding (in 1,000 units) | 153,599 | 144,987 |
| **Earnings per share in €** | **6.39** | **5.80** |

There were no conversion or option rights outstanding, so undiluted earnings per share are equal to diluted earnings per share.

# Notes to the balance sheet

## (13) Balance sheet according to measurement categories

The following table shows balance sheet according to IAS 39 measurement categories:

| Assets according to measurement categories €000 | 2008 | 2007 |
|---|---|---|
| **Trading assets** | **4,611,545** | **2,895,690** |
| Positive fair values of derivative financial instruments | 2,343,534 | 614,697 |
| Shares and other variable-yield securities | 36,974 | 77,968 |
| Bonds, notes and other fixed-interest securities | 2,231,038 | 2,189,133 |
| Loans held for trading | – | 13,892 |
| **Financial assets at fair value through profit or loss** | **2,042,089** | **1,566,157** |
| Shares and other variable-yield securities | 67,117 | 101,726 |
| Bonds, notes and other fixed-interest securities | 1,974,972 | 1,464,431 |
| **Financial assets available-for-sale** | **55,948** | **40,189** |
| Other interests | 55,948 | 40,189 |
| **Loans and advances** | **73,372,732** | **63,348,262** |
| Loans and advances to banks | 16,167,956 | 14,717,389 |
| Loans and advances to customers | 57,860,963 | 48,834,763 |
| Other non-derivative financial assets | 985,075 | 899,276 |
| Impairment losses on loans and advances | (1,641,262) | (1,103,166) |
| **Financial assets held-to-maturity** | **3,017,987** | **2,528,165** |
| Bonds, notes and other fixed-interest securities | 2,976,647 | 2,483,123 |
| Purchased loans | 41,340 | 45,042 |
| **Derivatives (hedging)** | **16,577** | **5,997** |
| Positive fair values of derivatives (hedging) | 16,577 | 5,997 |
| **Other assets** | **2,280,107** | **2,358,345** |
| Investments in associates and other affiliated companies | 64,450 | 67,940 |
| Intangible and tangible fixed assets | 2,215,657 | 2,290,405 |
| **Total assets** | **85,396,985** | **72,742,805** |

| Equity and liabilities according to measurement categories €000 | 2008 | 2007 |
|---|---|---|
| **Trading liabilities** | **2,241,141** | **686,953** |
| Negative fair values of derivative financial instruments | 2,230,569 | 647,504 |
| Call/time deposits for trading purposes | 10,572 | 39,449 |
| **Financial liabilities** | **76,149,982** | **65,110,384** |
| Deposits from banks | 26,213,163 | 19,926,970 |
| Deposits from customers | 44,205,906 | 40,457,266 |
| Liabilities evidenced by paper | 3,393,383 | 2,320,428 |
| Subordinated capital | 1,684,456 | 1,531,766 |
| Other non-derivative financial liabilities | 653,073 | 873,955 |
| **Derivatives (hedging)** | **50,889** | **8,323** |
| Negative fair values of derivatives (hedging) | 50,889 | 8,323 |
| **Provisions for liabilities and charges** | **436,767** | **315,006** |
| **Equity** | **6,518,206** | **6,622,138** |
| **Total equity and liabilities** | **85,396,985** | **72,742,805** |

# (14) Cash reserve

| €000 | 2008 | 2007 |
|---|---|---|
| Cash in hand | 1,662,690 | 1,360,194 |
| Balances at central banks | 5,467,170 | 2,303,993 |
| **Total** | **7,129,860** | **3,664,187** |

# (15) Loans and advances to banks

| €000 | 2008 | 2007 |
|---|---:|---:|
| Giro and clearing business | 1,642,709 | 1,472,477 |
| Money market business | 4,347,990 | 6,379,345 |
| Loans to banks | 3,008,970 | 3,190,584 |
| Purchased loans | 2,098 | 197 |
| Leasing claims | 3,929 | 2,083 |
| Claims evidenced by paper | 32,400 | 8,516 |
| **Total** | **9,038,096** | **11,053,202** |

Purchased loans belong to the valuation category *loans and advances*.

Loans and advances to banks classified regionally (counterparty's seat) are as follows:

| €000 | 2008 | 2007 |
|---|---:|---:|
| Central Europe | 2,453,884 | 2,199,575 |
| Southeastern Europe | 1,043,025 | 2,975,350 |
| Commonwealth of Independent States | 836,723 | 1,050,834 |
| Austria | 3,124,850 | 3,433,345 |
| Other countries | 1,579,614 | 1,394,098 |
| **Total** | **9,038,096** | **11,053,202** |

Loans and advances to banks break down into the following bank segments:

| €000 | 2008 | 2007 |
|---|---:|---:|
| Central banks | 3,663,553 | 4,359,887 |
| Commercial banks | 5,355,367 | 6,673,871 |
| Multilateral development banks (MDB) | 19,176 | 19,444 |
| **Total** | **9,038,096** | **11,053,202** |

# (16) Loans and advances to customers

| €000 | 2008 | 2007 |
|---|---:|---:|
| Credit business | 27,884,576 | 24,536,378 |
| Money market business | 8,033,447 | 7,897,361 |
| Mortgage loans | 17,249,079 | 12,432,568 |
| Purchased loans | 723,633 | 564,431 |
| Leasing claims | 4,009,021 | 3,442,243 |
| Claims evidenced by paper | 2,548 | 6,825 |
| **Total** | **57,902,304** | **48,879,806** |

Purchased loans amounting to € 41,340 thousand (2007: € 45,042 thousand) are assigned to the valuation category *held-to-maturity*. Purchased loans classified as *loans and advances* totalled € 682,293 thousand (2007: € 519,389 thousand).

Loans and advances to customers break down into business divisions according to Basel II definition as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Sovereigns | 1,103,929 | 966,311 |
| Corporate customers – large | 29,564,406 | 25,693,068 |
| Corporate customers – small business | 5,056,611 | 4,496,309 |
| Retail customers – private individuals | 19,268,185 | 15,002,801 |
| Retail customers – small and medium-sized entities | 2,868,058 | 2,594,310 |
| Other | 41,115 | 127,007 |
| **Total** | **57,902,304** | **48,879,806** |

Loans and advances to customers classified regionally (counterparty's seat) are as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Central Europe | 24,620,638 | 20,328,114 |
| Southeastern Europe | 12,933,827 | 10,975,606 |
| Commonwealth of Independent States | 15,420,383 | 14,185,500 |
| Austria | 23,804 | 18,044 |
| Other countries | 4,903,652 | 3,372,542 |
| **Total** | **57,902,304** | **48,879,806** |

# (17) Impairment losses on loans and advances

Provisions for impairment losses are formed in accordance with uniform Group standards and cover all recognizable counterparty risks. A table with the development of the impairment losses for loans and advances can be found in the risk report on page 187. Provisions for impairment losses are allocated to the following asset classes according to Basel II definition:

| €000 | 2008 | 2007 |
|---|---|---|
| Sovereigns | 2,153 | 1,769 |
| Banks | 4,351 | 645 |
| Corporate customers – large | 685,535 | 465,175 |
| Corporate customers – small business | 166,457 | 127,001 |
| Retail customers – private individuals | 669,127 | 422,663 |
| Retail customers – small and medium-sized entities | 113,639 | 85,913 |
| **Total** | **1,641,262** | **1,103,166** |

# (18) Trading assets

The trading assets consist of the following securities and derivative instruments held for trading:

| €000 | 2008 | 2007 |
|---|---|---|
| **Bonds, notes and other fixed-interest securities** | **2,231,037** | **2,189,133** |
| Treasury bills and bills of public authorities eligible for refinancing | 831,657 | 766,851 |
| Other securities issued by the public sector | 808,200 | 588,084 |
| Bonds and notes of non-public issuers | 591,180 | 834,198 |
| **Shares and other variable-yield securities** | **36,974** | **77,968** |
| Shares | 22,818 | 63,614 |
| Mutual funds | 5,537 | 2,967 |
| Other variable-yield securities | 8,619 | 11,387 |
| **Positive fair values of derivative financial instruments** | **1,495,167** | **528,369** |
| Interest-based transactions | 439,860 | 140,032 |
| Currency-based transactions | 1,030,081 | 381,104 |
| Equity-/index-based transactions | 20,194 | 6,513 |
| Other transactions | 5,032 | 720 |
| **Call/time deposits for trading purposes** | – | **13,892** |
| **Total** | **3,763,178** | **2,809,362** |

Securities shown last year under pledged securities ready to be sold or repledged by transferee are allocated to the appropriate securities category in the table above. The last year figures were adapted. Further details are shown under item (40) *Genuine repurchase agreements*.

# (19) Derivatives

| €000 | 2008 | 2007 |
|---|---|---|
| **Positive fair values of derivatives in fair value hedges (IAS 39)** | **16,577** | **5,997** |
| Interest-based transactions | 16,577 | 5,997 |
| **Positive fair values of credit derivatives** | **5,202** | – |
| **Positive fair values of other derivatives** | **843,165** | **86,328** |
| Interest-based transactions | 153,614 | 24,224 |
| Currency-based transactions | 689,551 | 62,104 |
| **Total** | **864,944** | **92,325** |

Insofar as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are measured at their fair values (*dirty prices)* in their function as hedging instruments. The hedged items in connection with fair value hedges are loans and advances to customers. The hedged risks are interest rate risks. The changes in carrying amount of the hedged underlying transactions in IAS 39 *fair value hedges* are included in the respective balance sheet items.

The item also includes the positive fair values of derivative financial instruments that neither are held for trading nor constitute fair value hedging instruments under IAS 39.

# (20) Financial investments

This item comprises securities available-for-sale, financial assets at fair value through profit or loss and securities held-to-maturity as well as strategic equity participations held on a long-term basis.

| €000 | 2008 | 2007 |
|---|---|---|
| **Bonds, notes and other fixed-interest securities** | **4,951,620** | **3,947,554** |
| Treasury bills and bills of public authorities eligible for refinancing | 2,181,732 | 1,692,911 |
| Other securities issued by the public sector | 1,872,119 | 1,617,218 |
| Bonds and notes of non-public issuers | 897,768 | 613,446 |
| Money market instruments | – | 23,980 |
| **Shares and other variable-yield securities** | **67,116** | **101,726** |
| Shares | 435 | 822 |
| Mutual funds | 66,681 | 100,903 |
| **Equity participations** | **117,871** | **84,135** |
| Interests in affiliated companies | 61,923 | 43,946 |
| Other interests | 55,948 | 40,189 |
| **Total** | **5,136,607** | **4,133,415** |

Securities shown last year under pledged securities ready to be sold or repledged by transferee are allocated to the appropriate securities category in the table above. The last year figures were adapted. Further details are shown under item (40) Genuine repurchase agreements.

Due to the modified IAS 39.50, adopted by the EU in October 2008, securities held-for-trading are reclassified to held-to-maturity. The carrying amount at the date of reclassification amounted to € 371,686 thousand. As of 31 December 2008, the carrying amount was € 382,454 thousand and the fair value was € 365,685 thousand. After reclassification, the result in income statement was € 12,630 thousand. In case that reclassification would not be applied, a loss of € 10,252 thousand was caused.

Equity participations valued at amortized cost for which fair values could not be reliably measured amounted to € 39,840 thousand (2007: € 40,189 thousand).

Raiffeisen International concluded syndicate contracts with the respective shareholders of the following subsidiaries: *Raiffeisenbank a.s.* (Czech Republic), *Tatra banka a.s.* (Slovakia), *Raiffeisen Bank,* Zrt. (Hungary) respectively *Raiffeisen-RBHU Holding GmbH* (Austria), *Raiffeisen Banka d.d.* (Slovenia), *Raiffeisenbank Austria d.d.* (Croatia). These syndicate contracts regulate especially options between direct and indirect shareholders.

The syndicate contracts expire if control over the company changes – also in the case of a takeover bid. The following agreement has been made with the *European Bank for Reconstruction and Development* (EBRD) regarding *Priorbank, OAO* (Belarus): EBRD has the option to sell all shares held in *Priorbank, OAO* (Belarus) to the company, if control over the company changes.

# (21) Investments in associates

Financial information on associated companies is shown in the following table:

| €000 | Total assets | Total revenues | Profit/loss after tax | Shareholders' equity |
|---|---|---|---|---|
| Raiffeisen Banca pentru Locuinte S.A., Bucharest (RO) | 68,516 | 4,020 | (653) | 8,277 |

Further information regarding associated companies is stated on page 215.

# (22) Intangible fixed assets

| €000 | 2008 | 2007 |
|---|---|---|
| Goodwill | 610,193 | 757,031 |
| Software | 216,637 | 191,127 |
| Other intangible fixed assets | 125,058 | 188,651 |
| **Total** | **951,888** | **1,136,809** |

The item software comprises acquired software amounting to € 216,051 thousand (2007: € 188,486 thousand) and developed software amounting to € 586 thousand (2007: € 2,641 thousand).

The goodwill is mostly composed of goodwill resulting from business combinations in network units in Russia, Ukraine, Albania, and the Czech Republic. The changes in volume are mainly due to currency differences.

# (23) Tangible fixed assets

| €000 | 2008 | 2007 |
|---|---|---|
| Land and buildings used by the Group for own purposes | 495,908 | 505,255 |
| Other land and buildings (investment property) | 10,628 | 15,592 |
| Office furniture and equipment as well as other tangible fixed assets | 532,274 | 450,195 |
| Leased assets (operating lease) | 224,959 | 182,554 |
| **Total** | **1,263,769** | **1,153,596** |

The fair value of investment property totalled € 11,256 thousand (2007: € 18,457 thousand). The decrease in the item investment property is due that buildings are used for own operating purposes.

# (24) Development of fixed assets

Intangible and tangible fixed assets developed in the financial year 2008 as follows:

| €000 | Cost of acquisition or conversion | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of 1.1.2008 | Change in consolidated group | Exchange differences | Additions | Disposals | Transfers | As of 31.12.2008 |
| **Intangible fixed assets** | **1,422,649** | **1,315** | **(235,550)** | **119,658** | **(27,645)** | **(9,709)** | **1,270,718** |
| Goodwill | 792,647 | 1,420 | (152,324) | – | (1,065) | – | 640,679 |
| Software | 401,001 | (105) | (25,183) | 114,650 | (20,829) | 1,690 | 471,224 |
| Other intangible fixed assets | 229,001 | – | (58,044) | 5,008 | (5,751) | (11,399) | 158,815 |
| **Tangible fixed assets** | **1,837,567** | **(9,782)** | **(194,287)** | **543,452** | **(229,952)** | **9,708** | **1,956,706** |
| Land and buildings used by the Group for own purposes | 627,967 | (7) | (96,149) | 115,443 | (48,617) | 21,641 | 620,278 |
| Other land and buildings | 35,820 | – | (4,749) | 4,958 | (2,424) | (18,172) | 15,433 |
| of which land value of developed land | 7,429 | – | (2,366) | 1,249 | (8) | – | 6,304 |
| Office furniture and equipment as well as other tangible fixed assets | 919,379 | (3,665) | (87,872) | 313,802 | (94,942) | 6,850 | 1,053,552 |
| Leased assets (operating lease) | 254,401 | (6,110) | (5,517) | 109,249 | (83,969) | (611) | 267,443 |
| **Total** | **3,260,216** | **(8,467)** | **(429,837)** | **663,110** | **(257,597)** | **–** | **3,227,424** |

| €000 | Write-ups, amortization, depreciation, impairment | | | Book value |
|---|---|---|---|---|
| | Cumulative | Write-ups | Depreciation | As of 31.12.2008 |
| **Intangible fixed assets** | **(318,830)** | **3** | **(67,638)** | **951,888** |
| Goodwill | (30,486) | – | – | 610,193 |
| Software | (254,587) | 3 | (58,395) | 216,637 |
| Other intangible fixed assets | (33,757) | – | (9,243) | 125,058 |
| **Tangible fixed assets** | **(692,937)** | **–** | **(175,898)** | **1,263,769** |
| Land and buildings used by the Group for own purposes | (124,370) | – | (27,712) | 495,908 |
| Other land and buildings | (4,805) | – | (2,384) | 10,628 |
| of which land value of developed land | – | – | – | 6,304 |
| Other tangible fixed assets | (521,278) | – | (119,166) | 532,274 |
| Leased assets (operating lease) | (42,484) | – | (26,636) | 224,959 |
| **Total** | **(1,011,767)** | **3** | **(243,536)** | **2,215,657** |

Intangible and tangible fixed assets developed in the financial year 2007 as follows:

| €000 | Cost of acquisition or conversion: As of 1.1.2007 | Change in consolidated group | Exchange differences | Additions | Disposals | Transfers | As of 31.12.2007 |
|---|---|---|---|---|---|---|---|
| **Intangible fixed assets** | **1,446,208** | **2,053** | **(70,127)** | **113,609** | **(69,047)** | **(47)** | **1,422,649** |
| Goodwill | 878,294 | 1,755 | (49,683) | – | (37,719) | – | 792,647 |
| Software | 331,082 | 298 | (517) | 101,154 | (30,958) | (59) | 401,001 |
| Other intangible fixed assets | 236,832 | – | (19,928) | 12,455 | (370) | 12 | 229,001 |
| **Tangible fixed assets** | **1,635,596** | **(62,697)** | **(63,736)** | **466,852** | **(138,495)** | **47** | **1,837,567** |
| Land and buildings used by the Group for own purposes | 600,069 | – | (46,978) | 90,373 | (17,240) | 1,742 | 627,967 |
| Other land and buildings | 25,330 | (488) | (452) | 9,700 | (1,169) | 2,899 | 35,820 |
| of which land value of developed land | 7,510 | – | (738) | 657 | – | – | 7,429 |
| Office furniture and equipment as well as other tangible fixed assets | 868,626 | (59,950) | (18,867) | 229,964 | (93,919) | (6,475) | 919,379 |
| Leased assets (operating lease) | 141,571 | (2,259) | 2,561 | 136,815 | (26,167) | 1,881 | 254,401 |
| **Total** | **3,081,805** | **(60,644)** | **(133,864)** | **580,461** | **(207,542)** | **–** | **3,260,216** |

| €000 | Write-ups, amortization, depreciation, impairment: Cumulative | Write-ups | Depreciation | Book value: As of 31.12.2007 |
|---|---|---|---|---|
| **Intangible fixed assets** | **(285,840)** | **53** | **(69,924)** | **1,136,809** |
| Goodwill | (35,616) | – | – | 757,031 |
| Software | (209,874) | 42 | (47,651) | 191,127 |
| Other intangible fixed assets | (40,350) | 11 | (22,273) | 188,651 |
| **Tangible fixed assets** | **(683,971)** | **136** | **(152,634)** | **1,153,596** |
| Land and buildings used by the Group for own purposes | (122,712) | – | (20,516) | 505,255 |
| Other land and buildings | (20,228) | – | (8,332) | 15,592 |
| of which land value of developed land | – | – | – | 7,429 |
| Other tangible fixed assets | (469,184) | 136 | (106,271) | 450,195 |
| Leased assets (operating lease) | (71,847) | – | (17,515) | 182,554 |
| **Total** | **(969,811)** | **189** | **(222,558)** | **2,290,405** |

Additions to intangible and tangible assets did not include major individual investments.

# (25) Other assets

| €000 | 2008 | 2007 |
|---|---|---|
| Tax assets | 156,107 | 166,543 |
| Current tax assets | 66,347 | 96,269 |
| Deferred tax assets | 89,760 | 70,274 |
| Receivables arising from non-banking activities | 40,475 | 83,489 |
| Prepayments and other deferrals | 253,150 | 227,536 |
| Clearing claims from securities and payment transfer business | 162,573 | 99,833 |
| Lease in progress | 140,863 | 101,709 |
| Assets held for sale (IFRS 5) | 3,510 | 1,930 |
| Inventories | 78,114 | 8,564 |
| Any other business | 150,283 | 209,671 |
| **Total** | **985,075** | **899,275** |

Deferred taxes break down as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Deferred tax assets | 89,760 | 70,274 |
| Provisions for deferred taxes | 46,781 | 45,769 |
| **Net deferred taxes** | **42,979** | **24,505** |

The net deferred taxes result from the following items:

| €000 | 2008 | 2007 |
|---|---|---|
| Loans and advances to customers | 50,564 | 69,339 |
| Impairment losses on loans and advances | 46,118 | 29,681 |
| Tangible and intangible fixed assets | 3,792 | 33,761 |
| Other assets | 3,305 | 11,087 |
| Provisions for liabilities and charges | 33,901 | 20,961 |
| Trading liabilities | 140,134 | 37,809 |
| Other liabilities | 67,792 | 39,910 |
| Tax loss carry-forwards | 26,324 | 7,858 |
| Other balance sheet items | 19,594 | 23,344 |
| **Deferred tax assets** | **391,523** | **273,750** |
| Loans and advances to banks | 8,793 | 23,369 |
| Loans and advances to customers | 42,129 | 8,136 |
| Trading assets | 121,580 | 43,560 |
| Tangible and intangible fixed assets | 49,441 | 74,631 |
| Deposits from customers | 341 | 15,113 |
| Provisions for liabilities and charges | 18,171 | 17,899 |
| Other liabilities | 10,997 | 26,155 |
| Other balance sheet items | 97,092 | 40,382 |
| **Deferred tax liabilities** | **348,544** | **249,245** |
| **Net deferred taxes** | **42,979** | **24,505** |

Deferred income tax assets are recognized for unused tax loss carry-forwards and amounted to € 26,324 thousand (2007: € 7,858 thousand). The tax loss carry-forwards are mainly without any time limit. The Group did not recognize deferred income tax assets of € 1,815 thousand (2007: € 2,484 thousand) because from present point of view there is no prospect to realize them within a reasonable period of time.

# (26) Deposits from banks

| €000 | 2008 | 2007 |
|---|---|---|
| Giro and clearing business | 741,046 | 521,925 |
| Money market business | 5,960,410 | 6,292,644 |
| Long-term loans | 19,511,707 | 13,112,401 |
| **Total** | **26,213,163** | **19,926,970** |

Raiffeisen International refinances itself periodically with international commercial banks and multinational development banks. These credit contracts contain ownership clauses normally used in business. These clauses give permission to an exceptional termination if Raiffeisen Zentralbank Österreich Aktiengesellschaft looses the majority shareholding in Raiffeisen International. This would lead to increased refinancing cost for Raiffeisen International in the future.

Deposits from banks classified regionally (counterparty's seat) break down as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Central Europe | 1,609,150 | 1,620,452 |
| Southeastern Europe | 556,388 | 451,519 |
| Commonwealth of Independent States | 1,513,386 | 750,192 |
| Austria | 15,144,329 | 10,731,527 |
| Other countries | 7,389,910 | 6,373,280 |
| **Total** | **26,213,163** | **19,926,970** |

Deposits from banks break down into the following bank segments:

| €000 | 2008 | 2007 |
|---|---|---|
| Central banks | 1,329,781 | 52,994 |
| Commercial banks | 24,328,050 | 19,482,361 |
| Multilateral development banks (MDB) | 555,332 | 391,615 |
| **Total** | **26,213,163** | **19,926,970** |

# (27) Deposits from customers

| €000 | 2008 | 2007 |
|---|---:|---:|
| Sight deposits | 16,242,691 | 17,584,928 |
| Time deposits | 27,011,253 | 21,628,344 |
| Savings deposits | 951,962 | 1,243,994 |
| **Total** | **44,205,906** | **40,457,266** |

Deposits from customers break down as follows according to Basel II definition:

| €000 | 2008 | 2007 |
|---|---:|---:|
| Sovereigns | 2,238,487 | 1,198,761 |
| Corporate customers – large | 15,343,446 | 14,874,853 |
| Corporate customers – small business | 3,084,467 | 2,965,115 |
| Retail customers – private individuals | 20,327,319 | 17,460,966 |
| Retail customers – small and medium-sized entities | 2,908,228 | 3,500,356 |
| Others | 303,959 | 457,215 |
| **Total** | **44,205,906** | **40,457,266** |

Deposits from customers classified regionally (counterparty's seat) are as follows:

| €000 | 2008 | 2007 |
|---|---:|---:|
| Central Europe | 20,432,010 | 17,005,537 |
| Southeastern Europe | 13,143,448 | 12,868,098 |
| Commonwealth of Independent States | 8,818,667 | 9,071,139 |
| Austria | 259,402 | 142,874 |
| Other countries | 1,552,379 | 1,369,618 |
| **Total** | **44,205,906** | **40,457,266** |

# (28) Liabilities evidenced by paper

| €000 | 2008 | 2007 |
|---|---:|---:|
| Bonds and notes issued | 2,630,226 | 1,620,571 |
| Money market instruments issued | 8,179 | – |
| Other liabilities evidenced by paper | 754,978 | 699,857 |
| **Total** | **3,393,383** | **2,320,428** |

# (29) Provisions for liabilities and charges

| €000 | As of 1.1.2008 | Change in consolidated group | Allocation | Release | Usage | Transfers, exchange differences | As of 31.12.2008 |
|---|---|---|---|---|---|---|---|
| Severance payments | 7,725 | – | 2,781 | (872) | (240) | (1,347) | 8,047 |
| Retirement benefits | 4,642 | – | 4 | – | 123 | – | 4,769 |
| Taxes | 81,785 | 80 | 73,946 | (19,177) | (18,709) | (9,590) | 108,335 |
| Current taxes | 36,016 | – | 43,595 | (1,987) | (14,677) | (1,393) | 61,554 |
| Deferred taxes | 45,769 | 80 | 30,351 | (17,190) | (4,032) | (8,197) | 46,781 |
| Contingent liabilities and commitments | 67,795 | – | 49,465 | (46,726) | (6) | (1,151) | 69,377 |
| Pending legal issues | 46,232 | 24 | 24,754 | (27,689) | (1,035) | (1,283) | 41,003 |
| Overdue vacation | 33,667 | (7) | 13,603 | (5,751) | – | (9,081) | 32,431 |
| Bonus payments | 49,187 | 542 | 89,176 | (4,751) | (38,266) | 42,415) | 138,303 |
| Restructuring | 255 | – | 4,285 | (269) | – | (463) | 3,808 |
| Others | 23,720 | 578 | 22,539 | (11,382) | (4,874) | 113 | 30,694 |
| **Total** | **315,008** | **1,217** | **280,553** | **(116,617)** | **(63,007)** | **19,613** | **436,767** |

Severance payments also include provisions for anniversary payments amounting to € 2,306 thousand (2007: € 2,169 thousand). Bonus payments (2007: € 49,187 thousand) which were shown in other provisions last year are stated in a separate line. Due to a separate disclosure under the item provisions, bonus payments from previous years amounting to € 52,236 thousand were shown under the column transfers.

# (30) Trading liabilities

| €000 | 2008 | 2007 |
|---|---|---|
| **Negative fair values of derivative financial instruments** | **1,449,563** | **501,561** |
| Interest-based transactions | 401,235 | 141,705 |
| Currency-based transactions | 1,034,283 | 352,009 |
| Equity-/index-based transactions | 9,107 | 7,206 |
| Other transactions | 4,938 | 640 |
| **Call/time deposits for trading purposes** | **10,572** | **39,449** |
| **Total** | **1,460,135** | **541,010** |

# (31) Derivatives

| €000 | 2008 | 2007 |
|---|---|---|
| **Negative fair values of derivatives in fair value hedges (IAS 39)** | **1,358** | **20** |
| Interest-based transactions | 1,358 | 20 |
| **Negative fair values of derivatives in cash flow hedges (IAS 39)** | **49,531** | **8,302** |
| Interest-based transactions | 49,531 | 8,302 |
| **Negative fair values of credit derivatives** | **2,196** | **–** |
| **Negative fair values of other derivatives** | **778,811** | **145,943** |
| Interest-based transactions | 252,031 | 78,720 |
| Currency-based transactions | 526,780 | 64,223 |
| Equity-/index-based transactions | – | 3,000 |
| **Total** | **831,896** | **154,265** |

Insofar as the conditions for hedge accounting according to IAS 39 are fulfilled, derivative financial instruments are measured at their fair values (*dirty prices)* in their function as hedging instruments. The hedged items in connection with fair value hedges are loans and advances to customers and deposits from banks. The hedged risks are interest rate risks.

As of 31 December 2008, variable-interest refinancing of *ZAO Raiffeisenbank,* Moscow, was hedged against the risk of changes in future cash flows by applying interest rate swaps which are reported as *cash flow hedge*. The effective part of this hedge amounts to € 40,346 thousand and was recognized directly in equity. Last year *VAT Raiffeisen Bank AVAL*, Kiev, started with cash flow hedges which were closed in the business year. The amount shown in equity is recognized in the income statement over the maturity of the former hedging instrument.

As of 31 December 2008, future cash flows from hedged liabilities amounting to € 114,177 thousand are to be expected, this is € 42,678 thousand for the next year and for 2010 until 2014 € 71,499 thousand.

# (32) Other liabilities

| €000 | 2008 | 2007 |
|---|---|---|
| Liabilities from non-banking activities | 67,452 | 111,754 |
| Accruals and deferred items | 174,624 | 193,479 |
| Liabilities arising from dividends | 8,468 | 169 |
| Clearing claims from securities and payment transfer business | 195,078 | 259,127 |
| Any other business | 207,451 | 309,425 |
| **Total** | **653,073** | **873,954** |

# (33) Subordinated capital

| €000 | 2008 | 2007 |
|---|---|---|
| Hybrid tier-1-capital | 503,381 | 503,628 |
| Subordinated liabilities | 1,089,069 | 930,167 |
| Supplementary capital | 92,006 | 97,971 |
| **Total** | **1,684,456** | **1,531,766** |

Of total subordinated capital, *Raiffeisen Zentralbank Österreich Aktiengesellschaft* and other subsidiaries of RZB provided € 1,434,766 thousand (2007: € 1,356,525 thousand). The following table contains borrowings which exceed 10 per cent of the subordinated capital.

| €000 | Amount | Currency | Interest rate | Due |
|---|---|---|---|---|
| Non-cumulative Subordinated Perpetual Callable Step-up | 500,000 | EUR | EURIBOR +1.1% | – |

In 2008, expenses on subordinated liabilities totalled € 93,444 thousand (2007: € 84,019 thousand).

# (34) Equity and minorities

| €000 | 2008 | 2007 |
|---|---|---|
| Consolidated equity | 4,613,194 | 4,986,179 |
| Subscribed capital | 468,597 | 469,215 |
| Capital reserves | 2,568,003 | 2,587,709 |
| Retained earnings | 1,576,594 | 1,929,255 |
| Consolidated profit | 981,986 | 841,258 |
| Minority interests | 923,026 | 794,701 |
| **Total** | **6,518,206** | **6,622,138** |

**Subscribed capital**

The subscribed capital of *Raiffeisen International Bank-Holding AG* as defined by the articles of incorporation amounted to € 471,736 thousand as of 31 December 2008. It comprises 154,667,500 no-par bearer shares. Excluding own shares of 1,029,012 the stated subscribed capital totalled € 468,597 thousand.

The Annual General Meeting held on 10 June 2008 authorized the Managing Board to acquire own shares, pursuant to Section 65 (1), items 4 and 8 of the *Austrian Joint Stock Companies Act (AktG)*, during a period of 30 months as of the date of the resolution, up to 10 per cent of the subscribed capital of the company and to withdraw if applicable. The Managing Board was given the authorization to decide, with the approval of the Supervisory Board, on the sale of own shares by different means than the stock exchange or a public tender, to the exclusion of the shareholders´ subscription right. The present authorization replaced the authorization, adopted by the Annual General Meeting held on 5 June 2007, to buy back own shares.

The purchase of own shares mainly serves as a coverage for the liabilities of the company in connection with the share incentive program granted to the Managing Board and other executives of the Group. These bonus payments are carried out by receiving shares of the company.

**Authorized capital**

In the Annual General Meeting held on 5 June 2007, the Management Board was authorized, with the approval of the Supervisory Board, to increase the subscribed capital by a maximum of € 217,724 thousand by issuing up to a maximum of 71,385,000 no-par bearer shares with voting rights against a contribution in cash and/or in kind within five years, after having the respective changes in the Articles of Association recorded in the Company Register (authorized capital). € 36,287 thousand (11,897,500 shares) were used for the capital increase on 5 October 2007 (Secondary Public Offering). As of 31 December 2008, the authorized capital not used amounted to € 181,437 thousand.

**Convertible bonds**

In the Annual General Meeting held on 10 June 2008, the Managing Board was given the authorization pursuant to Section 174 (2) of the *Austrian Joint Stock Companies Act* to issue – with the approval of the Supervisory Board – convertible bonds, also in several tranches, within five years as of the date of the resolution, for a maximum total nominal amount of € 2,000,000 thousand, to which attaches a conversion or subscription right to obtain a maximum of 15,466,750 ordinary bearer shares of the company with a corresponding pro-rata share in the subscribed capital of a maximum € 47,174 thousand – and to do so also indirectly by means of a guarantee for an issue of convertible bonds by a subsidiary company, of which the company holds one hundred per cent directly or indirectly, that entails conversion rights to obtain shares of that company – as well as to determine all further conditions (including the currency of the issue), the issue and the conversion procedure for the convertible bonds. The subscription right of shareholders is excluded.

**Contingent capital**

Also in the Annual General Meeting held on 10 June 2008, the resolution on the conditional increase of the nominal capital by a maximum of € 47,174 thousand by issuing a maximum of 15,466,750 new ordinary bearer shares in order to grant the creditors of the convertible bonds issued their conversion or subscription right, as well as to correspondingly amend the Articles of Association in Section 4 (Capital and Shares) by adding the following paragraph (6): In keeping with Section 159 (2) item 1 of the Austrian Joint Stock Companies Act, the subscribed capital has been increased conditionally by a maximum of € 47,174 thousand by issuing a maximum of 15,466,750 ordinary bearer shares (conditional increase of capital). The conditional increase of capital will only be implemented to the extent that the owners of convertible bonds, issued on the basis of the resolution taken by the Annual General Meeting on 10 June 2008, actually exercise their right to convert these bonds into shares of the company. The amount of issue and the conversion ratio shall be determined on the basis of recognized methods of investment mathematics, as well as the price of *Raiffeisen International Bank-Holding AG* shares in a recognized pricing procedure (basis for calculating the amount of issue). The amount of issue must not be less than the pro-rata amount of the nominal capital. The new shares which are issued under the conditional increase of capital are entitled to receive the dividend that corresponds to that of the shares that are traded on the stock exchange at that time. The Managing Board is authorized, with the approval of the Supervisory Board, to determine the further details for implementing the conditional increase of capital. The Supervisory Board is authorized to adopt any amendments in the Articles of Association as they result from the issue of shares on the basis of the conditional increase in capital.

**Dividend proposal**

The Managing Board intends to propose at the Annual General Meeting that a dividend of € 0.93 per ordinary share be distributed from Raiffeisen International Bank-Holding AG's profit for the financial year 2008, which represents a maximum distribution of € 143,841 thousand, and that the remaining amount be carried forward.

The statement of changes in equity is shown on page 117.

The number of shares outstanding developed as follows:

| Number of shares | 2008 | 2007 |
|---|---|---|
| Number of shares issued as of 1.1. | 154,667,500 | 142,770,000 |
| New shares issued | – | 11,897,500 |
| **Number of shares issued as of 31.12.** | **154,667,500** | **154,667,500** |
| Own shares as of 1.1. | (826,223) | (262,260) |
| Purchase of own shares | (321,973) | (563,963) |
| Sale of own shares | 119,184 | – |
| **Less own shares as of 31.12.** | **(1,029,012)** | **(826,223)** |
| **Number of shares outstanding as of 31.12.** | **153,638,488** | **153,841,277** |

**Share-based remuneration**

In 2008, the first allotment of the share incentive plan (SIP – SIP allotment 2005) matured. According to the program conditions (published in the *Wiener Zeitung* per 9 August 2005) the program criteria's (average ROE above the waiting period and TSR-ranking) were exceeded and therefore the maximum of the distributed shares which are due was reached. Due to a value limit earmarked for allotment, the following lower amount of shares was transferred.

| Share incentive program (SIP) 2005<br>Group of persons | Number of due shares | Amount with share price of € 81.17 at the allotment day | Number of effective distributed shares |
|---|---|---|---|
| Members of the Managing Board of Raiffeisen International Bank-Holding AG | 45,286 | 3,675,865 | 39,206 |
| Members of the managing boards of bank subsidiaries affiliated with Raiffeisen International Bank-Holding AG | 81,057 | 6,579,394 | 64,616 |
| Executives of Raiffeisen International Bank-Holding AG and other affiliated companies | 24,818 | 2,014,477 | 15,362 |

In order to avoid juridical uncertainties, the entitled employees in four countries received cash compensation instead of the distribution of shares, according to the program conditions. In Austria, the entitled persons got the alternative to receive cash compensation instead of half of the due shares, to be able to settle the payable income tax. According to that regulation, the stock of the own shares was reduced by a lower number of effective distributed shares.

Within the framework of the SIP, a new allotment has been issued on a yearly basis up to now. This implies that on the balance sheet date contingent shares for three allotments are assigned. As of 31 December 2008, the contingent allotment under the share incentive program came to 202,377 shares (65,803 shares are due to the allotment of 2006, 51,983 shares are due to the allotment of 2007, 84,591 shares are due to the allotment of 2008).

The originally announced contingent allotted shares has changed as a result of various management changes in the Group units and due to the saturation of the SIP allotment 2005.This is shown on an aggregated level in the table:

| Share incentive program (SIP) 2006-2008 Group of persons | Number of contingently allotted shares as of 31.12.2008 | Minimum allotment of shares | Maximum allotment of shares |
|---|---|---|---|
| Members of the Managing Board of Raiffeisen International Bank-Holding AG | 60,977 | 15,244 | 91,466 |
| Members of the managing boards of bank subsidiaries affiliated with Raiffeisen International Bank-Holding AG | 108,578 | 27,144 | 162,867 |
| Executives of Raiffeisen International Bank-Holding AG and other affiliated companies | 32,822 | 8,206 | 49,234 |

The shares required for the SIP have been raised through share buybacks. In 2008, Raiffeisen International bought back 321,973 no-par shares at a weighted average price of € 89.44. The low average price is because an option on shares of Raiffeisen International was exercised. The expenses resulting from the program are recognized in income statement as staff expenses.

# (35) Breakdown of remaining terms to maturity

| As of 31.12.2008<br>€000 | Due at call or without maturity | Up to 3 months | More than 3 months, up to 1 year | More than 1 year, up to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Cash reserve | 7,129,860 | – | – | – | – |
| Loans and advances to banks | 1,893,686 | 6,369,587 | 419,873 | 298,217 | 56,733 |
| Loans and advances to customers | 4,854,815 | 7,692,565 | 11,659,658 | 18,755,549 | 14,939,717 |
| Trading assets | 45,553 | 981,687 | 986,408 | 1,110,988 | 638,542 |
| Financial investments | 140,094 | 775,092 | 1,276,783 | 1,986,429 | 958,209 |
| Investments in associates | 2,526 | – | – | – | – |
| Sundry assets | 765,954 | 645,478 | 515,037 | 454,173 | 43,772 |
| **Total assets** | **14,832,488** | **16,464,409** | **14,857,759** | **22,605,356** | **16,636,973** |
| Deposits from banks | 971,500 | 5,099,507 | 5,851,203 | 13,412,126 | 878,827 |
| Deposits from customers | 16,654,386 | 18,185,673 | 7,577,894 | 1,638,391 | 149,562 |
| Liabilities evidenced by paper | – | 523,727 | 753,127 | 2,004,319 | 112,210 |
| Trading liabilities | – | 598,056 | 556,971 | 266,130 | 38,978 |
| Subordinated capital | – | 4,160 | 15,046 | 576,457 | 1,088,793 |
| Sundry liabilities | 589,195 | 627,260 | 274,774 | 373,518 | 56,989 |
| **Subtotal** | **18,215,081** | **25,038,383** | **15,029,015** | **18,270,941** | **2,325,359** |
| Equity | 6,518,206 | – | – | – | – |
| **Total equity and liabilities** | **24,733,287** | **25,038,383** | **15,029,015** | **18,270,941** | **2,325,359** |

| As of 31.12.2007<br>€000 | Due at call or without maturity | Up to 3 months | More than 3 months, up to 1 year | More than 1 year, up to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Cash reserve | 3,664,187 | – | – | – | – |
| Loans and advances to banks | 3,375,244 | 7,185,875 | 375,847 | 50,734 | 65,502 |
| Loans and advances to customers | 4,036,866 | 7,117,370 | 10,161,237 | 16,613,563 | 10,950,770 |
| Trading assets | 102,836 | 528,761 | 426,533 | 1,216,436 | 534,796 |
| Financial investments | 168,999 | 452,664 | 1,023,382 | 1,917,848 | 570,521 |
| Investments in associates | 23,994 | – | – | – | – |
| Sundry assets | 1,378,350 | 575,587 | 116,668 | 96,414 | 11,820 |
| **Total assets** | **12,750,476** | **15,860,258** | **12,103,667** | **19,894,994** | **12,133,409** |
| Deposits from banks | 1,587,903 | 3,569,576 | 5,542,348 | 8,504,989 | 722,154 |
| Deposits from customers | 17,689,290 | 15,819,989 | 5,048,597 | 1,785,258 | 114,132 |
| Liabilities evidenced by paper | – | 515,549 | 368,907 | 1,255,171 | 180,801 |
| Trading liabilities | 39,417 | 288,006 | 161,588 | 38,660 | 13,339 |
| Subordinated capital | 503,628 | 10,329 | 6,310 | 387,139 | 624,360 |
| Sundry liabilities | 535,475 | 674,872 | 49,573 | 55,386 | 27,922 |
| **Subtotal** | **20,355,713** | **20,878,323** | **11,177,323** | **12,026,601** | **1,682,708** |
| Equity | 6,622,138 | – | – | – | – |
| **Total equity and liabilities** | **26,977,850** | **20,878,323** | **11,177,323** | **12,026,601** | **1,682,708** |

# (36) Related parties

Companies can carry out business with related parties that may affect the entity's asset, financial and earnings position. The following related companies have been identified mainly as related parties: Parent companies are *Raiffeisen-Landesbanken-Holding GmbH* and *Raiffeisen Zentralbank Österreich Aktiengesellschaft*.

Disclosures on Raiffeisen International's relations to key management are reported under note (53) *relations to key management*.

As of 31 December 2008, the transactions with related parties are as follows:

| €000 | Parent companies | Affiliated companies | Companies valued at equity | Other interests |
|---|---|---|---|---|
| Loans and advances to banks | 2,689,914 | 1,010 | – | 49,615 |
| Loans and advances to customers | 486 | 126,131 | 13,409 | 38,278 |
| Trading assets | 203,565 | – | 9,178 | 205 |
| Financial investments | 5,202 | 61,923 | – | 50,879 |
| Investments in associates | – | – | 2,526 | – |
| Other assets including derivatives | 298,197 | 646 | 5 | 33 |
| Deposits from banks | 13,961,430 | 1,933,643 | 83,398 | 119,078 |
| Deposits from customers | 5,657 | 38,026 | 2,494 | 8,634 |
| Liabilities evidenced by paper | 25,255 | – | – | – |
| Provisions for liabilities and charges | 5,703 | 1 | – | – |
| Trading liabilities | 281,650 | – | – | 356 |
| Other liabilities including derivatives | 276,964 | 1,114 | 153 | 3,216 |
| Subordinated capital | 843,883 | 590,883 | – | – |
| Guarantees given | 249,617 | 5,964 | – | 13 |
| Guarantees received | 326,897 | – | – | 558 |

As of 31 December 2007, the transactions with related parties are as follows:

| €000 | Parent companies | Affiliated companies | Companies valued at equity | Other interests |
|---|---|---|---|---|
| Loans and advances to banks | 3,263,484 | 5,759 | 40 | 22,275 |
| Loans and advances to customers | – | 194,415 | 73 | 21,844 |
| Trading assets | 21,900 | 5,373 | – | 1,305 |
| Financial investments | – | 43,946 | 10,677 | 40,189 |
| Investments in associates | – | – | 23,994 | – |
| Other assets including derivatives | 41,917 | 1,035 | 45 | 2 |
| Deposits from banks | 9,939,772 | 1,262,594 | 12,986 | 129,763 |
| Deposits from customers | 1,940 | 36,659 | 1,556 | 19,142 |
| Liabilities evidenced by paper | 43,064 | – | – | – |
| Provisions for liabilities and charges | 2,011 | 3 | – | – |
| Trading liabilities | 24,082 | – | – | – |
| Other liabilities including derivatives | 104,957 | 2,454 | 297 | 257 |
| Subordinated capital | 824,451 | 532,074 | – | – |
| Guarantees given | 385,786 | 2,435 | 9,992 | 2,147 |
| Guarantees received | 148,711 | 1,345 | 270 | 885 |

# (37) Foreign currency volumes

The consolidated financial statements consist of the following volumes of assets and liabilities denominated in foreign currencies:

| €000 | 2008 | 2007 |
|---|---|---|
| Assets | 62,074,863 | 52,761,972 |
| Liabilities | 52,674,892 | 45,887,741 |

# (38) Foreign assets/liabilities

Assets and liabilities with counterparties outside Austria are as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Assets | 78,547,990 | 66,710,357 |
| Liabilities | 62,090,921 | 54,512,098 |

# (39) Securitization

Securitization is the packaging of designated portfolios of loans or leasing claims with an appropriate level of credit enhancement and the redistribution of these portfolios to investors. The objective of Raiffeisen International's securitization is to ease the strain on the Group's regulatory own funds and to use additional refinancing sources.

In financial year 2008, both true sale transactions (*Warehousing*) *ROOF Bulgaria 2008-1* and *ROOF Romania 2008-1* were closed.

The total volume of *ROOF Bulgaria 2008-1* amounts to € 200 million. In this transaction, unsecured consumer loans of *Raiffeisenbank (Bulgaria) EAD*, Sofia (BG), were sold to the special purpose entity *ROOF Consumer Bulgaria 2007-1 B.V.*, Amsterdam (NL).

Structurally similar is the second transaction, *ROOF Romania 2008-1*. Unsecured consumer loans of *Raiffeisen Bank S.A.*, Bucharest (RO), with a volume of € 175 million were securitised and transferred to *ROOF Consumer Romania 2008-1 B.V.*, Amsterdam (NL).

Currently, both transactions are arranged in the *Warehousing*-period, and this phase and the corresponding issue of *Warehousing* Notes demonstrate a preliminary stage to the final securitization. The difference compared to traditional transaction-processing consists therein that the risk of the underlying loans remains within the Group, as in this *Warehousing*-period no different rated tranches exist, but only one category of so called *Warehousing Notes*. The remaining of the loan default risk of the transferred loans within the Group is due to the fact that the loan default risk was taken over by a Group unit. The material advantages of such a transaction for the originators *Raiffeisen (Bulgaria) EAD*, Sofia (BG), *Raiffeisen Bank S.A.*, Bucharest (RO), and for the Group consist in a liquidity facility due to the issue of *Warehousing* Notes representing an additional refinancing source. Moreover, the possibility of a further optimization of the underlying portfolio occurs. After expiry of the12 to 18 months lasting preliminary lead time a full securitization and placement of the portfolio is common, whereas the decision of a possible takeover through a Group unit will be decided until this date in the objective transactions.

As in both *Warehousing*-transactions, significant chances and risks of the portfolio remain within the Group, the special purpose entities are integrated into the consolidated group. Therefore the securitised loans and the liabilities securitised by the *Warehousing notes* towards external investors are disclosed in the consolidated financial statements.

Regarding the true sale transaction *ROOF Poland 2006* effected in 2006, the option to refill the volumes of the already existing portfolio was exercised at the beginning of 2008. This portfolio disclosed within *ROOF Poland 2008-1* comprises loans from car leasing contracts with a total volume of € 240,820 thousand as of 31 December 2008.

From a Group view, the non-derecognized loans arising from the true sale transaction *ROOF Russia 2007-1* amounted to € 263,707 thousand at year end 2008 (2007: € 254,199 thousand). In this case, the increase of the book value is mainly due to the currency translation effect resulting from USD against € as the volume of the consumer loan portfolio in original currency nearly remained unchanged.

Within the scope of synthetic securitizations, the non-derecognized loans came up to € 404,403 thousand at year end (2007: € 402,204 thousand). The differences compared to the volumes as at the beginning of the transactions is due to the fact that volumes matured in the meantime and to changes in currency exchange rates. Furthermore, originators like *Raiffeisenbank Polska, S.A.*, Warsaw (PL), and *Raiffeisenbank a.s.*, Prague (CZ), differently exercised the option to refill the volumes to a marginal extent and to exceed slightly the original values.

Up to now, the following transactions have been executed (the indicated amounts represent the transaction volumes at the closing date):

| €000 | Seller of claims or secured party | Date of contract | End of maturity | Volume 2008 | Volume 2007 | Volume 2006 | Portfolio | Junior tranche |
|---|---|---|---|---|---|---|---|---|
| True Sale Transaction ROOF Romania 2008-1 | Raiffeisen Bank S.A., Bucharest | July 2008 | December 2009 (Warehousing) | 175,000 | – | – | Consumer loans | – |
| True Sale Transaction ROOF Bulgaria 2008-1 | Raiffeisenbank Bulgaria EAD, Sofia | March 2008 | September 2009 (Warehousing) | 200,000 | – | – | Consumer loans | – |
| True Sale Transaction ROOF Poland 2008-1 | Raiffeisen Leasing Polska S. A., Warsaw | January 2008 | December 2014 | 290,000 | – | 167,000 | Car leasing contracts | 1.3% |
| True Sale Transaction ROOF Russia 2007-1 | ZAO Raiffeisenbank Austria, Moscow | May 2007 | May 2017 | – | 297,000 | – | Car loans | 1.9% |
| Synthetic Transaction ROOF CEE 2006 | Raiffeisenbank Polska S. A., Warsaw, Raiffeisenbank a.s., Prague | March 2006 | March 2019 | – | – | 450,000 | Company loans | 1.8% |

# (40) Genuine repurchase agreements

The following repurchase and redelivery commitments are shown as of the balance sheet date:

| €000 | 2008 | 2007 |
|---|---|---|
| **Genuine repurchase agreements as borrower** | | |
| Deposits from banks | 602,707 | 177,756 |
| Deposits from customers | 121,979 | 117,520 |
| **Total** | **724,686** | **295,276** |

| €000 | 2008 | 2007 |
|---|---|---|
| **Genuine repurchase agreements as lender (reverse repurchase agreement)** | | |
| Loans and advances to banks | 2,653,688 | 1,480,250 |
| Loans and advances to customers | 47,576 | 92,521 |
| **Total** | **2,701,264** | **1,572,771** |

Assets sold in a genuine sale and repurchase agreement amounted to € 655,448 thousand (2007: € 317,037 thousand) as of 31 December 2008. Assets, where the borrower has the right to sell or repledge totalled € 638,875 thousand (2007: € 284,815 thousand) and were mainly bonds, notes and other fixed-interest securities.

Securities purchased in a genuine sale and repurchase agreement totalled € 2,689,990 thousand (2007: € 1,931,915 thousand). Assets which were sold or repledged amounted to € 33,896 thousand (2007: € 9,661 thousand), thereof € 32,574 thousand were bonds, notes and other fixed-interest securities and € 1,332 thousand were loans and advances (2007: € 9,661 thousand).

# (41) Assets pledged as collateral

The following liabilities are secured by assets shown in the balance sheet:

| €000 | 2008 | 2007 |
|---|---|---|
| Deposits from banks | 614,908 | 389,116 |
| Deposits from customers | 107,530 | 19,105 |
| Liabilities evidenced by paper | 294,514 | 125,097 |
| Other liabilities | 453,291 | 147,094 |
| Contingent liabilities and commitments | 395 | – |
| **Total** | **1,470,638** | **680,412** |

The following balance sheet assets are provided as collateral for the above mentioned obligations:

| €000 | 2008 | 2007 |
|---|---|---|
| Loans and advances to banks | 284,463 | 38,676 |
| Loans and advances to customers | 667 | 4,026 |
| Trading assets | 681,442 | 382,362 |
| Financial investments | 821,949 | 376,356 |
| **Total** | **1,788,521** | **801,420** |

# (42) Finance leases

| €000 | 2008 | 2007 |
|---|---|---|
| **Gross investment value** | **4,692,700** | **4,065,461** |
| Up to 3 months | 456,888 | 381,908 |
| More than 3 months, up to 1 year | 1,144,992 | 936,267 |
| More than 1 year, up to 5 years | 2,673,190 | 2,352,378 |
| More than 5 years | 417,631 | 394,908 |
| **Unearned finance income** | **688,737** | **634,327** |
| Up to 3 months | 72,582 | 59,934 |
| More than 3 months, up to 1 year | 185,970 | 154,684 |
| More than 1 year, up to 5 years | 350,195 | 332,818 |
| More than 5 years | 79,990 | 86,891 |
| **Net investment value** | **4,003,963** | **3,431,134** |

Write-offs on unrecoverable minimum lease payments outstanding totalled € 9,130 thousand (2007: € 3,108 thousand).

Assets under finance leases break down as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Vehicles leasing | 2,695,882 | 2,271,008 |
| Real estate leasing | 492,871 | 436,104 |
| Equipment leasing | 814,210 | 724,022 |
| **Total** | **4,003,963** | **3,431,134** |

# (43) Operating leases

**Operating leases from view of Raiffeisen International as lessor:**
Future minimum lease payments under non-cancellable operating leases are as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Up to 1 year | 50,484 | 33,899 |
| More than 1 year, up to 5 years | 106,730 | 57,246 |
| More than 5 years | 63,662 | 34,219 |
| **Total** | **220,876** | **125,364** |

**Operating leases from view of Raiffeisen International as lessee:**
Future minimum lease payments under non-cancellable operating leases are as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Up to 1 year | 90,761 | 75,494 |
| More than 1 year, up to 5 years | 268,180 | 208,786 |
| More than 5 years | 65,474 | 60,398 |
| **Total** | **424,415** | **344,678** |

# Risk Report

## (44) Risks arising from financial instruments

Being an active player in the world's financial markets inherently means taking risks. For this reason, the ability of Raiffeisen International to identify and measure risks, to monitor and to mange them is a decisive competitive factor. To ensure the long-term success of Raiffeisen International and to permit selective growth in the targeted markets, the Group's risk management activities are designed to ensure the professional management of credit, country, market, liquidity, and operational risks.

As a subsidiary and major sub-group of RZB Group, *Raiffeisen International Bank-Holding AG* is integrated into RZB´s risk management system. Different risk management units at several organizational levels of the Group ensure that all material risks are measured and limited, and that business in general is evaluated under a risk/return perspective. For this purpose and in addition to legal and regulatory requirements, risk management takes into account the particular nature, scale, and complexity of the business activities and the resulting risks.

### Organization of risk management

In order to ensure a consistent and coherent risk management approach, the Managing Board of *Raiffeisen International Bank-Holding AG* decides on the risk strategy and risk management within the framework laid down by RZB Group. They define the risk appetite, set limits for all material risks, and demand a minimum risk-adjusted return in the Group's risk strategy.

Special attention is paid to concentration risks, and thus they also define limits on large exposures, product/sector/industry weights, and regional concentrations. The Managing Board is responsible for implementing these targets and for adequate monitoring and controlling of the risks incurred.

In particular, the Managing Board of Raiffeisen International defines and implements the Group's risk policies. A specific risk policy defines the plans for the development of the Bank's business in a certain business division for a given period. For example, the credit risk policies for *corporate customers* regulate which industries will be targeted, restricted, or excluded from lending or what the minimum rating, amount of collateral or required profit on a transaction is for each Group member. Specific risk policies are an integral part of all business operations and in this context also establish a systematic link between earnings and risks in all business divisions.

Furthermore, the members of the Managing Board of Raiffeisen International ensure the proper organization and ongoing development of effective internal risk management. They decide which procedures are to be employed in identifying, measuring, and monitoring risks, and make steering decisions according to risk reports and analyzes. In all this the Managing Board is supported by independent risk management units and specially appointed committees.

**Organizational structure**
The implementation of risk management is structured in several levels. Raiffeisen International develops and implements risk management in close cooperation and coordination with RZB as the parent and the individual subsidiaries.

The central risk management and controlling functions are accountable for the adequate and appropriate implementation of all aspects of the Group's risk management process. In particular, they establish common risk management principles and set business-specific standards, tools, and practices which are followed in all Group entities. This serves the purpose of creating a common risk culture and fostering the use of state-of-the-art risk management tools in the Group.

For example, Basel II calculations for credit risks in non-retail portfolios are performed centrally: this ensures that definitions, parameters, and processes are the same for all units and that knowledge gained from implementing advanced risk measurement approaches (i.e. the IRB approach) is shared among different Group members.

Local risk management units are established in the different legal entities of *Raiffeisen International Bank-Holding AG*. They implement the risk policies for specific risk types and take active risk steering decisions within the approved risk budgets in order to achieve the targets set in these policies. For this purpose, they monitor risks using standardized measurement tools and communicate them to central risk management units via defined reporting interfaces.

**Risk committees**

Committees bring together decision makers from different units (and therefore also representatives of Raiffeisen International) involved in risk management activities. The *Group Risk Committee* (GRC) secures coherent regulations within RZB Group with respect to the definition and measurement of risks.

As a cross-divisional and Group-wide body, the Group Risk Committee is responsible for the ongoing development and implementation of methods and parameters for risk quantification models and risk management processes. It also analyzes the risk situation of the Group with respect to the internal capital adequacy of the Group and the corresponding risk limits. Furthermore, it approves risk management/controlling activities like the allocation of risk capital and advises the Managing Board in these matters.

The *Market Risk Committee* (*MACO*) is responsible for controlling market risks of trading and banking book activities and for establishing appropriate limits and relevant processes. For this purpose, the committee evaluates company results, the amount of risks taken and the limit utilization, as well as the results from stress tests.

## Internal capital adequacy

Maintaining a sufficient level of capital is a core objective of risk management at Raiffeisen International. Capital adequacy according to internal standards is monitored based on the Group's actual risk level on a quarterly basis. It takes into account capital requirements both from a regulatory point of view *(going concern perspective)* and from an economic point of view *(liquidation perspective)*. In both views the Group measures risks for all material risk types on a consolidated basis and for all relevant network units in a value-at-risk model.

| Objective | Description of risk | Measurement technique | Confidence level |
|---|---|---|---|
| **Going concern perspective** | Risk of not meeting the regulatory capital requirement | Risk taking capacity (projected earnings plus capital exceeding regulatory requirements) must not fall below the annualised value-at-risk | 99 per cent reflecting the owners' willingness to inject fresh capital<br>(1 excess in 100 years) |
| **Liquidation perspective** | Risk of not being able to satisfy claims of senior debt holders | Unexpected losses on an annual basis (economic capital) must not exceed the present value of the bank's equity and subordinated liabilities | 99.95 per cent as derived from the probability of default implied by the target rating (1 excess in 2000 years) |

Stress tests show the impact of significant negative variances in risk factors which might not be adequately captured in a value-at-risk model. They can be based on historical events (e.g. Russian crisis in 1998) or hypothetical scenarios. Thus they allow the analyzis of risk concentrations (i.e. in size, industry, and region) and deliver a deep insight into the profitability, solvability, and survival probability of the Group in extreme situations. Decisions on the required capital ratios take into account those scenarios, keeping in mind the likelihood of the scenario and the possible countermeasures that would be taken by the Group in such a scenario.

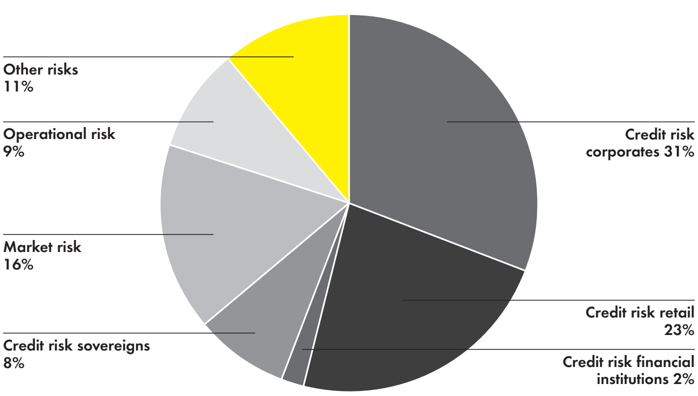
This capital adequacy framework also satisfies the requirement for an internal capital adequacy assessment process *(ICAAP)* as required by Basel II (Pillar 2) regulations.

**Liquidation perspective**

Risk in the liquidation perspective is measured as economic capital presenting a comparable risk measure across all types of risks. It is calculated as the sum of unexpected losses stemming from different Group members and different risk categories (credit and country risk, market, and operational risk). In addition, a separate risk buffer for other (mostly immaterial) risks not explicitly quantified is held on an overall Group level.

Raiffeisen International estimates economic capital as the amount of unexpected losses on an annual basis using a confidence interval of 99.95 per cent. This confidence level is based on the probability of default implied by the target rating. The purpose of calculating economic capital is to ensure that the bank has enough capital (so-called internal capital) which would be required for servicing the claims of customers and creditors even in the case of such an extremely rare event.

## Risk contribution of individual risk types to economic capital at Raiffeisen International as of 31.12.2008




The economic capital measure shows – as in the last year – that credit risk due to corporate customers remains the dominant risk category. Its share in total risk (31 per cent), however, is decreasing steadily. This comes at no surprise as the share of the retail credit portfolio also increased by a similar amount in the last year. Credit risk in total makes up 64 per cent of economic capital. Market and operational risks account for 16 and 9 per cent respectively of economic capital, and in addition, a general risk buffer is allocated for other risks as well.

The overall risk amount is compared to internal capital, which primarily consists of equity and subordinated capital of the Group. Total utilization of available risk coverage capital (the ratio of economic capital to internal capital) amounts to 92 per cent (as of 31 December 2008). The increased utilization mainly results from a significant rise of foreign exchange rate risk in the market risk area and the asset volume increase in the credit business.

Economic capital is used as a parameter in overall bank management and for the purpose of capital allocation. Economic capital budgets are allocated to business units during the annual budgeting process and transformed into operative volume, sensitivity, or value-at-risk limits. In Raiffeisen International this sort of planning is done on a revolving basis for the upcoming three years and incorporates the future development of economic capital as well as the available internal capital.

Based on these calculations, Raiffeisen International also carries out risk-adjusted performance measurement. The profitability of business units is set in relation to the amount of economic capital attributed to these units (risk-adjusted return on risk-adjusted capital, *RORAC*), this yields a comparable performance measure for all business units of the bank. The RORAC measure in turn is a key figure for overall bank management and influences future capital allocations to business units.

**Going concern perspective**
In parallel to that procedure, risk is calculated as value-at-risk on the basis of a confidence interval of 99 per cent as well. This capital requirement is likewise weighed against a corresponding estimate of risk-taking capacity which is derived from the Group's available capital based on a going concern basis (with respect to regulatory capital adequacy).

Raiffeisen International manages regulatory capital on Group level according to Austrian regulations whereas local regulatory capital requirements are met by adequate structural balance sheet measures. The target for regulatory capital is intentionally set higher than the minimum regulatory requirement in order to assure sufficient regulatory capital at all times and to account for other risks or higher risks which are not considered in the regulatory requirements. Thus the banking group ensures going-concern and the distribution of a minimum profit with a defined confidence level as well.

## Credit risk

Credit risk within Raiffeisen International consists mainly of default risk that arises from business with retail and corporate customers, other banks and sovereign borrowers. Default risk is defined as the risk that a customer will not be able to fulfil contractually agreed financial obligations. Credit risks, however, also arise from migration risks (caused by deteriorations in customers' creditworthiness), concentrations of creditors or in credit risk mitigation techniques, and country risk.

Credit risk is by far the most important risk driver in Raiffeisen International as also indicated by internal and regulatory capital requirements. Thus credit risk is analyzed and monitored both on an individual loan (and customer-by-customer basis respectively) and on a portfolio basis. Credit risk management and lending decisions are based on the respective credit risk policies, credit risk manuals, and the corresponding tools and processes which have been developed for this purpose.

The internal credit risk controlling system includes different types of monitoring measures which are tightly integrated into the work processes that lead from the customer's initial credit application, to the bank's credit approval, and to the repayment of the loan. With respect to the new capital adequacy framework for banks (Basel II), the seamless management, monitoring and control of credit risk is thus assured.

**Limit application process**
In the non-retail divisions, no lending transaction is performed without running through the limit application process beforehand. This process is also consistently applied – besides new lending – to overdrafts, increases in existing limits, extensions, and if changes in the risk profile of a borrower occur (e.g. with respect to the financial situation, the terms and conditions, or collateral) compared to the time an original lending decision was made. In addition it is used when setting limits for particular borrowers in treasury and investment banking operations, and for equity participations.

Limits are granted within the context of a hierarchical decision making process depending on the type and size of a loan. Limit decisions are handled by local units on behalf of the Managing Board of *Raiffeisen International Bank-Holding AG* or local supervisory boards according to this system of hierarchical competence. It always requires the approval of the business and the credit risk management divisions when granting new loans or when performing limit re-evaluations in the regular reassessments of counterparty risks. If the individual decision-making parties disagree, the potential transaction will have to be considered by the next decision-making level.

The current values of collateral and other risk mitigation effects are calculated with each credit assessment as well. For the calculation of risk mitigation effects, the value accounted for is the value Raiffeisen International expects to receive when selling the collateral within a reasonable liquidation period. Eligible collaterals are defined in the Group's collateral catalogue and evaluation guidelines for collateral. The respective value of the collateral is calculated via specified methods, which include standardized calculations based on market values, predefined discounts, or expert assessments.

The whole limit application process is supported by efficient computer-based systems. Account management, for example, where multinational customers do business simultaneously with more than one network unit of Raiffeisen International, is supported by the *Global Account Management System (GAMS)*. Limit management applications enforce the dual control principle and allow sharing lending applications between different entities according to the defined competence schemes. All these applications benefit from unique customer account numbers for corporate customers in the Group.

**Rating models and credit exposures**

The rating process serves to determine the creditworthiness of a counterparty. Raiffeisen International uses internal ratings for assessing credit risk where different risk-classification procedures (rating and scoring models) for different asset classes are employed. All rating and scoring models are used in the whole Group and again are available as software tools (e.g. for business valuation and calculating rating grades, rating database).

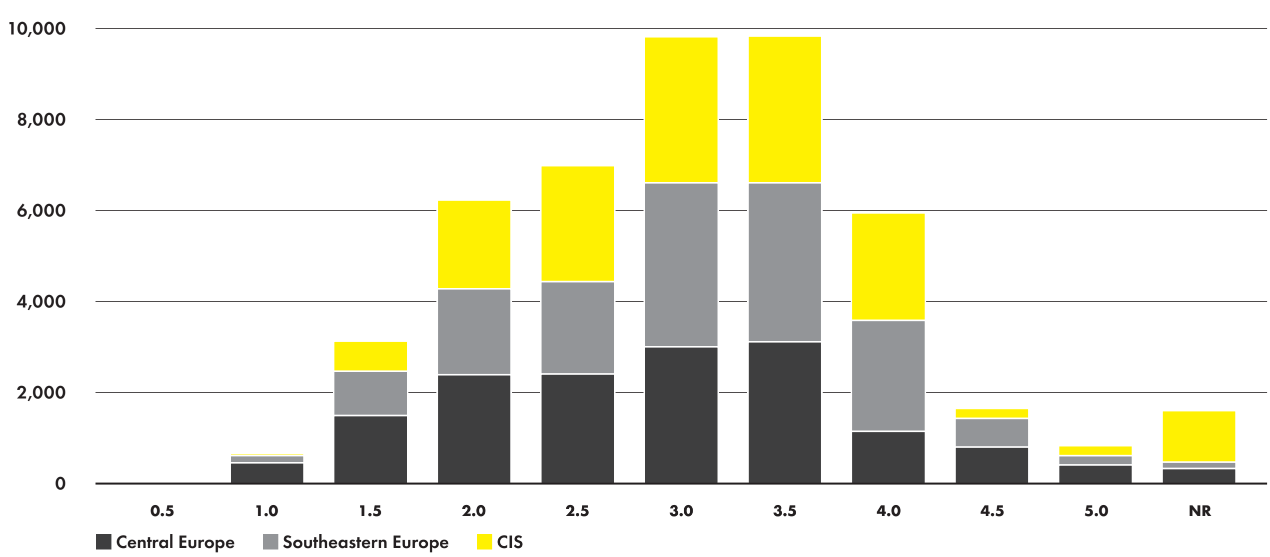
The rating models in the main non-retail divisions – corporate customers, financial institutions, and sovereigns – rank creditworthiness in ten classes.

**Corporate Customers**

The internal rating model for *corporate customers* takes into account qualitative factors as well as several business and performance figures (e.g. interest cover, EBT margin, EBTDA margin, equity ratio, return on assets, debt amortization period), which are tailored to the various industries and financial reporting standards.

## Exposure to corporate customers, by internal rating and region

**in € million**



The following table provides a breakdown of the credit exposure according to the internal rating in the business division **corporate customers** (including off-balance sheet exposure) in thousands of euros. These figures are based on the customer rating only. Collateral must also be taken into account in the overall assessment of credit risk:

| Internal rating | | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|---|
| 0.5 | Minimal risk | 4,985 | 0.0% | 4,613 | 0.0% |
| 1.0 | Excellent credit standing | 816,578 | 1.7% | 1,060,406 | 2.5% |
| 1.5 | Very good credit standing | 3,387,288 | 7.1% | 3,069,987 | 7.1% |
| 2.0 | Good credit standing | 6,461,836 | 13.6% | 5,754,027 | 13.3% |
| 2.5 | Sound credit standing | 7,118,823 | 15.0% | 6,882,543 | 15.9% |
| 3.0 | Acceptable credit standing | 9,780,532 | 20.6% | 9,584,790 | 22.2% |
| 3.5 | Marginal credit standing | 9,919,172 | 20.9% | 9,110,274 | 21.1% |
| 4.0 | Weak credit standing/sub-standard | 5,626,043 | 11.8% | 5,376,925 | 12.5% |
| 4.5 | Very weak credit standing/doubtful | 1,813,613 | 3.8% | 1,024,717 | 2.4% |
| 5.0 | Default (acc. to Basel II definition) | 951,437 | 2.0% | 474,967 | 1.1% |
| NR | Not rated (including retail) | 1,616,048 | 3.4% | 823,978 | 1.9% |
| **Total** | | **47,496,355** | **47,496,355** | **100,0%** | **100.0%** |

The overall credit quality of corporate customers slightly declined in the past financial year. Compared to the year before, the portfolio share of the best rating categories (up to rating class 2.0) decreased by 0.5 per cent to 22.4 per cent and the proportion of exposures with acceptable credit standing (up to rating class 3.0) declined by 2.5 per cent to 35.6 per cent. Consequently, the portfolio share of lower rated customers increased by 0.5 per cent to 36.5 per cent. Also the amount of customers in default (rating class 5.0) increased from 1.1 per cent to 2.0 per cent. The portfolio share of unrated customers increased to 3.4 per cent mainly due to small loans that are loaded without their ratings into the group data warehouse. The internal rating shown in this table only reflects the borrowers' credit standing and does not take into account the amount of collateral provided in individual transactions.

In 2007 a new rating model for **project finance** has been introduced. The exposure from project finance is shown below.

| Internal project rating | | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|---|
| 6.1 | Excellent project risk profile – very low risk | 1,451,184 | 40.2% | 409,248 | 26.1% |
| 6.2 | Good project risk profile – low risk | 1,405,852 | 39.0% | 777,769 | 49.7% |
| 6.3 | Acceptable project risk profile – average risk | 664,786 | 18.4% | 326,356 | 20.8% |
| 6.4 | Poor project risk profile – high risk | 73,559 | 2.0% | 50,946 | 3.3% |
| 6.5 | Default | 10,848 | 0.3% | 1,729 | 0.1% |
| **Total** | | **3,606,229** | **100.0%** | **1,566,048** | **100.0%** |

The volume of assets rated through project rating has significantly increased to € 3.6bn in the year 2008 where the lion's share originates in Central Europe. The good rating profile of the portfolio reflects the high collateralisation in these special financing transactions.

### Retail customers

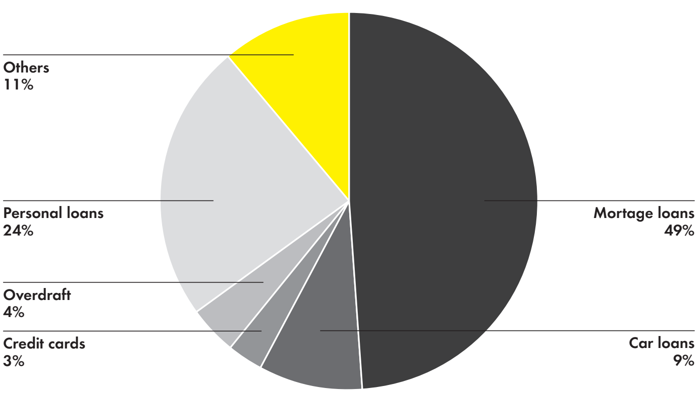
The *retail customers* business field is divided into private individuals and small and medium-sized enterprises (*SME*). For retail customers, a two-fold scoring system is used – consisting of the (initial and ad-hoc) scoring based on customer data and behavioural scoring based on account data. The table below provides a breakdown of the credit exposure (including off-balance sheet exposure) for the **retail customers** by region in thousands of euros:

| 2008 | 2008 | Proportion | CE | SEE | CIS |
|---|---|---|---|---|---|
| Retail – Private individuals | 20,688,912 | 87.5% | 8,658,050 | 7,204,791 | 4,826,071 |
| Retail – SME | 2,964,022 | 12.5% | 1,532,529 | 1,026,792 | 404,701 |
| **Total** | **23,652,934** | **100.0%** | **10,190,579** | **8,231,583** | **5,230,771** |

| 2007 | 2007 | Proportion | CE | SEE | CIS |
|---|---|---|---|---|---|
| Retail – Private individuals | 16,351,272 | 84.7% | 6,320,011 | 5,442,682 | 4,588,579 |
| Retail – SME | 2,960,668 | 15.3% | 1,412,136 | 1,078,599 | 469,933 |
| **Total** | **19,311,940** | **100.0%** | **7,732,147** | **6,521,281** | **5,058,512** |

From year end 2007 to year end 2008, the retail portfolio in total increased by 22 per cent to € 23.7 billion. The growth was mainly driven by private individuals (27 percent increase) whereas the size of the SME portfolio stayed constant. From a geographical point of view, the largest increase of retail exposures took place in the Central European region (32 per cent increase), whereas growth in the CIS region, influenced by exchange rate effects, reached just 3 per cent.

## Retail exposure, split by product groups

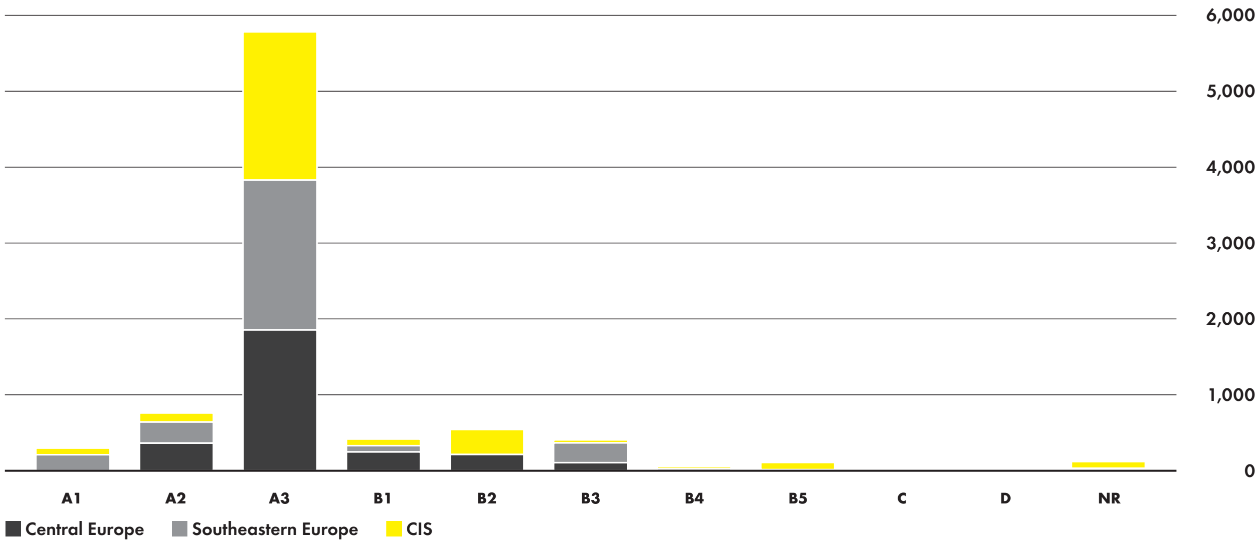


### Financial institutions

The customer division *financial institutions* mainly contains exposures to banks and securities firms. The internal rating model for financial institutions is based on a peer-group approach that takes both qualitative and quantitative information into account. A ceiling is set on the final rating for financial institutions by the respective country rating.

## Exposure to financial institutions (excluding central banks), by internal rating and region

**in € million**




The following table shows the credit exposure per rating class for **financial institutions** (including off-balance sheet exposure but excluding central banks) in thousands of euros:

| Internal rating | | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|---|
| A1 | Minimal risk | 417,787 | 4.6% | 30,633 | 0.3% |
| A2 | Excellent credit standing | 710,634 | 7.8% | 1,048,544 | 10.8% |
| A3 | Very good credit standing | 6,193,968 | 68.3% | 6,228,688 | 64.0% |
| B1 | Good credit standing | 414,217 | 4.6% | 307,383 | 3.2% |
| B2 | Average credit standing | 631,356 | 7.0% | 809,727 | 8.3% |
| B3 | Mediocre credit standing | 347,200 | 3.8% | 240,776 | 2.5% |
| B4 | Weak credit standing | 64,183 | 0.7% | 670,190 | 6.9% |
| B5 | Very weak credit standing | 130,809 | 1.4% | 208,936 | 2.1% |
| C | Doubtful/high default risk | 13,978 | 0.2% | 17,915 | 0.2% |
| D | Default | 731 | 0.0% | – | – |
| NR | Not rated | 140,291 | 1.5% | 170,573 | 1.8% |
| **Total** | | **9,065,154** | **100.0%** | **9,733,366** | **100%** |

The rating distribution of financial institutions shows a further increase in the rating class A3 (increasing from 64 to 68 per cent). This is caused by the fact that most banking institutions in developed markets (including RZB AG) have this rating assigned. The number and exposure of unrated financial institutions is below 2 per cent. This exposure is mainly due to short-term loans to small banks, where the rating process has not been completed yet.

### Sovereigns

Another rating model in this division is used for central governments, central banks, and regional municipalities as well as other public sector entities. The table below provides a breakdown of the credit exposure to **sovereigns** (including central banks and off-balance sheet exposure) based on the internal rating in thousands of euros:

| Internal rating | | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|---|
| A1 | Minimal risk | 510,718 | 3.2% | 1,371,856 | 10.1% |
| A2 | Excellent credit standing | 137,227 | 0.9% | 96,356 | 0.7% |
| A3 | Very good credit standing | 4,540,568 | 28.6% | 3,445,434 | 25.5% |
| B1 | Good credit standing | 1,134,324 | 7.2% | 1,287,757 | 9.5% |
| B2 | Average credit standing | 3,523,547 | 22.2% | 4,089,935 | 30.2% |
| B3 | Mediocre credit standing | 3,610,963 | 22.8% | 616,894 | 4.6% |
| B4 | Weak credit standing | 1,794,342 | 11.3% | 1,999,481 | 14.8% |
| B5 | Very weak credit standing | 556,784 | 3.5% | 410,998 | 3.0% |
| C | Doubtful/high default risk | – | – | 7,448 | 0.1% |
| D | Default | 4,172 | 0.0% | 87,813 | 0.6% |
| NR | Not rated | 42,578 | 0.3% | 108,347 | 0.8% |
| **Total** | | **15,855,223** | **100.0%** | **13,522,319** | **100.0%** |

The average internal rating of credit exposures to Sovereigns slightly decreased this year. The internal rating of Hungary has been reduced from B1 to B2, and Romania were downgraded from B2 to B3.

### Default and handling procedures

Default is defined in Raiffeisen International as the event where a specific debtor is unlikely to pay its credit obligations to the Group from primary sources, or the debtor is overdue more than 90 days on any material credit obligation. Raiffeisen International has defined twelve default indicators which are used to identify a default event including the insolvency or similar proceedings of a customer, if an impairment provision has been allocated or a direct write-off has been carried out, if credit risk management has judged a customer account receivable to be not wholly recoverable, or the workout unit is considering stepping in to help a company restore its financial soundness.

The lending portfolio and individual borrowers are subject to constant monitoring. The main purposes of monitoring are to ensure that the borrower is meeting the terms and conditions of the contract as well as following the obligor's economic development. A review is conducted at least once annually for corporate customers, financial institutions, and sovereigns. This includes rating validation and the re-evaluation of financial and tangible collaterals.

In case of default, customers are recorded in the Group-wide default database which has been created within the scope of the Basel II project. The database tracks recoveries and workout costs as well, which makes it possible to calculate and validate PDs and LGDs (the probability of default, PD, and loss given default, LGD, both are parameters in the regulatory Internal Ratings-Based approach and the internal risk quantification models).

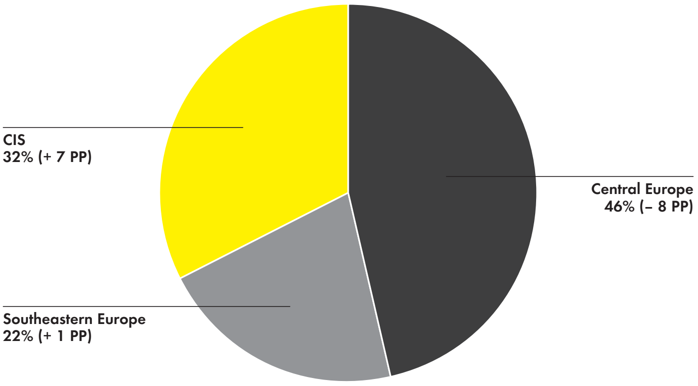
**Impairments and provisioning**

Troubled loans (where debtors are expected to run into material financial difficulties or delayed payment) need special handling. In the non-retail business fields, *Problem Loan Committees* (PLCs) of each Group unit review problematic exposures and decide on provisioning. In case of the need for intensified handling and workout, the troubled loans are assigned either to a designated specialist or to a restructuring unit (workout department), both part of the credit risk management divisions. Employees of workout units are specially trained and experienced. They typically handle medium-sized to large cases and are assisted by in-house legal departments and/or by external specialists as well. Work-out units play a decisive role in accounting and analyzing as well as booking provisions for impairment losses (write-offs, value adjustments, provisioning) and become involved early on in order to reduce losses caused by troubled loans. Cases in which restructuring or liquidation take place are analyzed to find out their causes. Lending processes are then adapted as necessary on the basis of these results.

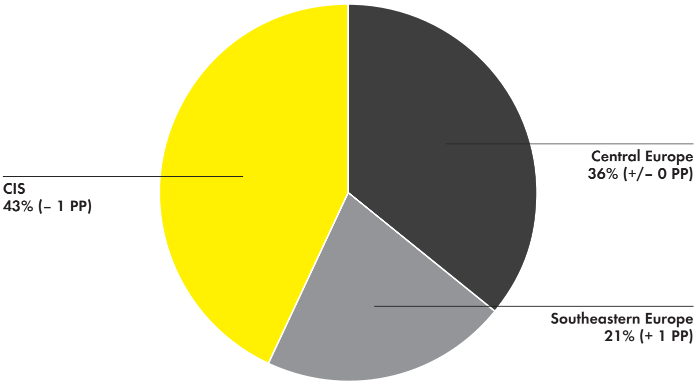
In the retail area, provisioning and intensive treatment is performed by retail risk departments of individual Group members. They compute loan loss provisions (mostly portfolio-based) according to defined calculation schemes on a monthly basis. The provisioning amount is then approved by local accounting departments.

The following charts show the regional breakdown of non-performing loans and provisions, where non-performing loans are defined analogous to Basel II default criteria. Provisions for impairment losses are formed on the basis of Group-wide standards according to IFRS accounting principles and cover all identifiable credit risks.

**Breakdown of non-performing loans by region**




**Breakdown of loan loss provisions by region**



The following table shows the corresponding loans outstanding in the defined asset classes within loans and advances to banks and loans and advances to customers on the balance sheet and the corresponding proportion of non-performing loans, collateral provided for these loans, and loan loss provisions split by region:

| €000 | CE | SEE | CIS | Total 2008 |
|---|---|---|---|---|
| **Corporate customers** | **15,781,436** | **8,460,085** | **10,420,610** | **34,662,130** |
| Non-performing | 488,012 | 184,160 | 151,877 | 824,049 |
| of which collateralized | 208,868 | 179,046 | 130,916 | 518,830 |
| Impairment losses on loans | 363,348 | 145,746 | 342,899 | 851,993 |
| **Retail customers** | **9,222,207** | **7,613,793** | **5,300,243** | **22,136,244** |
| Non-performing | 327,035 | 197,953 | 425,756 | 950,744 |
| of which collateralized | 113,328 | 206,019 | 212,035 | 531,382 |
| Impairment losses on loans | 214,314 | 211,685 | 356,767 | 782,766 |
| **Financial institutions** | **1,014,322** | **1,638,287** | **2,415,625** | **5,068,234** |
| Non-performing | – | 431 | – | 431 |
| of which collateralized | – | – | – | – |
| Impairment losses on loans | 4,162 | 16 | 173 | 4,351 |
| **Sovereigns** | **2,823,485** | **1,693,074** | **270,099** | **4,786,658** |
| Non-performing | 5,206 | – | – | 5,206 |
| of which collateralized | 236 | – | – | 236 |
| Impairment losses on loans | 2,153 | – | – | 2,153 |

| €000 | CE | SEE | CIS | Total 2007 |
|---|---|---|---|---|
| **Corporate customers** | **13,757,858** | **6,880,038** | **9,637,828** | **30,275,724** |
| Non-performing | 344,582 | 90,404 | 78,332 | 513,318 |
| of which collateralized | 148,935 | 71,453 | 35,950 | 256,339 |
| Impairment losses on loans | 239,335 | 83,743 | 269,098 | 592,177 |
| **Retail customers** | **6,832,934** | **5,989,058** | **4,775,118** | **17,597,111** |
| Non-performing | 226,292 | 128,234 | 180,278 | 534,803 |
| of which collateralized | 74,082 | 36,119 | 18,132 | 128,334 |
| Impairment losses on loans | 158,579 | 139,351 | 210,645 | 508,575 |
| **Financial institutions** | **1,655,461** | **1,995,799** | **1,906,552** | **5,557,812** |
| Non-performing | – | 145 | – | 145 |
| of which collateralized | – | – | – | – |
| Impairment losses on loans | – | 645 | – | 645 |
| **Sovereigns** | **1,700,363** | **3,347,721** | **297,557** | **5,345,641** |
| Non-performing | 420 | – | – | 420 |
| of which collateralized | 57 | – | – | 57 |
| Impairment losses on loans | 1,733 | 36 | – | 1,769 |

For the corporate customers the NPL ratio was highest in Central Europe in the year 2008. There the ratio yielded 3.1 per cent after 2.5 per cent in the previous year. Overall the NPL ratio increased from 1.7 per cent to 2.4 per cent in this business field. In absolute figures, the amount of non-performing loans reached € 824 million. For these loans € 852 million in loan loss provisions have been allocated and € 518 million of collateral have been provided.

The retail portfolio has the highest ratio of non-performing loans to total loans. With respect to small-and-medium sized enterprises the ratio increased by 2.2 percentage points to 6.0 per cent, for retail private individuals 4.0 per cent of the total exposure is classified as non-performing (an increase by 1.1 percentage points from the previous year). By regional breakdown, the NPL ratio increased in the CIS region from 3.7 per cent to 8.0 per cent significantly.

All in all, total loan loss provisions for retail customers increased by 54 per cent to € 783 million. The coverage ratio in the CIS region was 121.2 per cent (a decrease of 64.3 percentage points). In absolute amounts, non-performing loans for retail customers reached € 951 million, where € 532 million are available as collateral. For the difference between these values € 783 million in loan loss provisions have been allocated.

The effects of the financial turmoil in the fourth quarter 2008 resulted in a huge increase in impairment losses. The following table summarizes the development of impairment losses on loans and advances and on off-balance sheet obligations in the fiscal year and that of the underlying balance sheet items:

| €000 | As of 1.1.2008 | Change in consolidated group | Allocation[1] | Release | Usage[2] | Exchange differences | As of 31.12.2008 |
|---|---|---|---|---|---|---|---|
| **Individual loan loss provisions** | **803,597** | **–** | **732,323** | **(230,362)** | **(107,912)** | **(85,732)** | **1,111,914** |
| Loans to banks | 146 | – | 3,670 | (152) | (8) | 394 | 4,050 |
| Loans to customers | 754,580 | – | 700,872 | (192,077) | (107,898) | (85,356) | 1,070,121 |
| Off-balance sheet obligations | 48,871 | – | 27,781 | (38,133) | (6) | (770) | 37,743 |
| **Portfolio-based provisions** | **367,364** | **–** | **407,909** | **(129,569)** | **–** | **(46,979)** | **598,725** |
| Loans to banks | 499 | – | 325 | (471) | – | (51) | 301 |
| Loans to customers | 347,941 | – | 385,900 | (120,505) | – | (46,546) | 566,790 |
| Off-balance sheet obligations | 18,924 | – | 21,684 | (8,593) | – | (382) | 31,634 |
| **Total** | **1,170,961** | **–** | **1,140,232** | **(359,931)** | **(107,912)** | **(132,711)** | **1,710,639** |

*1 Allocation including direct write-downs and income on written down claims.*
*2 Usage including direct write-downs and income on written down claims.*

| €000 | As of 1.1.2007 | Change in consolidated group | Allocation[1] | Release | Usage[2] | Exchange differences | As of 31.12.2007 |
|---|---|---|---|---|---|---|---|
| **Individual loan loss provisions** | **618,160** | **(9)** | **541,585** | **(260,156)** | **(86,589)** | **(9,394)** | **803,597** |
| Loans to banks | 161 | – | 19 | (1) | – | (32) | 146 |
| Loans to customers | 574,049 | (9) | 507,043 | (230,452) | (86,589) | (9,462) | 754,580 |
| Off-balance sheet obligations | 43,950 | – | 34,523 | (29,702) | – | 100 | 48,871 |
| **Portfolio-based provisions** | **303,942** | **–** | **162,214** | **(86,118)** | **–** | **(12,674)** | **367,364** |
| Loans to banks | – | – | 494 | – | – | 5 | 499 |
| Loans to customers | 297,846 | – | 147,930 | (85,442) | – | (12,393) | 347,941 |
| Off-balance sheet obligations | 6,095 | – | 13,790 | (676) | – | (285) | 18,924 |
| **Total** | **922,102** | **(9)** | **703,799** | **(346,274)** | **(86,589)** | **(22,068)** | **1,170,961** |

*1 Allocation including direct write-downs and income on written down claims.*
*2 Usage including direct write-downs and income on written down claims.*

The following table shows the geographic breakdown of provisioning by the customers' home country:

| €000 | As of 1.1.2008 | Change in consolidated group | Allocation[1] | Release | Usage[2] | Exchange differences | As of 31.12.2008 |
|---|---|---|---|---|---|---|---|
| **Individual loan loss provisions** | **803,597** | **–** | **732,323** | **(230,362)** | **(107,912)** | **(85,732)** | **1,111,914** |
| Central Europe | 302,303 | – | 324,870 | (99,943) | (59,003) | (18,771) | 449,456 |
| Southeastern Europe | 191,201 | – | 163,207 | (91,841) | (21,046) | (2,699) | 238,822 |
| CIS | 310,094 | – | 244,246 | (38,578) | (27,863) | (64,262) | 423,636 |
| **Portfolio-based provisions** | **367,364** | **–** | **407,909** | **(129,569)** | **–** | **(46,979)** | **598,725** |
| Central Europe | 126,023 | – | 98,864 | (58,426) | – | (1,168) | 165,293 |
| Southeastern Europe | 66,280 | – | 109,149 | (21,870) | – | (5,404) | 148,155 |
| CIS | 175,062 | – | 199,896 | (49,273) | – | (40,407) | 285,277 |
| **Total** | **1,170,961** | **–** | **1,140,232** | **(359,931)** | **(107,912)** | **(132,711)** | **1,710,639** |

*1 Allocation including direct write-downs and income on written down claims.*
*2 Usage including direct write-downs and income on written down claims.*

| €000 | As of 1.1.2007 | Change in consolidated group | Allocation[1] | Release | Usage[2] | Exchange differences | As of 31.12.2007 |
|---|---|---|---|---|---|---|---|
| **Individual loan loss provisions** | **618,160** | **(9)** | **541,585** | **(260,156)** | **(86,589)** | **(9,394)** | **803,597** |
| Central Europe | 248,918 | – | 174,659 | (98,988) | (30,901) | 8,615 | 302,303 |
| Southeastern Europe | 166,543 | (9) | 125,303 | (69,354) | (32,374) | 1,093 | 191,201 |
| CIS | 202,701 | – | 241,623 | (91,813) | (23,314) | (19,102) | 310,094 |
| **Portfolio-based provisions** | **303,942** | **–** | **162,214** | **(86,118)** | **–** | **(12,674)** | **367,364** |
| Central Europe | 78,863 | – | 78,467 | (31,283) | – | (24) | 126,023 |
| Southeastern Europe | 57,465 | – | 29,425 | (19,519) | – | (1,091) | 66,280 |
| CIS | 167,614 | – | 54,322 | (35,316) | – | (11,559) | 175,062 |
| **Total** | **922,102** | **(9)** | **703,799** | **(346,274)** | **(86,589)** | **(22,068)** | **1,170,961** |

*1 Allocation including direct write-downs and income on written down claims.*
*2 Usage including direct write-downs and income on written down claims.*

Loans and advances as well as loan loss provisions according to Basel II asset classes are shown in the following table:

| 31.12.2008<br>€000 | Carrying amount | Individual loan loss provisions | Portfolio-based loan loss provisions | Net carrying amount | Individually impaired assets | Fair value |
|---|---|---|---|---|---|---|
| Financial institutions | 9,038,096 | 4,050 | 301 | 9,033,745 | 16,253 | 10,308,502 |
| Sovereigns | 1,103,929 | 2,153 | – | 1,101,776 | 6,025 | 1,087,379 |
| Corporate customers – large corporates | 29,564,406 | 506,757 | 178,778 | 28,878,871 | 1,428,291 | 29,110,585 |
| Corporate customers – small business | 5,056,611 | 117,988 | 48,469 | 4,890,154 | 304,247 | 4,949,538 |
| Retail – private individuals | 19,268,185 | 368,400 | 300,727 | 18,599,058 | 500,821 | 18,879,855 |
| Retail – SME | 2,868,058 | 74,823 | 38,816 | 2,754,419 | 128,831 | 2,841,323 |
| Others | 41,115 | – | – | 41,115 | – | 41,187 |
| **Total** | **66,940,400** | **1,074,171** | **567,091** | **65,299,138** | **2,384,468** | **67,218,369** |

| 31.12.2007<br>€000 | Carrying amount | Individual loan loss provisions | Portfolio-based loan loss provisions | Net carrying amount | Individually impaired assets | Fair value |
|---|---|---|---|---|---|---|
| Financial institutions | 11,053,202 | 146 | 499 | 11,052,557 | 146 | 11,073,784 |
| Sovereigns | 966,311 | 1,769 | – | 964,542 | 32,130 | 966,670 |
| Corporate customers – large corporates | 25,693,069 | 357,001 | 108,175 | 25,227,893 | 1,121,536 | 25,419,625 |
| Corporate customers – small business | 4,496,309 | 97,602 | 29,399 | 4,369,308 | 267,926 | 4,418,535 |
| Retail – private individuals | 15,002,801 | 237,289 | 185,374 | 14,580,138 | 294,753 | 14,818,103 |
| Retail – SME | 2,594,310 | 60,919 | 24,993 | 2,508,398 | 261,942 | 2,644,057 |
| Others | 127,006 | – | – | 127,006 | – | 127,115 |
| **Total** | **59,933,008** | **754,726** | **348,440** | **58,829,842** | **1,978,433** | **59,467,888** |

### Overdue financial assets

The definition of default and the assessment of the expected recovery value are heavily influenced by the number of days payments are late. The following table shows the amount of overdue financial assets for different time bands.

| 31.12.2008 | | Overdue | | | | |
|---|---|---|---|---|---|---|
| €000 | Current | < 31 days | 31-90 days | 91-180 days | 181 days - 1year | > 1 year |
| Financial institutions | 8,953,066 | 2,741 | 66,036 | – | – | – |
| Sovereigns | 1,071,981 | 24,817 | 1,071 | 34 | 1 | – |
| Corporate customers – large corporates | 26,144,068 | 1,740,650 | 171,876 | 44,761 | 12,411 | 22,349 |
| Corporate customers – small business | 4,158,340 | 479,609 | 95,077 | 8,820 | 4,247 | 6,271 |
| Retail – private individuals | 16,344,457 | 1,615,384 | 440,690 | 223,072 | 46,938 | 96,823 |
| Retail – SME | 2,445,684 | 173,069 | 69,744 | 32,238 | 8,409 | 10,083 |
| Others | 41,011 | 102 | – | – | – | – |
| **Total** | **59,158,607** | **4,036,372** | **844,494** | **308,925** | **72,006** | **135,526** |

| 31.12.2007 | | Overdue | | | | |
|---|---|---|---|---|---|---|
| €000 | Current | < 31 days | 31-90 days | 91-180 days | 181 days - 1year | > 1 year |
| Financial institutions | 11,050,688 | 2,203 | 13 | – | – | 152 |
| Sovereigns | 835,723 | 97,151 | 329 | 130 | 139 | 708 |
| Corporate customers – large corporates | 23,441,156 | 971,556 | 72,603 | 23,677 | 21,743 | 40,798 |
| Corporate customers – small business | 3,699,707 | 382,460 | 55,695 | 12,988 | 16,943 | 60,590 |
| Retail – private individuals | 12,829,437 | 1,087,915 | 278,547 | 149,090 | 116,068 | 246,992 |
| Retail – SME | 1,966,313 | 205,480 | 71,258 | 23,258 | 18,774 | 47,285 |
| Others | 126,966 | 30 | 5 | 5 | – | – |
| **Total** | **53,949,989** | **2,746,793** | **478,449** | **209,150** | **173,667** | **396,526** |

**Impaired assets**

The following table shows the gross carrying amount of impaired assets, the amount of specifically allocated provisions, and the corresponding net value of available collateral:

| 31.12.2008 | | | Impairments and collaterals | | | |
|---|---|---|---|---|---|---|
| €000 | Individually impaired assets | Individual loan loss provisions (ILLP) | Individually impaired assets after deduction of ILLP | Individually impaired assets after deduction of ILLP | Collaterals for individually impaired assets | Interest on individually impaired assets |
| Financial institutions | 16,253 | 4,050 | 12,203 | 2,296 | 2,860 | 1,290 |
| Sovereigns | 6,025 | 2,153 | 3,872 | 20,088 | 3,824 | 1,380 |
| Corporate customers – large corporates | 1,428,291 | 506,757 | 921,534 | 1,197,200 | 1,541,124 | 71,489 |
| Corporate customers – small business | 304,247 | 117,988 | 186,259 | 384,781 | 642,352 | 21,840 |
| Retail – private individuals | 500,821 | 368,400 | 132,421 | 305,471 | 1,892,329 | 71,641 |
| Retail – SME | 128,831 | 74,823 | 54,008 | 118,088 | 394,053 | 10,885 |
| **Total** | **2,384,468** | **1,074,171** | **1,310,297** | **2,027,924** | **4,476,545** | **178,525** |

| 31.12.2007 | | | Impairments and collaterals | | | |
|---|---|---|---|---|---|---|
| €000 | Individually impaired assets | Individual loan loss provisions (ILLP) | Individually impaired assets after deduction of ILLP | Individually impaired assets after deduction of ILLP | Collaterals for individually impaired assets | Interest on individually impaired assets |
| Financial institutions | 146 | 146 | – | 690 | 113 | – |
| Sovereigns | 32,130 | 1,769 | 30,361 | 16,481 | 2,031 | 1,398 |
| Corporate customers – large corporates | 1,121,536 | 357,001 | 764,535 | 829,091 | 1,227,597 | 23,948 |
| Corporate customers – small business | 267,926 | 97,602 | 170,324 | 206,877 | 661,984 | 7,803 |
| Retail – private individuals | 294,753 | 237,289 | 57,463 | 217,111 | 1,617,352 | 8,689 |
| Retail – SME | 261,942 | 60,919 | 201,023 | 220,887 | 250,921 | 6,577 |
| **Total** | **1,978,433** | **754,726** | **1,223,707** | **1,491,137** | **3,759,998** | **48,415** |

The maximum credit risk exposure (including revocable and irrevocable credit lines) and the fair value of collaterals where reselling and/or repledging are allowed without default of debtor are shown in the following table:

| 31.12.2008 | Maximum credit exposure | | Fair value of collaterals |
|---|---|---|---|
| €000 | Net exposure | Commitments/ guarantees issued | Reselling/repledging allowed |
| Financial institutions | 9,033,745 | 563,827 | 1,806,935 |
| Sovereigns | 1,101,776 | 399,168 | 185,344 |
| Corporate customers – large corporates | 28,878,871 | 13,768,609 | 8,572,097 |
| Corporate customers – small business | 4,890,154 | 1,122,311 | 2,694,821 |
| Retail – private individuals | 18,599,058 | 1,974,038 | 3,342,562 |
| Retail – SME | 2,754,419 | 401,638 | 1,582,967 |
| Others | 41,113 | 12,941 | 992 |
| **Total** | **65,299,136** | **18,242,532** | **18,185,718** |

| 31.12.2007 | Maximum credit exposure | | Fair value of collaterals |
|---|---|---|---|
| €000 | Net exposure | Commitments/ guarantees issued | Reselling/repledging allowed[1] |
| Financial institutions | 11,052,557 | 1,638,285 | 990,679 |
| Sovereigns | 964,542 | 427,485 | 106,689 |
| Corporate customers – large corporates | 25,227,893 | 12,895,210 | 5,725,631 |
| Corporate customers – small business | 4,369,308 | 1,500,308 | 2,218,448 |
| Retail – private individuals | 14,580,138 | 1,373,965 | 2,266,432 |
| Retail – SME | 2,508,398 | 335,773 | 1,463,676 |
| Others | 127,006 | 1,569 | 20,506 |
| **Total** | **58,829,842** | **18,172,595** | **12,792,060** |

*1 Last year figures were adapted.*

## Country risk

Country risk includes transfer and convertibility risks as well as political risk. It arises from cross-border transactions and direct investments in foreign countries. As country risk is closely associated with the risk of sovereign institutions, it is measured based on the same ten-class rating model. This rating model includes a quantitative analysis of the economic risk of a particular country and a qualitative analysis of the political risk that a particular country represents. Country risk according to this definition is of lower importance to the group members of Raiffeisen International as they mainly do business within their own countries. However, additional intra-group country risk arises from equity participations and financing transactions/guarantees.

The regional breakdown of credit exposure reflects the broad diversification in European markets. The following table shows the regional distribution of credit exposure from banks and customers (incl. credit exposure from off-balance sheet contracts) by domicile of borrower:

| €000 | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|
| Russia | 13,773,229 | 13.8% | 12,080,598 | 13.8% |
| Slovakia | 12,171,277 | 12.2% | 10,219,109 | 11.7% |
| Hungary | 11,086,835 | 11.1% | 9,621,822 | 11.0% |
| Czech Republic | 8,566,498 | 8.6% | 7,232,043 | 8.3% |
| European Union[1] | 8,423,667 | 8.4% | 4,166,094 | 4.8% |
| Poland | 7,796,949 | 7.8% | 6,989,507 | 8.0% |
| Ukraine | 6,501,749 | 6.5% | 6,971,146 | 8.0% |
| Croatia | 6,041,691 | 6.1% | 5,861,508 | 6.7% |
| Romania | 6,827,516 | 6.8% | 5,838,450 | 6.7% |
| Bulgaria | 4,940,321 | 5.0% | 4,082,114 | 4.7% |
| Serbia | 4,672,976 | 4.7% | 3,721,398 | 4.3% |
| Bosnia and Herzegovina | 2,543,512 | 2.5% | 2,254,851 | 2.6% |
| Others | 1,583,060 | 1.6% | 8,372,334 | 9.6% |
| **Total** | **99,752,028** | **100.0%** | **87,410,975** | **100.0%** |

*1 EU-27 excluding member states listed in this table*

## Concentration risk

Raiffeisen International's lending portfolio is broad and well diversified by region and by industry. The ten largest corporate exposures (with a weighted average rating of 2.8) account for 3.6% of the corporate portfolio.

Within the scope of its risk policy and assessments of creditworthiness, Raiffeisen International also considers the borrower's industry. The following table covers the customer credit exposure (off-balance sheet items included, but without banks and central banks):

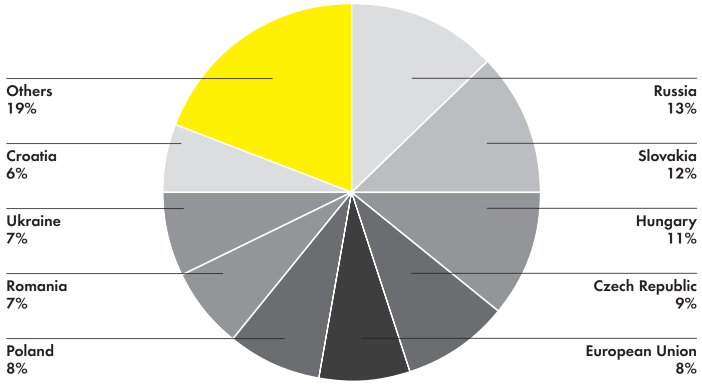
| €000 | 2008 | Proportion | 2007 | Proportion |
|---|---|---|---|---|
| Private households | 19,800,018 | 24.1% | 17,186,475 | 24.2% |
| Manufacturing | 15,502,923 | 18.9% | 12,908,553 | 18.2% |
| Retail and wholesale trade | 13,375,717 | 16.3% | 13,796,800 | 19.4% |
| Real estate | 9,090,099 | 11.1% | 6,952,173 | 9.8% |
| Public administration and social insurance institutions | 8,009,361 | 9.8% | 5,821,176 | 8.2% |
| Construction | 4,893,960 | 6.0% | 4,179,737 | 5.9% |
| Banking and insurance | 3,490,157 | 4.2% | 3,217,890 | 4.5% |
| Communications and information transmission | 3,361,279 | 4.1% | 2,929,183 | 4.1% |
| Other | 4,559,443 | 5.5% | 4,126,503 | 5.8% |
| **Total** | **82,082,957** | **100.0%** | **71,118,489** | **100.0%** |

### Counterparty credit risk

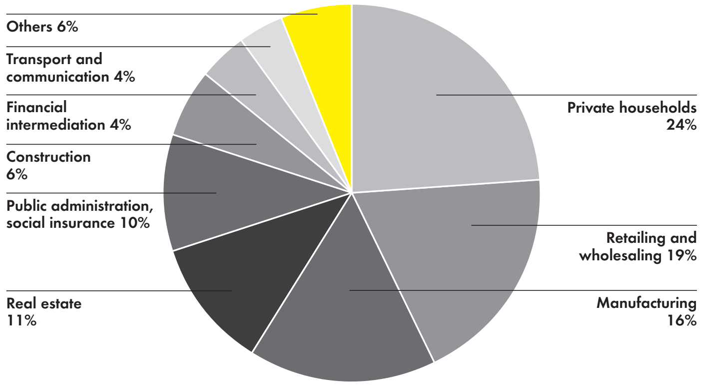
If a counterparty in derivative, repurchase, securities or commodities lending or borrowing transactions defaults then the bank can suffer losses when an equivalent contract is re-established with another counterparty. In Raiffeisen International this risk is measured by the mark-to-market approach where a predefined add-on is added to the current positive fair value of the contract in order to account for potential future changes. When assigning internal risk capital these price changes are calculated based specifically for different contract types based on historical market price changes in the previous two years.

For derivative contracts the standard lending approval process applies as well where the same risk classification, limitation, and monitoring process is used as in the bank's other credit business. For instance, the weighted nominal exposure of derivative contracts is added to the customers' total exposure in the limit application and monitoring process as well as in the calculation and allocation of internal capital.

### Exposure to customers by geographical region (including off-balance sheet)




### Non-bank credit exposure (including off-balance sheet items) by industry



In order to reduce counterparty credit risk the bank uses credit risk mitigation techniques like netting agreements and collateralisation. In general, Raiffeisen International strives to establish standardized ISDA master agreements with all counterparties in order to provide full risk coverage for positive fair values on a daily basis.

## Market risk

Market risk is defined as the risk of possible losses arising from changes in the market due to fluctuating or changing interest rates, foreign exchange rates, share prices and prices in general. This risk category encompasses both trading book and banking book positions. Risky positions are the result either of business done for customers or of proprietary investments in such instruments.

Market risk at Raiffeisen International is monitored and managed by RZB within the scope of a service level agreement (SLA). The rules and procedures for the management of market risks are defined by RZB on a Group-wide basis and endorsed by the Managing Board of Raiffeisen International Bank-Holding AG. All network banks of Raiffeisen International have market risk management departments. Those departments are responsible for day-to-day limit monitoring and weekly reporting to RZB.

Raiffeisen International approves, measures, monitors and manages all market risks by setting a variety of limits in consultation with the RZB Group. The overall limit is set by the Managing Board on the basis of the bank's risk-bearing capacity and income budgeting. This limit is apportioned on the basis of a coordinated proposal made by the treasury department, market risk management, and the responsible member of the Managing Board in the bank's weekly market risk committee. The individual limits set at book level vary according to the different risk factors. Besides value-at-risk (VaR) limits, those limits may include volume and position limits as well as sensitivity limits (basis-point value, delta, gamma, vega) and stop-loss limits, depending on the type of transaction. All treasury products in which open positions can be held by the bank are listed in the product catalogue. New products are added to this list only after running through the Product Approval Process (PAP). Options may only be entered into by appropriately trained dealers.

Value-at-risk is of central importance in setting limits. It is calculated weekly for Raiffeisen International using a variance-covariance matrix approach. In this calculation the Group uses a confidence level of 99 percent, sets the holding period to 10 days, and derives volatilities and correlations from historical market data of one business year. The accuracy and reliability of this value-at-risk approach which is based on past market developments is checked using appropriate backtesting.

Value-at-risk figures forecast maximum losses under normal market conditions but do not provide any specific information about the effects of exceptionally extreme market movements. To take such events into account, Raiffeisen International carries out weekly defined stress tests focusing on the biggest daily market movements in the preceding five years. With stress scenarios the Group simulates crisis situations and major fluctuations in market parameters and computes their effect on the its current positions. Stress tests consequently deliver important results for the management of risks (especially on hidden market risk concentrations).

**Market risk in the trading book**

Market risk in Raiffeisen International's trading books depends primarily on currency risk, which results from hedging positions entered by the Asset/Liability Management Committee offsetting the risk of changes in the value of foreign-currency denominated equity investments made in foreign Group units. This risk has increased significantly during the last year due to high fluctuations in foreign exchange rates.

Interest rate risk and price risks (e.g. stocks and funds) are also important, whereas commodity risk is not material at all. The table below provides value-at-risk figures (99%, 10-day) by risk type for market risk in the trading book of the Raiffeisen International:

| €000 | VaR as of 31.12.2008 | Average VaR | Minimum VaR | Maximum VaR |
|---|---|---|---|---|
| Interest rate risk | 18,586 | 8,200 | 3,806 | 19,301 |
| Price risk | 3,020 | 3,863 | 2,690 | 5,486 |
| Currency risk | 258,384 | 112,981 | 38,699 | 258,384 |
| of which currency risk without capital hedge | 15,554 | 4,066 | 582 | 16,153 |

The following table shows the same statistics on market risks in the trading book for the year 2007.

| €000 | VaR as of 31.12.2007 | Average VaR | Minimum VaR | Maximum VaR |
|---|---|---|---|---|
| Interest rate risk | 8,023 | 8,422 | 5,677 | 11,408 |
| Price risk | 3,489 | 2,225 | 686 | 4,430 |
| Currency risk | 38,553 | 31,358 | 24,119 | 39,802 |
| of which currency risk without capital hedge | 430 | 976 | 279 | 2,489 |

The own funds requirement for the trading book is calculated using the standardized approach as defined in Austria's solvability directive.

### Market risk in the banking book

Interest rate risk in the banking book arises from different maturities and repricing schedules of Raiffeisen International's assets and the corresponding liabilities (i.e. deposits and refinancing on debt and capital markets). This risk in particular is due to different interest rate sensitivities, rate adjustments, and other optionality of expected cash flows. It is mainly hedged by a combination of on- and off-balance sheet transactions where the Group uses in particular interest rate swaps and – to a smaller extent – also interest rate forwards and interest rate options. Balance sheet management is a core task of the central Global Treasury department and individual network banks, which receive assistance from asset/liability management committees. They base their decisions on various interest income analyzes and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and the bank's overall risk appetite.

Interest rate risk in the banking book is measured in a value-at-risk framework in Raiffeisen International. In addition it uses other established tools for nominal and interest rate gap analyzes as well.

The following table shows the change in the present value of Raiffeisen International's banking book in € thousand given a one-basis-point interest rate increase:

| Change of present value 31.12.2008 | 6-12 months | > 1-2 years | > 2-5 years | > 5 years |
|---|---|---|---|---|
| EUR | 33.1 | 42.3 | 105.3 | 56.5 |
| USD | 60.0 | 0.2 | 349.2 | 160.4 |
| Other | 29.4 | 36.9 | 48.4 | 18.4 |

| Change of present value 31.12.2007 | 6-12 months | > 1-2 years | > 2-5 years | > 5 years |
|---|---|---|---|---|
| EUR | 0.6 | (0.9) | (36.4) | (16.6) |
| USD | (9.2) | (7.5) | 65.5 | (114.0) |
| Other | (13.0) | (68.1) | (162.1) | (166.9) |

## Liquidity risk

Banks perform maturity transformation as an important role for international financial markets. The need for maturity transformation arises from the needs of depositors to access their funds within short notice and the desire of borrowers for long term credits. This function constantly results in positive or negative liquidity gaps for different maturities that are managed through transactions with other market participants under normal market conditions. Liquidity risk is defined as the risk that the bank could be unable to meet its current and future financial obligations in full or in good time. Liquidity risk therefore results from the risk that, for example, refinancing can only be carried out at disadvantageous conditions or not at all (funding liquidity risk). Other examples are situations in which assets have to be sold at short notice at a large discount or in which customer repayments in the lending business are not made on schedule. Also many committed lines might be unexpectedly drawn at once or deposits could be unexpectedly withdrawn on a large scale (short-term liquidity risk).

Liquidity management, i.e. ensuring that the bank meets is obligations at all times, is performed both centrally by Raiffeisen International and on a decentralised basis by the local banks. An internal monitoring system records and analyzes cash flows by currency for each group member and globally on a weekly basis. Based on this data, the bank creates liquidity balances, and analyzes whether the Group's short- and medium-term liquidity situation always conforms to legal regulations on liquidity levels and defined internal liquidity limits. Liquidity analyzes also include simulations on the sensitivity of liabilities and the liquidity of assets as well as defined liquidity crises in scenario-based cash flow forecasts. All these analyzes are discussed in the Group's Asset/Liability Management Committee.

### Short-term liquidity risk

The following report shows cumulative excess liquidity and the ratio of due assets to liabilities (liquidity ratio) for select maturities, taking into account balance sheet items and off-balance-sheet transactions. Based on expert opinions, statistical analyzes and country specifics, this process also incorporates cautious estimates on the liquidation of defined assets or on the so-called sediment of customer deposits. These parameters have been updated 2008 according to the exceptional market circumstances in this year.

| €000 | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| **Maturity** | **1 week** | **1 month** | **1 year** | **1 week** | **1 month** | **1 year** |
| Liquidity gap | 11,017,694 | 14,326,032 | 12,367,631 | 5,613,082 | 6,299,716 | (2,975,700) |
| Liquidity ratio | 247% | 220% | 141% | 151% | 141% | 92% |

Internal limits have been established for each Group unit to limit liquidity risk. They require a positive short- and medium-term liquidity gap (subject to conservative assumptions regarding the saleability of liquid assets and withdrawals on the liabilities side of the balance sheet). In addition the Group maintains extensive holdings of liquid securities to ensure liquidity in various currencies and favour assets eligible in tender transactions in the credit business. In the case of a liquidity shortage, emergency plans come into force. In particular, prioritised action lists for handling liquidity shortages (also with regard to the publicity impact) exist for all major Group members.

### Funding liquidity risk

Funding liquidity risk is mainly driven by changes in the risk appetite of lenders or by rating migrations of a bank that seeks external funding. Raiffeisen International's banking activities are refinanced by combining the placing power and know-how of RZB AG as parent credit institution and the retail franchise of deposit-taking network banks and their own issuing plans. While such issues decreased during the fourth quarter 2008 due to the economic environment, the focus is on the extension and safeguarding of customer deposits.

Refinancing costs would rise when a rating downgrade of these banks occurs and Raiffeisen International would have to pay higher risk premiums to refinance its assets. Funding and long-term refinancing is also driven by money supply. Sometimes funds are available more cheaply as risk premiums are low. At other times they are more expensive as credit spreads have widened.

These risks are managed first of all by asset-liabilities committees of Raiffeisen International and RZB Group. Their main task is the coordination of funding plans for the year ahead and longer horizons. Moreover, Raiffeisen International coordinates the medium-term and long-term borrowing activities of Group members through syndicated loans, bilateral funding agreements with banks, and financing facilities of supranational institutions. These funding sources are based on long-term business relationships and provide much more stable conditions than bond or credit derivative markets.

The following table shows a breakdown of cash flows according to the contractual maturity of financial liabilities:

| **31.12.2008 €000** | **Carrying amount** | **Contractual cash flows** | **< 3 months** | **3-12 months** | **> 1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | **76,160,553** | **83,516,010** | **47,056,182** | **15,032,868** | **18,776,600** | **2,650,360** |
| Liabilities to banks | 26,213,164 | 29,113,564 | 7,229,421 | 6,962,430 | 13,947,698 | 974,015 |
| Liabilities to customers | 44,205,905 | 47,874,345 | 38,510,884 | 7,085,415 | 2,084,907 | 193,139 |
| Securitized liabilities | 3,393,383 | 3,781,616 | 575,331 | 910,727 | 1,866,544 | 429,014 |
| Other liabilities | 663,645 | 769,735 | 720,647 | 30,918 | 6,257 | 11,913 |
| Subordinated capital | 1,684,456 | 1,976,750 | 19,899 | 43,378 | 871,194 | 1,042,279 |
| **Derivative liabilities** | **2,281,459** | **86,753,084** | **29,358,845** | **30,360,762** | **25,794,649** | **1,238,828** |
| Derivatives in the trading book | 1,449,562 | 74,926,511 | 24,624,827 | 28,063,898 | 21,115,547 | 1,122,239 |
| Hedging derivatives | 50,890 | 304,177 | 16,028 | 166,667 | 96,297 | 25,185 |
| Other derivatives | 778,811 | 11,520,200 | 4,715,794 | 2,130,197 | 4,582,805 | 91,404 |
| Credit derivatives | 2,196 | 2,196 | 2,196 | – | – | – |

| **31.12.2007 €000** | **Carrying amount** | **Contractual cash flows** | **< 3 months** | **3-12 months** | **> 1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| **Non-derivative liabilities** | **65,149,834** | **67,688,715** | **40,464,395** | **11,610,824** | **13,188,145** | **2,425,351** |
| Liabilities to banks | 19,926,970 | 21,255,314 | 5,253,126 | 5,957,294 | 9,271,504 | 773,389 |
| Liabilities to customers | 40,457,266 | 40,725,884 | 33,600,771 | 5,111,125 | 1,837,511 | 176,477 |
| Securitized liabilities | 2,320,428 | 2,752,326 | 560,347 | 429,141 | 1,518,443 | 244,394 |
| Other liabilities | 913,404 | 1,136,945 | 1,034,604 | 62,543 | 25,309 | 14,489 |
| Subordinated capital | 1,531,766 | 1,818,247 | 15,546 | 50,722 | 535,378 | 1,216,601 |
| **Derivative liabilities** | **655,827** | **36,103,731** | **11,988,956** | **15,816,516** | **7,932,366** | **365,894** |
| Derivatives in the trading book | 501,561 | 26,904,600 | 6,608,262 | 13,335,521 | 6,660,002 | 300,814 |
| Hedging derivatives | 8,323 | 270,503 | 3,262 | 247,677 | 19,564 | – |
| Other derivatives | 145,943 | 8,928,629 | 5,377,432 | 2,233,318 | 1,252,799 | 65,080 |

# Operational risk

In line with Basel II, operational risk is defined as the risk of unexpected losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. In this risk category Raiffeisen International manages internal risk drivers like unauthorized activities, fraud or theft, execution and process errors, or business disruption and system failures. External factors are managed such as damage to physical assets or consciously conducted human fraud.

Operational risk is analyzed and managed on the basis of the Group's own historical loss data and the results of risk self assessments. Raiffeisen International implements a centralised - decentralised system for operational risk management. In this process, a central operational risk management function defines all basic principles and minimum requirements, which then are implemented locally in the native language of individual members of Raiffeisen International.

As with other risk types the principle of firewalling between risk management and risk controlling is also applied to operational risk in Raiffeisen International. Operational risk controlling units are mainly responsible for the implementation and refinement of methods for operational risk management in different Group members (e.g. performing self assessment, defining and monitoring KRIs, etc.) and for reporting to the central operational risk controlling function. Business line managers are the persons responsible for managing and mitigating operational risks. They decide on the application of operational risk steering actions such as buying insurance and the use of further risk mitigating instruments.

**Risk identification**

An important task for controlling operational risks is identifying and evaluating risky areas which might endanger the bank's existence if a loss occurs (but where losses are unlikely to be realized) and also areas where losses are more likely to happen frequently (but are not threatening the bank's existence).

Assessment is executed on the corporate level for each Group member, where all operational risk categories and business functions are assessed in a two-dimensional matrix. All Group members assign ratings for each combination of operational risk category and business function according to their estimation of the total annual loss for high probability/low impact events and low probability/high impact incidents. Low probability/high impact events are quantified by a Group-wide scenario analysis framework that includes the simulation of up to ten specific scenarios. Each entity is furthermore required to run additional scenarios depending on the individual risk profile and local specifics.

**Monitoring**

Key Risk Indicators (*KRI*) are measurable quantities which are used to monitor and predict operational risk events. Key risk indicators are specifically tailored to all network units as well. A common catalogue of key risk indicators which is defined by the head office for internal benchmarking purposes is mandatory for all Group members. All network units then add additional relevant KRIs and define thresholds (two levels of thresholds have to be defined for implementing an early warning system) as most appropriate for their business.

Loss data is collected in a central database called ROCO (Raiffeisen Operational Risk Controlling) in a structured and homogeneous Group-wide form according to the event type for each business field. Collecting losses stemming from operational risks is a prerequisite for implementing a statistical loss distribution model and a minimum requirement for implementing the statutory Standardized Approach. Furthermore, loss data (and near misses) is used to create and validate operational risk scenarios and for exchange with international data pools to develop advanced operational risk management tools. A general risk report which is presented to the Group Risk Committee semiannually provides a comprehensive overview on operational risks.

**Quantification and mitigation**

Raiffeisen International currently calculates regulatory capital requirements for operational risks according to the Basel II framework by combining for a limited period the standardized approach *(STA)* with the basic indicator approach *(BIA)*. Most units use the standardized approach which thus also accounts for the lion's share of regulatory capital requirements for operational risk. Mainly the basic indicator approach is used just by two group members, namely the network bank in Croatia and Ukraine. The Ukrainian network bank, *Raiffeisen Bank Aval*, runs through the same implementation plan as other members of Raiffeisen International already did which will take several years due to the size of the bank. *Raiffeisenbank Austria d.d.*, Zagreb, applies the standardized approach as from 1 January 2009 on.

Risk reduction in operational risks is initiated by business managers who decide on preventive actions like risk mitigation or risk transfer. These managers also define contingency plans if these scenarios would become real and nominate responsible persons/departments for initiating the defined actions. In addition, several dedicated organisational units provide support to business units for reducing operational risks. IT security, for example, develops procedures that ensure integrity and confidentiality for all kinds of data. Fraud management is another one of these functions in the retail business field, and it is dedicated to proactive monitoring and preventing fraud attempts. Raiffeisen International also executes an extensive staff training programme and has different emergency plans and back-up systems in place. Finally, the *SixSigma* method is applied for business process improvement.

# Other disclosures

## (45) Derivative financial instruments

The total volume of unsettled financial instruments as of 31 December 2008 breaks down as follows:

| €000 | Nominal amount by maturity Up to 1 year | More than 1 year, up to 5 years | More than 5 years | Total | Fair values Positive | Negative |
|---|---|---|---|---|---|---|
| **Total** | **75,708,573** | **32,334,647** | **2,771,599** | **110,814,819** | **2,360,110** | **(2,281,458)** |
| **Interest rate contracts** | **46,292,914** | **25,001,665** | **2,698,916** | **73,993,495** | **610,051** | **(704,155)** |
| **OTC products** | | | | | | |
| Interest rate swaps | 9,917,902 | 19,631,914 | 2,698,916 | 32,248,732 | 536,066 | (628,649) |
| Interest rate futures | 36,075,682 | 5,369,151 | – | 41,444,833 | 73,982 | (71,069) |
| Interest rate options | – | 600 | – | 600 | 3 | (3) |
| Other similar contracts | – | – | – | – | – | – |
| **Products trading on stock exchange** | | | | | | |
| Interest rate futures | 299,330 | – | – | 299,330 | – | (4,434) |
| **Foreign exchange rate contracts** | **29,194,494** | **7,096,086** | **72,683** | **36,363,265** | **1,719,632** | **(1,561,062)** |
| **OTC products** | | | | | | |
| Cross-currency interest rate swaps | 1,058,969 | 4,847,553 | 72,683 | 5,979,205 | 256,182 | (213,936) |
| Forward foreign exchange contracts | 19,910,362 | 1,263,725 | – | 21,174,087 | 1,065,006 | (881,662) |
| Currency options – purchased | 2,700,804 | 484,499 | – | 3,185,303 | 250,970 | – |
| Currency options – sold | 2,617,208 | 500,309 | – | 3,117,517 | – | (257,154) |
| Other similar currency contracts | 2,862,053 | – | – | 2,862,053 | 146,211 | (207,213) |
| **Products traded on stock exchange** | | | | | | |
| Currency contracts (futures) | 45,098 | – | – | 45,098 | 1,263 | (1,097) |
| **Equity/index contracts** | **126,711** | **29,114** | **–** | **155,825** | **20,194** | **(9,107)** |
| **OTC products** | | | | | | |
| Equity-/index-based options | 91,183 | 29,114 | – | 120,297 | 18,527 | (7,209) |
| Other similar contracts | 22,214 | – | – | 22,214 | 9 | (7) |
| **Products traded on stock exchange** | | | | | | |
| Equity/index futures | 13,314 | – | – | 13,314 | 1,658 | (1,891) |
| **Commodities** | **19,454** | **–** | **–** | **19,454** | **5,031** | **(4,938)** |
| **Credit derivatives** | **75,000** | **207,782** | **–** | **282,782** | **5,202** | **(2,196)** |

The total volume of unsettled financial instruments as of 31 December 2007 breaks down as follows:

| €000 | Nominal amount by maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| | Up to 1 year | More than 1 year, up to 5 years | More than 5 years | Total | Positive | Negative |
| **Total** | **49,313,879** | **18,634,221** | **2,184,927** | **70,133,028** | **620,695** | **(655,828)** |
| **Interest rate contracts** | **9,758,318** | **13,903,099** | **2,123,087** | **25,784,504** | **166,061** | **(222,828)** |
| **OTC products** | | | | | | |
| Interest rate swaps | 3,734,938 | 8,045,382 | 1,796,828 | 13,577,148 | 150,572 | (211,307) |
| Interest rate futures | 5,816,540 | 5,565,543 | 279,431 | 11,661,514 | 11,122 | (11,305) |
| Interest rate options | – | 600 | – | 600 | 5 | (6) |
| Other similar contracts | – | 145,787 | 23,414 | 169,201 | – | (210) |
| **Products trading on stock exchange** | | | | | | |
| Interest rate futures | 206,840 | 145,787 | 23,414 | 376,041 | 4,362 | – |
| **Foreign exchange rate contracts** | **39,423,479** | **4,693,838** | **31,374** | **44,148,692** | **447,314** | **(425,145)** |
| **OTC products** | | | | | | |
| Cross-currency interest rate swaps | 1,819,628 | 1,651,273 | 27,516 | 3,498,417 | 23,993 | (32,360) |
| Forward foreign exchange contracts | 24,084,936 | 1,922,271 | – | 26,007,207 | 329,263 | (309,621) |
| Currency options – purchased | 3,836,018 | 540,620 | 3,858 | 4,380,496 | 76,354 | – |
| Currency options – sold | 3,485,662 | 352,356 | – | 3,838,019 | – | (72,891) |
| Other similar currency contracts | 5,818,463 | 227,318 | – | 6,045,781 | 14,708 | (9,412) |
| **Products traded on stock exchange** | | | | | | |
| Currency contracts (futures) | 378,772 | – | – | 378,772 | 2,996 | (861) |
| **Equity/index contracts** | **120,039** | **37,284** | **30,466** | **187,789** | **6,600** | **(7,215)** |
| **OTC products** | | | | | | |
| Equity/index-based options | 8,116 | 37,284 | – | 45,400 | 6,364 | (6,090) |
| Other similar contracts | 103,187 | – | 15,233 | 118,420 | 87 | (195) |
| **Products traded on stock exchange** | | | | | | |
| Equity/index futures | 8,736 | – | 15,233 | 23,969 | 149 | (930) |
| **Commodities** | **12,043** | **–** | **–** | **12,043** | **720** | **(640)** |

# (46) Fair values of financial instruments not reported at fair value

Fair values different from the carrying amount are calculated for fixed-interest loans and advances to and deposits from banks or customers, if the remaining maturity is more than one year. Variable-interest loans and advances and deposits are taken into account if they have an interest rollover period of more than one year. The fair value of loans and advances is calculated by discounting future cash flows and using interest rates at which similar loans and advances with the same maturities could have been granted to customers with similar creditworthiness.

Additionally, the specific credit risk and collaterals are considered for the calculation of fair values for loans and advances.

| €000 | 2008 Fair value | 2008 Carrying amount | 2008 Difference | 2007 Fair value | 2007 Carrying amount | 2007 Difference |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash reserve | 7,129,860 | 7,129,860 | – | 3,664,187 | 3,664,187 | – |
| Loans and advances to banks | 10,308,502 | 9,038,096 | 1,270,406 | 11,073,784 | 11,053,202 | 20,582 |
| Loans and advances to customers | 56,909,867 | 57,902,304 | (992,437) | 48,394,102 | 48,879,806 | (485,704) |
| Financial investments | 3,056,122 | 3,080,937 | (24,815) | 2,585,899 | 2,591,252 | (5,353) |
| Intangible and tangible fixed assets | 2,216,285 | 2,215,657 | 628 | 2,293,250 | 2,290,385 | 2,864 |
| Other assets | 985,075 | 985,075 | – | 899,276 | 899,276 | – |
| **Liabilities** | | | | | | |
| Deposits from banks | 26,203,796 | 26,213,163 | (9,367) | 19,914,617 | 19,926,970 | (12,352) |
| Deposits from customers | 44,211,175 | 44,205,906 | 5,269 | 40,457,753 | 40,457,266 | 487 |
| Liabilities evidenced by paper | 3,399,337 | 3,393,383 | 5,954 | 2,303,509 | 2,320,428 | (16,919) |
| Subordinated capital | 1,684,727 | 1,684,456 | 271 | 1,531,903 | 1,531,766 | 137 |
| Other liabilities | 653,073 | 653,073 | – | 873,955 | 873,955 | – |

# (47) Fair values of financial instruments reported at fair value

| €000 | 2008 Quoted market prices (Level I) | 2008 Valuation techniques based on market data (Level II) | 2008 Valuation techniques not based on market data (Level III) | 2007 Quoted market prices (Level I) | 2007 Valuation techniques based on market data (Level II) | 2007 Valuation techniques not based on market data (Level III) |
|---|---|---|---|---|---|---|
| **Trading assets** | **2,623,449** | **1,774,070** | **214,026** | **2,315,324** | **570,292** | **10,073** |
| Positive fair values of derivatives[1] | 1,078,688 | 1,052,023 | 212,823 | 235,816 | 371,775 | 7,106 |
| Shares and other variable-yield securities | 35,771 | – | 1,203 | 75,001 | – | 2,967 |
| Bonds, notes and other fixed-interest securities | 1,508,990 | 722,047 | – | 1,990,615 | 198,518 | – |
| Call/time deposits for trading purposes | – | – | – | 13,892 | – | – |
| **Financial assets at fair value through profit or loss** | **1,567,802** | **471,445** | **2,842** | **1,341,525** | **222,063** | **2,568** |
| Shares and other variable-yield securities | 64,275 | – | 2,842 | 99,158 | – | 2,568 |
| Bonds, notes and other fixed-interest securities | 1,503,527 | 471,445 | – | 1,242,367 | 222,063 | – |
| **Financial assets available-for-sale** | **16,108** | **–** | **–** | **–** | **–** | **–** |
| Other interests[2] | 16,108 | – | – | – | – | – |
| **Derivatives (hedging)** | **16,366** | **211** | **–** | **–** | **5,997** | **–** |
| Positive fair values of derivatives from hedge accounting | 16,366 | 211 | – | – | 5,997 | – |

*1 Including other derivatives.*
*2 Includes only securities traded on the stock exchange.*

| €000 | 2008 Quoted market prices (Level I) | 2008 Valuation techniques based on market data (Level II) | 2008 Valuation techniques not based on market data (Level III) | 2007 Quoted market prices (Level I) | 2007 Valuation techniques based on market data (Level II) | 2007 Valuation techniques not based on market data (Level III) |
|---|---|---|---|---|---|---|
| **Trading liabilities** | **958,708** | **1,277,753** | **4,681** | **337,213** | **347,662** | **2,077** |
| Negative fair values of other derivative financial instruments[1] | 958,708 | 1,267,180 | 4,681 | 337,213 | 308,213 | 2,077 |
| Call/time deposits for trading purposes | – | 10,572 | – | – | 39,449 | – |
| **Derivatives (hedging)** | **49,531** | **1,358** | **–** | **–** | **8,323** | **–** |
| Negative fair values of derivatives for hedge accounting | 49,531 | 1,358 | – | – | 8,323 | – |

*1 Including other derivatives.*

# (48) Contingent liabilities and commitments

| €000 | 2008 | 2007 |
|---|---|---|
| **Contingent liabilities** | **5,052,439** | **4,598,457** |
| Acceptances and endorsements | 2,072 | 16,019 |
| Credit guarantees | 1,367,990 | 1,413,144 |
| Other guarantees | 2,808,884 | 2,504,595 |
| Letters of credit (documentary business) | 856,480 | 659,679 |
| Other contingent liabilities | 17,013 | 5,020 |
| **Commitments** | **6,342,881** | **8,080,891** |
| Irrevocable credit lines and stand-by facilities | 6,342,881 | 8,080,891 |
| Up to 1 year | 3,117,631 | 3,849,873 |
| More than 1 year | 3,225,250 | 4,231,018 |

The following table contains revocable credit lines which currently bear no credit risk:

| €000 | 2008 | 2007 |
|---|---|---|
| **Revocable credit lines** | **6,847,212** | **5,493,246** |
| Up to 1 year | 2,814,303 | 1,418,254 |
| More than 1 year | 4,032,909 | 4,074,992 |

# (49) Fiduciary business

Fiduciary business not recognized in the balance sheet was concluded with the following volumes:

| €000 | 2008 | 2007 |
|---|---|---|
| Loans and advances to banks | 4,131 | 8,696 |
| Loans and advances to customers | 9,900 | 9,781 |
| Financial investments | 86 | 5,327 |
| Other fiduciary assets | 14,182 | 38,011 |
| **Fiduciary assets** | **28,299** | **61,815** |
| Deposits from banks | 310 | 552 |
| Deposits from customers | 15,113 | 23,839 |
| Other fiduciary liabilities | 12,876 | 37,424 |
| **Fiduciary liabilities** | **28,299** | **61,815** |

Fees income from fiduciary business amounted to € 8,391 thousand (2007: € 11,565 thousand). Fees expenses totalled € 2,487 thousand (2007: € 1,839 thousand).

The following table contains the funds managed by Raiffeisen International:

| €000 | 2008 | 2007 |
|---|---|---|
| **Retail investment funds** | **2,448,349** | **3,514,992** |
| Equity-based and balanced funds | 496,559 | 1,661,465 |
| Bond-based funds | 224,534 | 255,767 |
| Money-market funds | 649,906 | 688,523 |
| Others | 1,077,350 | 909,238 |
| **Special funds** | **293,435** | **49,413** |
| **Property-based funds** | **236,522** | **412,449** |
| **Total** | **2,978,306** | **3,976,854** |

# (50) Capital management and regulatory own funds

The most crucial control system for Raiffeisen Internal is *equity*. Raiffeisen International is not subject to the Austrian Banking Act, as on the one hand no banking licence is drawn and on the other hand this company is integrated in the RZB Group, which is already subject to regulatory monitoring. Nevertheless, the network banks of Raiffeisen International are subject to the local regulative equity regulations.

Equity and in a broader sense own funds serve as protection against unexpected losses. In terms of an orderly business control, the assignment of the management of Raiffeisen International is to guarantee capital adequacy. On the whole, Raiffeisen International uses basically the same control systems as RZB Group.

As Raiffeisen International is part of RZB Group, the main focus is on the core capital ratio. This control is monitored by the Managing Board.

Raiffeisen International uses target values for internal regulation. These incorporate all risk types, including trading book, foreign exchange, and operational risk. The local network banks are in charge of maintaining the local regulative targets, in accordance with the equity investment's management and corporate planning division.

The determination of the target values in relation to the compulsory minimum requirements needs additional control calculations. The department Risk Controlling calculates the value-at-risk in comparison with the risk taking capacity. Moreover, a balance between economic capital and the respective cover is drawn. These calculations assure that the capitalization and the capital target rate are consistent with the risk agreed to by the Group. Further details are stated in the risk report.

*Raiffeisen International Bank-Holding AG*, a subsidiary of *Raiffeisen Zentralbank Österreich Aktiengesellschaft*, does not have its own banking group as defined by the Austrian Banking Act (BWG). Therefore, it is not itself subject to the relevant regulatory requirements. However, the following figures are accounted for within the scope of RZB-Kreditinstitutsgruppe. The following figures are provided for information purposes only.

The own funds of Raiffeisen International according to the Austrian Banking Act (BWG) 1993/Amendment 2006 (Basel II) break down as follows (the values as of 31 December 2007 are based on Basel I, but are adapted for the reporting scheme):

| €000 | 2008 | 2007 |
|---|---|---|
| Paid-in capital | 3,036,600 | 3,056,925 |
| Earned capital | 1,290,740 | 1,259,099 |
| Minority interests | 1,260,522 | 1,079,089 |
| Hybrid tier 1 capital | 500,000 | 500,000 |
| Intangible fixed assets | (227,646) | (202,831) |
| **Core capital (tier 1 capital)** | **5,860,216** | **5,692,283** |
| Deductions from the core capital | (13,770) | (11,186) |
| **Eligible core capital (after deductions)** | **5,846,446** | **5,681,097** |
| Additional own funds according to Section 23 (1) 5 BWG | 149,338 | 91,001 |
| Provision excess of internal rating approach positions | 58,337 | – |
| Long-term subordinated own funds | 897,041 | 865,920 |
| **Additional own funds (tier 2 capital)** | **1,046,379** | **956,921** |
| Deductions from the additional own funds | (13,770) | (11,186) |
| **Eligible additional own funds (after deductions)** | **1,032,609** | **945,735** |
| Tier 2 capital available to be redesignated as tier 3 capital (tier 3 capital) | 112,455 | 57,430 |
| **Total own funds** | **6,991,510** | **6,684,262** |
| **Total own funds requirement** | **5,766,816** | **4,317,119** |
| Excess own funds | 1,224,695 | 2,367,142 |
| Excess cover ratio | 21.2% | 54.8% |
| Core capital ratio (tier 1), credit risk | 9.7% | 11.4% |
| Core capital ratio (tier 1), incl. market and operational risk | 8.1% | 10.5% |
| Own funds ratio | 9.7% | 12.4% |

The total own funds requirement is as follows (The figures as of 31 December 2007 are based on Basel I and are adapted to the new reporting scheme):

| €000 | 2008 | 2007 |
|---|---|---|
| **Risk-weighted assets according to Section 22 BWG** | **60,387,566** | **49,802,310** |
| of which 8 per cent minimum own funds for the credit risk according to Sections §§ 22a to 22h BWG | 4,831,005 | 3,984,185 |
| Standardized approach | 4,053,174 | – |
| Internal rating approach | 777,831 | – |
| Settlement risk | – | 8 |
| Own funds requirement for position risk in bonds, equities and commodities | 152,143 | 146,228 |
| Own funds requirement for open currency positions | 343,234 | 186,699 |
| Own funds requirement for the operational risk | 440,434 | – |
| **Total own funds requirement** | **5,766,816** | **4,317,119** |

Risk-weighted assets for the credit risk according to asset classes break down as follows:

| €000 | 2008 |
|---|---|
| **Risk-weighted assets according to Section 22 BWG on standardized approach** | **50,664,675** |
| Central governments and central banks | 3,927,463 |
| Regional governments | 498,400 |
| Public administration and non-profit organisations | 52,863 |
| Multilateral development banks | 27,500 |
| Banks | 1,824,288 |
| Corporates | 28,438,013 |
| Retail (including small and medium-sized entities) | 13,585,813 |
| Investment funds | 68,900 |
| Other positions | 2,241,438 |
| **Risk-weighted assets according to Section 22 BWG on internal rating approach** | **9,722,888** |
| Banks | 384,250 |
| Corporates | 9,334,400 |
| Equity exposures | 4,238 |
| **Total** | **60,387,566** |

# (51) Average number of staff

The average number of staff employed during the financial year (full-time equivalents) breaks down as follows:

| Full-time equivalents | 2008 | 2007 |
|---|---|---|
| Salaried employees | 59,565 | 53,632 |
| Wage earners | 1,889 | 1,918 |
| **Total** | **61,454** | **55,550** |

| Full-time equivalents | 2008 | 2007 |
|---|---|---|
| Central Europe | 13,265 | 12,079 |
| Southeastern Europe | 18,261 | 15,043 |
| CIS | 29,665 | 28,197 |
| Austria | 263 | 231 |
| **Total** | **61,454** | **55,550** |

# (52) Expenses on severance payments and retirement benefits

| €000 | 2008 | 2007 |
|---|---|---|
| Members of the Managing Board and senior staff | 466 | 4,380 |
| Other employees | 9,466 | 13,712 |
| **Total** | **9,932** | **18,092** |

The same regulations are in principle valid for members of the Managing Board and employees. These regulations provide from the part of the company a basic contribution to a pension fund and an additional contribution if the employee pays own contributions of the same amount. Three Managing Board members additionally have individual retirement benefits which are funded by business insurances.

In the case of termination of function or employment contract, two members of the Managing Board are entitled to receive severance payments according to the Salaried Employee Act (Angestelltengesetz), two members of the Managing Board according to contractual agreements and two members of the Managing Board according to the Company Retirement Plan Act (Betriebliches Mitarbeiter- und Selbständigenvorsorgegesetz). The entitlement to receive severance payments according to the Salaried Employee Act (Angestelltengesetz) and according to contractual agreements lapses with the exemption of one member of the Managing Board in case of termination by the employee.

Moreover, there exists a protection against the risk of occupational invalidity which is covered by a pension fund or by individual pension agreements secured through reinsurance.

# (53) Relations to key management

**Group relations of key management**

*Key management* refers to the Managing Board of *Raiffeisen International Bank-Holding AG,* the parent company, and *Raiffeisen Zentralbank Österreich Aktiengesellschaft*, the majority shareholder. Relations of *key management* to Raiffeisen International are as follows (respective fair values):

| €000 | 2008 | 2007 |
|---|---|---|
| Sight deposits | 581 | 283 |
| Bonds | 268 | 279 |
| Shares | 5,543 | 11,675 |
| Time deposits | 1,079 | 743 |
| Other claims | – | 18 |

The following table shows relations of close family members of key management to Raiffeisen International:

| €000 | 2008 | 2007 |
|---|---|---|
| Shares | 31 | 165 |

Beyond that, there are no further relations of Raiffeisen International to key management. Moreover, there is no compensation agreed between the company and their members of the Managing Board and Supervisory Board in the case of a takeover bid.

**Remuneration of members of the Managing Board**

The members of the Managing Board of *Raiffeisen International Bank-Holding AG* are remunerated as follows:

| €000 | 2008 | 2007 |
|---|---|---|
| Fixed and performance-based remunerations | 5,544 | 5,864 |
| Payments to pension funds and business insurances | 79 | 80 |
| Share-based payments (performance-based) | 3,676 | – |
| **Total** | **9,299** | **5,944** |

The table contains fixed remunerations, performance-based remunerations, remunerations for membership of boards of subsidiaries, bonuses, and payments in kind. In the financial year 2008, the share of performance-based remuneration components was 60.7 per cent (2007: 58.5 per cent). Performance-based remuneration components of the Managing Board consist of bonus payments which are linked to achieve the objectives regarding profit after tax, return on risk adjusted capital, cost/income ratio and to achieve the personal objectives that are agreed annually and for the first time of the amount of the allotment regarding SIP program. The value of the distributed shares amounts to 65.7 per cent of the performance based remuneration. There were no material changes in the principle for profit-sharing against the previous year.

The Chairman of the Managing Board is furthermore still working for the board of Raiffeisen Zentralbank. Remuneration stated in the above table covers also this position.

**Remuneration of members of the Supervisory Board**

The Annual General Meeting held on 10 June 2008 decided an annual remuneration for the members of the Supervisory Board in the amount of € 330 thousand and transferred the distribution to the Board itself. The members of the Supervisory Board settled the distribution in their meeting of 10 June, 2008 as follows: Chairman € 70 thousand, Deputy-Chairman € 60 thousand, members of the Supervisory Board € 50 thousand. Session fees were not paid.

In the financial year 2008, € 330 thousand were paid to the Supervisory Board. In the previous year, the members of the Supervisory Board received a remuneration of € 330 thousand.

Moreover, no contracts subject to approval in the meaning of Section 95 (5) items 12 Austrian Joint Stock Companies Act (AktG) were concluded with members of the Supervisory Board in the financial year 2007.

# (54) Boards

## Managing Board

| | First assignment | End of period |
|---|---|---|
| Herbert Stepic, CEO | 14 June 2001 | 13 June 2011 |
| Martin Grüll | 3 January 2005 | 2 January 2010 |
| Aris Bogdaneris | 1 October 2004 | 26 September 2009 |
| Rainer Franz | 20 January 2003 | 31 December 2009 |
| Peter Lennkh | 1 October 2004 | 26 September 2009 |
| Heinz Wiedner | 14 June 2001 | 13 June 2011 |

The members of the Managing Board have mandates in the Supervisory Board of quoted companies at home and abroad:

- Herbert Stepic: OMV AG, VAT Raiffeisen Bank Aval, Tatra banka a.s.
- Rainer Franz: Tatra banka a.s., VAT Raiffeisen Bank Aval
- Heinz Wiedner: VAT Raiffeisen Bank Aval
- Aris Bogdaneris: VAT Raiffeisen Bank Aval
- Martin Grüll: VAT Raiffeisen Bank Aval, OAO Priorbank
- Peter Lennkh: VAT Raiffeisen Bank Aval, OAO Priorbank

Individuals finishing the stage of life of 68 years are not able to be elected to a member of the Managing Board and may not be appointed for another functional period.

## Supervisory Board

| | First assignment | End of period |
|---|---|---|
| Walter Rothensteiner, Chairman | 11 May 2001 | AGM 2011 |
| Manfred Url, Deputy Chairman | 11 May 2001 | AGM 2011 |
| Karl Sevelda | 11 May 2001 | AGM 2011 |
| Patrick Butler | 28 September 2004 | AGM 2009 |
| Stewart D. Gager | 24 January 2005 | AGM 2009 |
| Johann Strobl | 10 June 2008 | AGM 2013 |

All members of the Supervisory Board declare themselves to be independent in the meaning of criteria of independence agreed by the Supervisory Board and in conformity with the Austrian Corporate Governance Codex. None of the members holds a more than 10 per cent share in the company.

Raiffeisen Zentralbank is entitled to send up to one third of the members of the Supervisory Board, insofar as it has a shareholding in Raiffeisen International. Individuals finishing the stage of life of 75 years are not able to be elected to a member of the Supervisory Board and may not be appointed for another functional period. In addition, individuals having more than 8 mandates in Supervisory Boards of quoted companies may not be elected. The chairmanship in the Supervisory Board of a quoted company is counted twice.

## Committees of the Supervisory Board

| Members of the Supervisory Board | **Working Committee** | **Audit Committee** | **Personnel Committee** |
|---|---|---|---|
| Walter Rothensteiner, Chairman | Chairman | Chairman | Chairman |
| Manfred Url, Deputy Chairman | Deputy Chairman | Deputy Chairman | Deputy Chairman |
| Karl Sevelda | – | Member | – |

The members of the Supervisory Board have further mandates in the Supervisory Board of quoted companies at home and abroad:

- Walter Rothensteiner: UNIQA Versicherungen AG
- Karl Sevelda: Bene AG, Unternehmens Invest AG

Vienna, 26 February 2009

The Managing Board

Herbert Stepic    Martin Grüll    Aris Bogdaneris

Rainer Franz    Peter Lennkh    Heinz Wiedner

# Audit opinion (independent auditors' report)

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Raiffeisen International Bank-Holding AG, Vienna, for the financial year from 1 January to 31 December 2008. These financial statements comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

# Report on Other Legal and Regulatory Requirements

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 27 February 2009

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Wilhelm Kovsca
Wirtschaftsprüfer

Rainer Hassler
Wirtschaftsprüfer

# List of fully consolidated companies

The following table shows a selection of operating companies of Raiffeisen International's consolidated group. The complete list of Raiffeisen International's equity participations is deposited with the Group parent's headquarters

| Company, domicile (country) | Subscribed capital in local currency | | Share | Type[1] |
|---|---|---|---|---|
| JLLC "Raiffeisen-leasing", Minsk (BY) | 4,300,250,000 | BYR | 83.9% | FI |
| OAO Priorbank, Minsk (BY) | 412,279,277,350 | BYR | 87.7% | BA |
| OOO "Raiffeisen Capital" Asset-Management Company, Moscow (RU) | 225,000,000 | RUB | 100.0% | FI |
| OOO Raiffeisen-Leasing, Moscow (RU) | 491,000,000 | RUB | 87.5% | FI |
| Raiffeisen Bank d.d. Bosna i Hercegovina, Sarajevo (BA) | 237,388,000 | BAM | 97.0% | BA |
| Raiffeisen Bank Kosovo J.S.C., Pristina (RS) | 58,000,000 | EUR | 100.0% | BA |
| Raiffeisen Bank Polska S.A., Warsaw (PL) | 998,018,370 | PLN | 100.0% | BA |
| Raiffeisen Bank S.A., Bucharest (RO) | 1,196,258,639 | RON | 99.5% | BA |
| Raiffeisen Bank Sh.a., Tirane (AL) | 4,348,232,686 | ALL | 100.0% | BA |
| Raiffeisen Bank Zrt., Budapest (HU) | 45,129,140,000 | HUF | 70.3% | BA |
| Raiffeisen banka a.d., Belgrade (RS) | 27,466,157,580 | RSD | 100.0% | BA |
| Raiffeisen Banka d.d., Maribor (SI) | 16,355,847 | EUR | 86.3% | BA |
| Raiffeisen Capital & Investment S.A., Bucharest (RO) | 1,600,000 | RON | 99.5% | FI |
| Raiffeisen Factoring Ltd., Sofia (BG) | 1,000,000 | BGN | 100.0% | FI |
| Raiffeisen Factoring Ltd., Zagreb (HR) | 15,000,000 | HRK | 73.4% | FI |
| Raiffeisen Invest d.o.o., Zagreb (HR) | 8,000,000 | HRK | 73.4% | FI |
| Raiffeisen Investment Fund Management Zrt., Budapest (HU) | 100,000,000 | HUF | 70.3% | FI |
| Raiffeisen Leasing Aval LLC, Kiev (UA) | 58,208,527 | UAH | 87.6% | FI |
| Raiffeisen Leasing Bulgaria OOD, Sofia (BG) | 5,900,000 | BGN | 81.1% | FI |
| Raiffeisen Leasing d.o.o., Belgrade (RS) | 226,544,550 | RSD | 87.5% | FI |
| Raiffeisen Leasing d.o.o., Ljubljana (SI) | 3,738,107 | EUR | 75.0% | FI |
| Raiffeisen Leasing d.o.o., Sarajevo (BA) | 7,087,590 | BAM | 85.8% | FI |
| Raiffeisen Leasing IFN S.A., Bucharest (RO) | 14,935,400 | RON | 87.2% | FI |
| Raiffeisen Leasing sh.a., Tirane (AL) | 123,000,000 | ALL | 93.8% | FI |
| Raiffeisen Lízing Zrt., Budapest (HU) | 225,620,000 | HUF | 72.7% | BA |
| Raiffeisen Mandatory Pension Fund Management Company d.d., Zagreb (HR) | 110,000,000 | HRK | 73.4% | FI |
| Raiffeisenbank (Bulgaria) EAD, Sofia (BG) | 544,773,052 | BGN | 100.0% | BA |
| Raiffeisenbank a.s., Prague (CZ) | 6,564,000,000 | CZK | 51.0% | BA |
| Raiffeisenbank Austria d.d., Zagreb (HR) | 3,698,932,000 | HRK | 73.4% | BA |
| Raiffeisen-Leasing d.o.o., Zagreb (HR) | 30,000,000 | HRK | 74.2% | FI |
| Raiffeisen-Leasing Polska S.A., Warsaw (PL) | 150,003,800 | PLN | 87.5% | FI |
| Raiffeisen-Leasing Real Estate, s.r.o., Prague (CZ) | 10,000,000 | CZK | 69.0% | FI |
| Raiffeisen-Leasing, spolecnost s.r.o., Prague (CZ) | 50,000,000 | CZK | 63.0% | FI |
| RI Eastern European Finance B.V., Amsterdam (NL) | 400,000 | EUR | 100.0% | FI |
| RI FINANCE (JERSEY) LIMITED, St. Helier (JE) | 500,000,002 | EUR | <0.1% | FI |
| Tatra Asset Management sprav.spol., a.s., Bratislava (SK) | 50,000,000 | SKK | 63.0% | FI |
| Tatra banka a.s., Bratislava (SK) | 38,319,164 | EUR | 63.0% | BA |
| Tatra Leasing spol. s r.o., Bratislava (SK) | 200,000,000 | SKK | 69.3% | FI |
| TOO Raiffeisen Leasing Kazakhstan, Almaty (KZ) | 85,800,000 | KZT | 75.0% | FI |
| Ukrainian Processing Center, JSC, Kiev (UA) | 180,000 | UAH | 100.0% | BR |
| VAT Raiffeisen Bank Aval, Kiev (UA) | 2,419,934,908 | UAH | 95.9% | BA |
| ZAO Raiffeisenbank, Moscow (RU) | 36,711,260,000 | RUB | 100.0% | BA |

1 Company type: BA... Bank, BR ...Company rendering banking-related ancillary services, FI ...Financial institution

# List of equity participations

The following tables show a selection of equity participations. The complete list of Raiffeisen International's equity participation is deposited with the Group parent's headquarters.

## Companies valued at equity

| Company, domicile (country) | Subscribed capital in local currency | | Share | Indirectly held[1] | Type[2] |
|---|---|---|---|---|---|
| Raiffeisen Banca pentru Locuinte S.A., Bucharest (RO) | 96,000,000 | RON | 33.3% | | BA |

## Other non-consolidated subsidiaries and equity participations

| Company, domicile (country) | Subscribed capital in local currency | | Share | Indirectly held[1] | Type[2] |
|---|---|---|---|---|---|
| Asset Management Company "Raiffeisen Aval", Kiev (UA) | 8,000,000 | UAH | 100.0% | | FI |
| Centralised Raiffeisen International Services & Payments S.R.L., Bucharest (RO) | 6,800,000 | RON | 100.0% | | BR |
| Czech Real Estate Fund (CREF) B.V., Amsterdam (NL) | 18,000 | EUR | 20.0% | | FI |
| Doplnková dôchodková spoločnosť Tatra banky, a.s., Bratislava (SK) | 50,000,000 | SKK | 100.0% | | FI |
| ELIOT, s. r. o., Bratislava (SK) | 48,610,000 | SKK | 100.0% | | BR |
| Raiffeisen Asset Management (Bulgaria) EAD, Sofia (BG) | 250,000 | BGN | 100.0% | | FI |
| Raiffeisen BROKERS doo, Sarajevo (BA) | 1,000,000 | BAM | 100.0% | | FI |
| Raiffeisen consulting d.o.o., Zagreb (HR) | 14,900,000 | HRK | 100.0% | | FI |
| Raiffeisen Faktoring Sp. z.o.o., Warsaw (PL) | 3,847,500 | PLN | 100.0% | | FI |
| RAIFFEISEN FUTURE AD , Belgrade (RS) | 156,560,000 | RSD | 100.0% | | FI |
| Raiffeisen Invest a.d. , Belgrade (RS) | 750,000 | EUR | 100.0% | | FI |
| Raiffeisen Non-Government Pension Fund, Moscow (RU) | 243,000,000 | RUB | 100.0% | | FI |
| Raiffeisen Pension Insurance d.o.o., Zagreb (HR) | 14,400,000 | HRK | 100.0% | | FI |
| RAIFFEISEN SERVICES EOOD, Sofia (BG) | 3,000,000 | BGN | 100.0% | | BR |
| Raiffeisen Services SRL, Bucharest (RO) | 30,000 | RON | 100.0% | | FI |
| RAIFFEISEN TRAINING CENTER LTD., Zagreb (HR) | 20,000 | HRK | 80.0% | 20.0% | BR |
| Raiffeisen Voluntary Pension Fund Management d.o.o., Zagreb (HR) | 33,445,300 | HRK | 100.0% | | FI |
| S.A.I. Raiffeisen Asset Management S.A., Bucharest (RO) | 10,656,000 | RON | 100.0% | | FI |
| TATRA Residence, s.r.o., Bratislava (SK) | 25,053,000 | SKK | 100.0% | 100.0% | BR |
| CREDEX FINANTARI IFN SA, Bucharest (RO) | 15,112,500 | RON | 30.0% | | FI |
| Fondul de Garantare a Creditului Rural S.A., Bucharest (RO) | 2,914,750 | RON | 33.3% | | FI |
| Raiffeisen Economic and Tax Consulting Zrt., Budapest (HU) | 20,000,000 | HUF | 20.0% | | FI |
| Raiffeisen stavebni sporitelna, a.s., Prague (CZ) | 650,000,000 | CZK | 10,0% | | BA |

1 Equity participations held via companies that are not included in the consolidated financial statements (pro-rata share)
2 Company type: BA…Bank, BR…Company rendering banking-related ancillary services, FI…Financial institution

# Glossary

**Affiliated companies** – Entity over which the investor has control (i.e. power to govern the financial and operating policies).

**Associated companies** – Entity over which the investor has significant influence.

**Back testing** – The backward comparison of VaR figures with actual results to test the quality of a model.

**Badwill** – Any remaining excess of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition as at the date of the exchange transaction.

**Basel II** – The body of capital adequacy regulations proposed in recent years by the "Basel Committee," an international forum dedicated to improving bank supervision. According to EU Directives 2006/48/EC and 2006/49/EC, the regulations must be applied in the member states of the European Union from 1 January 2007 onwards to all banks and financial service institutions. As in the case of the Basel I Accord, the goal is to ensure that banks have adequate capital resources and that uniform competitive conditions are created for both lending and credit trading. The main objective of the changes made by Basel II compared with Basel I is to orient capital adequacy requirements prescribed by government more strongly to actual risk and hence approximate the capital requirements internally ascertained by banks.

**BWG** – Austrian Banking Act.

**CAGR** – Compound Annual Growth Rate is the average increase of a figure.

**Cash flow** – Inflows and outflows of cash and cash equivalents.

**Cash flow hedge** – Protection against the risk of variability in projected cash flows, resulting either from risk associated with a recognized asset or liability or risk associated with a forecasted transaction. Whereas the effective portion of the hedge relating to changes in value of the hedging instruments can be directly recognized in equity, the ineffective portion has a direct effect on profit and loss.

**Cash flow statement** – Statement of cash flows during the financial year arising from operating activities, investing activities and financing activities and a reconciliation of cash and cash-equivalents held at the beginning and the end of the financial year.

**CEE** – Central and Eastern Europe.

**CE** – Central Europe. For Raiffeisen International it is defined as Hungary, Poland, Slovakia, Slovenia, and Czech Republic.

**CIS** – Commonwealth of Independent States, consisting predominantly of territories of the former Soviet Union.

**Clean price** – Price of a financial instrument without accrued interest.

**Consolidated ROE** – Return on Consolidated Equity, i.e. the equity attributable to the shareholder of Raiffeisen International. It is calculated by consolidated profit in relation to average balance sheet equity (without minority interests). Average equity is based on month-end figures and does not include current year profit.

**Country risk** – This comprises transfer and convertibility risk and political risk.

**Core capital** – so called Tier I, involves regulatory core capital as defined in § 23 BWG.

**Core capital ratio** – This ratio's numerator is core capital (tier 1) and its denominator are the risk-weighted assets of credit risk.

**Cost/income ratio** – Indicator of an enterprise's cost efficiency based on the ratio of expenses to earnings. It is calculated by comparing general administrative expenses (comprising staff expenses and other administrative expenses and depreciation/amortization of tangible and intangible fixed assets) with operating income (net interest income, net commission income, trading profit/loss and other operating profit/loss).

**Credit derivatives** – Instruments designed to transfer credit risk arising from loans, bonds and other risk assets or market risk items to another party.

**Credit exposure** – Comprises all on-balance sheet exposures (loans, debt securities) and off-balance-sheet exposures (guarantees, commitments) that expose Raiffeisen International to credit risk.

**Credit risk** – is the risk of loss due to a debtor's non-payment of a loan or other line of credit.

**Credit spread (or simply "spread")** – Difference in yield between top-rated bonds (usually government bonds) and bonds with the same residual maturity but lower issuer quality.

**Cross selling** – Marketing strategy in which additional products and services are actively offered to existing customers.

**DBO** – Defined benefit obligation, i.e. the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

**Default risk** – Risk that counterparties in a financial transaction will not be able to fulfil an obligation, causing the other party a financial loss.

**Deferred tax assets** – The amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses, and the carry forward of unused tax credits.

**Deferred tax liabilities** – The amounts of income taxes payable in future periods in respect of taxable temporary differences.

**Derivatives** – Financial instruments whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, that requires no initial net investment or small initial net investment and that is settled at a future date.

**Dirty price** – Price of a financial instrument including accrued interest.

**Earnings per share (EPS)** – Profit attributable to ordinary equity holder (profit adjusted by dividends to preference shareholders) divided by the weighted average number of ordinary shares outstanding during the period.

**EBRD (European Bank for Reconstruction and Development)** – An institution that promotes the transition to an open market economy and to private and entrepreneurial action in the countries of Central and Eastern Europe. Through its investments, it supports activity of the private sector and strengthens financial institutions, legal systems, and development of infrastructure needed by the private sector.

**EMTN (Euro Medium Term Notes) Program** – Framework agreement between companies and bond traders who make it possible for the companies to issue medium-term securities in the European capital market for the purpose of flexibly procuring outside capital.

**Excess cover ratio** – Relation of excess own funds to total own funds requirement.

**Fair value** – The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Fair Value Level I** – (is quoted on an active market). The fair value is measured through a market price, if available.

**Fair Value Level II** – (evaluation method through observable parameters). When current bid and asking prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. (Used methods: cash method and option pricing models)

**Fair Value Level III** – evaluation method through non-observable parameters). If observable parameters are not available; the fair value will be measured through valuation methods appropriate for the financial instrument.

**Fiduciary business** – Transactions which are carried out by a trustee, often banks, on own name but on account of the beneficiary.

**Finance lease** – A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

**Funding** – All means used by banks for the purpose of refinancing.

**Futures** – Standardized forward contracts traded on a stock exchange under which a commodity traded in a money, capital, precious metal or currency market is to be delivered or accepted at a price fixed in an exchange environment.

**Goodwill** – Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction.

**Gross investment value** – The aggregate of minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value accruing to the lessor.

**Hedging** – Designating one or more hedging instruments so that their change in fair value is an offset, in whole or in part, to the change in fair value or cash flows of a hedged item.

**Held-for-trading** – Securities held for trading purposes to take advantage of short-term market fluctuations.

**Held-to-maturity** – Financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

**HGB/UGB** – (Austrian) Commercial Code.

**IFC (International Finance Corporation)** – An institution of the World Bank that supports the establishment and strengthening of the private sector in developing countries by means of investments and advisory service.

**IFRIC, SIC** – International Financial Reporting Interpretations Committee – Interpreter of the International Financial Reporting Standards, formerly also SIC (Standing Interpretations Committee).

**IFRS, IAS** – The International Financial Reporting Standards or International Accounting Standards are reporting standards published by the IASB (International Accounting Standards Board) with the goal of achieving transparent and comparable accounting on an international basis.

**Interest margin** – Net interest income in relation to average balance sheet total.

**Investment property** – Property (land or buildings – or part of buildings – or both) which are held to earn rentals or for capital appreciation or both.

**IPO** – Initial public offering.

**IRB (Internal Ratings-Based approach)** – Method of evaluating the capital backing of credit risks in accordance with Basel II. By using the IRB approach, the capital backing is determined according to internal credit ratings. In the process, features specific to the borrower and the loan are taken into account. The ratings must be made by an independent source.

**Liquidity risk** – Risk that the bank could be unable to meet its current and future financial obligations in full or in good time. This arises from the danger that e.g. refinancing can only be obtained at very disadvantageous terms or is entirely impossible.

**Loss rate** – Usage of previously allocated loan loss provisions plus direct write-downs and income received on written-down claims divided by total credit exposure.

**Market capitalization** – The number of issued shares multiplied by the share price.

**Market risk** – The risk that the value of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

**Net provisioning ratio (average risk-weighted assets credit risk)** – Risk valuation ratio. Is calculated by provisioning for impairment losses divided by average credit risk-weighted assets.

**Net provisioning ratio (total credit exposure)** – Risk valuation ratio. Is calculated by provisioning for impairment losses divided by the total credit exposure.

**Operating lease** – Lease under which commercial and legal ownership remains with the lessor with the effect that the lessor must show the asset on its balance sheet.

**Operating profit/loss** – In IFRS-compliant financial statements, it consists of operating income net of general administrative expenses. Operating income comprises net interest income, net commission income, trading profit/loss and other operating profit/loss. General administrative expenses comprise staff expenses and other administrative expenses and depreciation/amortization of tangible and intangible fixed assets.

**Operational risk** – Risk of unexpected losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

**Options** – Instruments that give the holder the right to purchase the underlying from a contracting party at an agreed price and at an agreed time or within an agreed period (call option) or to sell the underlying to a contracting party at an agreed price and at an agreed time or within an agreed period (put option).

**OTC instruments** – Financial instruments that are neither standardized nor traded on a stock exchange. They are traded directly between market participants "over-the-counter".

**Own funds according to BWG** – Consist of core capital (tier 1), additional and subordinated capital (tier 2) and short-term subordinated capital and rededicated tier 2 capital (tier 3).

**Own funds ratio** – The ratio's numerator is own funds within the meaning of the Austrian Banking Act (BWG) and its denominator is the own funds requirement multiplied by 12.5.

**Own funds requirement according to BWG** – is defined in § 22 BWG and involves the requirement for the credit risk, for position risk in bonds, equities and commodities and foreign currency and for the operational risk.

**Own shares** – Repurchased equity instruments (shares) held by the issuing entity itself or by its subsidiaries.

**Plan assets** – Assets held by a long-term employment benefit fund.

**Portfolio-based loan loss provisions** – Impairment provisions for portfolios of loans with identical risk profiles that may be compiled under certain conditions.

**Portfolio rate** – Total provisions for impairment losses divided by total credit exposure.

**Projected unit credit method** – An actuarial valuation method defined by IAS 19 that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method).

**Raiffeisen International** – The Group of Raiffeisen International Bank-Holding AG.

**Repurchase agreement** – During a genuine repurchase transaction (repo), the enterprise sells assets to a counterparty and concurrently agrees to reacquire the assets at an agreed time and at an agreed price.

**Risk-weighted assets (incl. market risk)** – Comprises the basis of assessment within the meaning of section 22 of the Austrian Banking Act (BWG) plus 12.5 times the own funds required as cover for the trading book and open currency positions.

**Risk-weighted assets (credit risk)** – This is the sum of the weighted accounts receivable and includes receivables in the form of asset items, off balance sheet items according to annex 1 of § 22 and derivatives according to annex 2 of § 22 BWG.

**Risk/earnings ratio** – Risk valuation ratio. Is calculated by provisioning for impairment losses divided by net interest income.

**ROE (return on equity)** – Return on the total equity including minority interests, i.e. profit before tax respectively after tax in relation to weighted average balance sheet equity. Average equity is calculated on month-end figures and does not include current year profit.

**RZB** – Raiffeisen Zentralbank Österreich AG Group.

**RZB-Kreditinstitutsgruppe** – Pursuant to section 30 of the Austrian Banking Act (BWG), RZB-Kreditinstitutsgruppe is made up of all banks, financial institutions, securities companies and companies rendering banking-related services in which Raiffeisen Zentralbank holds direct or indirect interests or has control as a superordinate institution.

**Scorecard** – A statistical tool in risk management for estimating risk parameters, typically used to determine probability of default or the loss-given-default ratio.

**Securitization** – Special type of refinancing and the packaging of designated portfolios of loans or leasing claims with an appropriate level of credit enhancement and the redistribution of these portfolios to investors.

**Segment reporting** – Disclosure of earnings and asset data for geographical segments.

**SEPA** – Single European Payments Area. This is a project to create a European-wide standardized payment area. In this payment area there is no distinction between cross-border and national payments for customers anymore.

**Share-based remuneration** – Performance-based allotments of company shares for eligible employees for a given period of time.

**Splitting** – A procedure that is particularly common in U.S. investment banking where equities that have become very highly priced are split into two or more shares or share certificates.

**SPO** – Secondary public offering; capital increase.

**Stress tests** – Stress tests endeavor to simulate extreme fluctuations in market parameters. They are used because such fluctuations are usually inadequately captured by VaR models (VaR forecasts maximum losses under normal market conditions).

**Subprime loans** – Mortgage loans given to borrowers who do not qualify for the prime market interest rate due to their low credit-worthiness. Subprime loans are characterized by a relatively high risk of loss.

**Swap** – Exchange of interest obligations (interest swap) and/or currency positions (currency swap).

**Tax rate** – Relation of income taxes to profit before tax.

**Total shareholder return** – is a ratio illustrating the development of a share investment over a period considering the dividends and changes in share price.

**Trading book** – Bank regulators' term for assets held by a bank for short-term resale to exploit fluctuations in prices and interest rates.

**VaR** – Value at risk expresses the potential loss that will, with a 99 per cent probability, not be exceeded within the period for which an asset is held in the portfolio in question.

**Wholesale funding** – Refinancing of banks by way of external sources, i.e., not through their own funds or customer deposits.

# Addresses

## Raiffeisen International Bank-Holding AG

**Austria**
Am Stadtpark 3
1030 Wien
Phone: +43-1-71707 0
Fax: +43-1-71707 1715
www.ri.co.at
investor.relations@ri.co.at
ri-communications@ri.co.at

## Banking network

**Albania**
**Raiffeisen Bank Sh.a.**
European Trade Center
Bulevardi „Bajram Curri"
Tiranë
Phone: +355-4-2222 669
Fax: +355-4-2275 599
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

**Belarus**
**Priorbank, OAO**
Ul. V. Khoruzhey, 31-A
220002 Minsk
Phone: +375-17-289 9090
Fax: +375-17-289 9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

**Bosnia and Herzegovina**
**Raiffeisen Bank d.d. Bosna i Hercegovina**
Danijela Ozme 3
71000 Sarajevo
Phone: +387-33-287 100
Fax: +387-33-213 851
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

**Bulgaria**
**Raiffeisenbank (Bulgaria) EAD**
18/20 Ulica N. Gogol
1504 Sofia
Phone: +359-2-9198 5101
Fax: +359-2-943 4528
SWIFT/BIC: RZBBBGSF
www.rbb.bg

**Croatia**
**Raiffeisenbank Austria d.d.**
Petrinjska 59
10000 Zagreb
Phone: +385-1-456 6466
Fax: +385-1-481 1624
SWIFT/BIC: RZBHHR2X
www.rba.hr

**Czech Republic**
**Raiffeisenbank a.s.**
Hvezdova 1716/2b
14078 Praha 4
Phone:+ 420-221-141 111
Fax: +420-221-142 111
SWIFT/BIC: RZBCCZPP
www.rb.cz

**Hungary**
**Raiffeisen Bank Zrt.**
Akadémia utca 6
1054 Budapest
Phone: +36-1-484 4400
Fax: +36-1-484 4444
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

**Kosovo**
**Raiffeisen Bank Kosovo J.S.C.**
Rruga UÇK, No. 51
Prishtina 10000
Phone: +381-38-222 222
Fax: +381-38-2030 1130
SWIFT/BIC: RBKORS22
www.raiffeisen-kosovo.com

**Poland**
**Raiffeisen Bank Polska S.A.**
Ul. Piękna 20
00549 Warszawa
Phone: +48-22-585 2001
Fax: +48-22-585 2585
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

**Romania**
**Raiffeisen Bank S.A.**
Piața Charles de Gaulle 15
011857 București 1
Phone: +40-21-306 1000
Fax: +40-21-230 0700
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

**Russia**
**ZAO Raiffeisenbank**
Smolenskaya-Sennaya pl., 28
119002 Moskwa
Phone: +7-495-721 9900
Fax: +7-495-721 9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

**Serbia**
**Raiffeisen banka a.d.**
Bulevar Zorana Djindjića 64a
11070 Novi Beograd
Phone: +381-11-320 2100
Fax: +381-11-220 7080
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

**Slovakia**
**Tatra banka, a.s.**
Hodžovo námestie 3
81106 Bratislava 1
Phone: +421-2-5919 1111
Fax: +421-2-5919 1110
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

**Slovenia**
**Raiffeisen Banka d.d.**
Slovenska ulica 17
2000 Maribor
Phone: +386-2-229 3100
Fax: +386-2-252 4779
SWIFT/BIC: KREKSI22
www.raiffeisen.si

**Ukraine**
**VAT Raiffeisen Bank Aval**
Vul Leskova, 9
01011 Kyiv
Phone: +38-044-490 8888
Fax: +38-044-285 3231
SWIFT/BIC: AVAL UA UK
www.aval.ua

## Leasing companies

**Austria**
**Raiffeisen-Leasing International GmbH**
Am Stadtpark 3
1030 Wien
Phone: +43-1-71707 2966
Fax: +43-1-71707 2059
www.rli.co.at

**Albania**
**Raiffeisen Leasing Sh.a.**
Rruga Kavajes 44
Tiranë
Phone: +355-4-2274 920
Fax: +355-4-2232 524
www.raiffeisen.al

**Belarus**
**SOOO Raiffeisen Leasing**
Ul. V. Khoruzhey, 31-A
220002 Minsk
Phone: +375-17-289 9396
Fax: +375-17-289 9394
www.priorbank.by

**Bosnia and Herzegovina**
**Raiffeisen Leasing d.o.o. Sarajevo**
St. Branilaca Sarajeva No. 20
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

**Bulgaria**
**Raiffeisen Leasing Bulgaria OOD**
Business Park Sofia
Building 11, 2nd floor
1715 Sofia
Phone: +359-2-970 7979
Fax: +359-2-974 2057
www.rlbg.bg

**Croatia**
**Raiffeisen Leasing d.o.o.**
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-6595 000
Fax: +385-1-6595 050
www.rl-hr.hr

**Czech Republic**
**Raiffeisen-Leasing s.r.o.**
Hvezdova 1716/2b
14078 Praha 4
Phone: +420-221-5116 11
Fax: +420-221-5116 66
www.rl.cz

**Hungary**
**Raiffeisen Lízing Zrt.**
Váci utca 81-85
1139 Budapest
Phone: +36-1-298 8016
Fax: +36-1-298 8600
www.raiffeisenlizing.hu

**Kazakhstan**
**Raiffeisen Leasing Kazakhstan LLP**
146, Shevchenko str.
Office 12, 1st floor
050008 Almaty
Phone: +7-727-3785 446
Fax: +7-727-3785 447
www.rlkz.kz

**Kosovo**
**Raiffeisen Leasing Kosovo**
Rruga Agim Ramadani No. 17
Prishtina 10000
Phone: +381-38-222 222 341
Fax: +381-38-2030 1136

**Moldova**
**Raiffeisen Leasing SRL**
51 Alexandru cel Bun
2012 Chisinau
Phone: +373-22-2793 13
Fax: +373-22-2283 81
www.raiffeisen-leasing.md

**Poland**
**Raiffeisen-Leasing Polska S.A.**
Ul. Prosta 51
00838 Warszawa
Phone: +48-22-32 63 600
Fax: +48-22-32 63 601
www.rl.com.pl

**Romania**
**Raiffeisen Leasing IFN SA**
Calea 13 Septembrie 90
Grand Offices
Marriott Grand Hotel
Sector 5
050726 București
Phone: +40-21-403 3334
Fax: +40-21-403 3298
www.raiffeisen-leasing.ro

**Russia**
**OOO Raiffeisen Leasing**
Stanislavskogo ul., 21/1
109004 Moskwa
Phone: +7-495-721 9980
Fax: +7-495-721 9901
www.rlru.ru

**Serbia**
**Raiffeisen Leasing d.o.o.**
Milutina Milankovića 134a
11070 Novi Beograd
Phone: +381-11-20177 00
Fax: +381-11-31300 81
www.raiffeisen-leasing.rs

**Slovakia**
**Tatra Leasing s.r.o.**
Továrenská 10
81109 Bratislava
Phone: +421-2-5919 3168
Fax: +421-2-5919 3048
www.tatraleasing.sk

**Slovenia**
**Raiffeisen Leasing d.o.o.**
Tivolska 30 (Center Tivoli)
1000 Ljubljana
Phone: +386-1-241 6250
Fax: +386-1-241 6268
www.rl-sl.com

**Ukraine**
**LLC Raiffeisen Leasing Aval**
Moskovskiy Prospect, 9
Corp. 5 office 101
04073 Kyiv
Phone: +38-044-590 2490
Fax: + 38-044-200 0408
www.rla.com.ua

## Real-estate leasing

**Czech Republic**
**Raiffeisen Leasing Real Estate s.r.o.**
Hvezdova 1716/2b
14078 Praha 4
Phone: +420-2-215116 10
Fax: +420-2-215116 41
www.realestateleasing.cz

## Raiffeisen Zentralbank Österreich AG

**Austria**
Am Stadtpark 9
1030 Wien
Phone: +43-1-71707 0
Fax: +43-1-71707 1715
SWIFT/BIC RZBAATWW
www.rzb.at

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Raiffeisen International Bank-Holding AG
Am Stadtpark 3
1030 Vienna
Austria
Phone: +43-1-71707 0
Fax: +43-1-71707 1715
Internet: www.ri.co.at

**Investor relations contact**
Phone: +43-1-71707 2089
E-mail: investor.relations@ri.co.at
Internet: www.ri.co.at → Investor Relations

**Public relations contact**
Phone: +43-1-71707 2828
E-mail: ri-communications@ri.co.at
Internet: www.ri.co.at → Public Relations

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