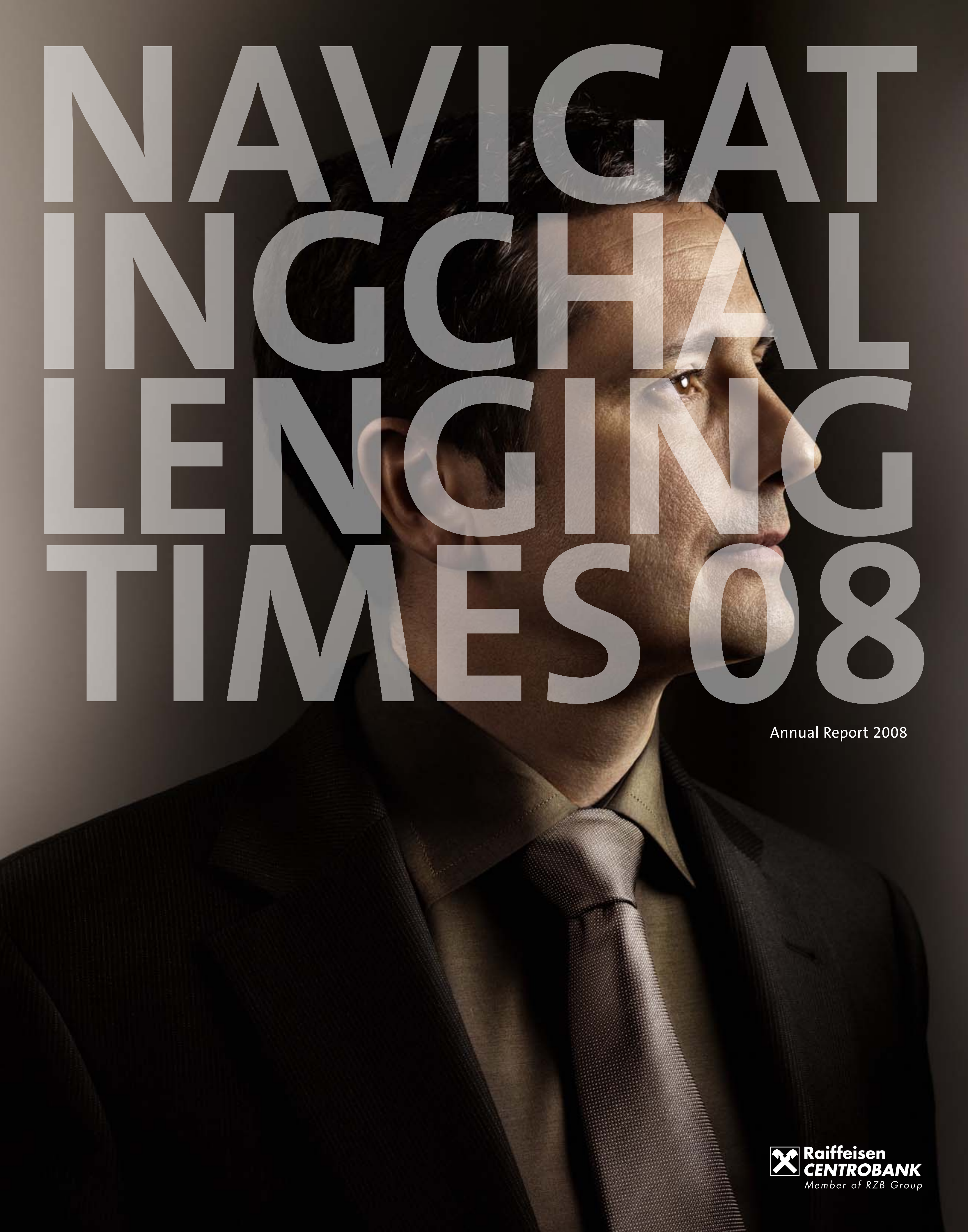
NAVIGATINGCHALLENGING TIMES 08



Annual Report 2008

Raiffeisen CENTROBANK
Member of RZB Group

Annual Report 2008

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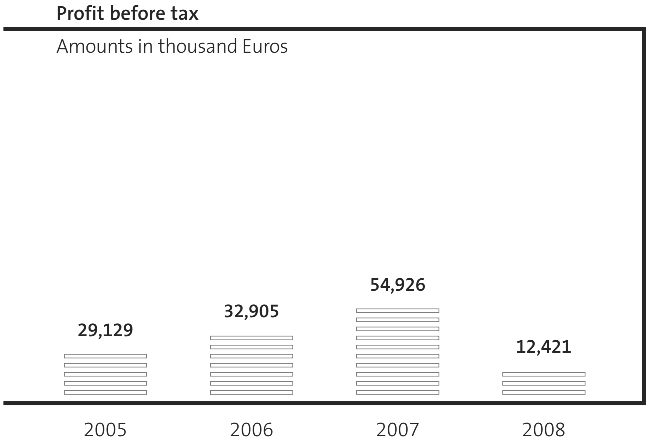
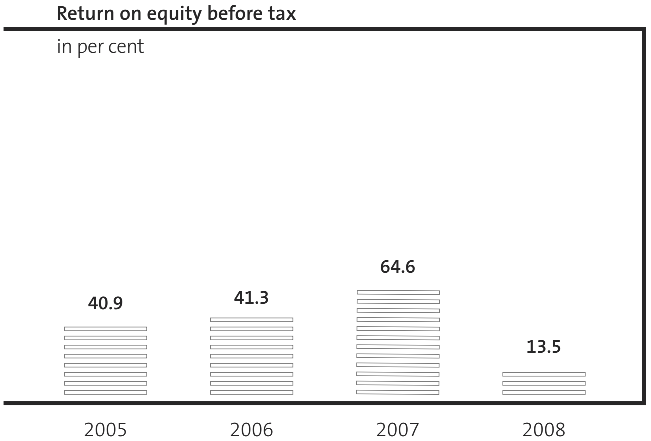
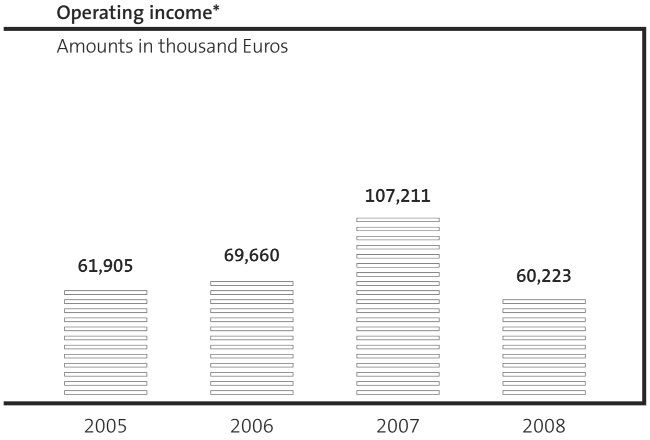
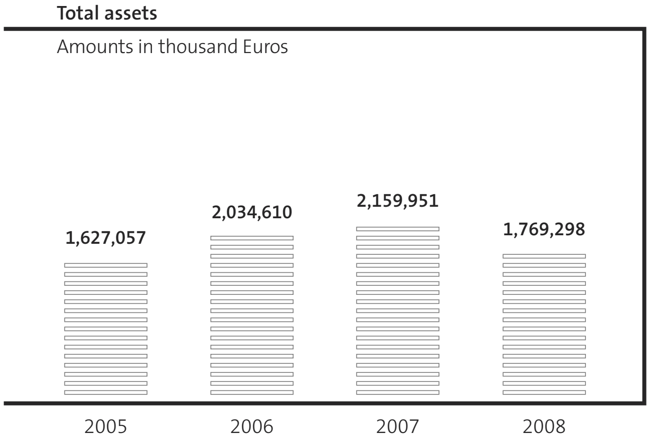
Key Figures 2008 of Raiffeisen Centrobank Group

Income Statement Amounts in thousand Euros / in percent	**2008**	**2007**	**Change**
Net interest income	8,004	6,343	+ 26.2 %
Net commission income	17,605	37,958	– 53.6 %
Trading profit	33,300	63,358	– 47.4 %
General administrative expenses	– 53,353	– 58,207	– 8.3 %
Profit before tax	12,421	54,926	– 77.4 %
Profit after tax	10,643	42,453	– 74.9 %
Balance Sheet			
Claims on credit institutions	359,384	197,859	+ 81.6 %
Claims on customers	96,104	118,647	– 19.0 %
Trading assets	1,167,902	1,684,721	– 30.7 %
Liabilities to credit institutions	235,303	122,907	+ 91.5 %
Liabilities to customers	215,589	218,779	– 1.5 %
Trading liabilities	1,130,609	1,617,999	– 30.1 %
Equity (incl. profit after tax)	106,246	129,556	– 18.0 %
Total assets	1,769,298	2,159,951	– 18.1 %
Key Figures			
Return on equity before tax	13.5 %	64.6 %	–
Cost/Income ratio	82.8 %	51.2 %	–
Bank related key figures pursuant to Austrian Banking Act			
Total own funds	98,014	77,946	+ 25.7 %
Total own funds requirement	53,062	55,470	– 4.3 %
Excess own funds	44,952	22,476	+ 100.0 %
Excess cover ratio	184.7 %	140.5 %	–
Resources			
Employees at end of period	312	280	+11.4 %









*) Operating income comprises net interest income before provisioning, net commission income, trading profit (loss) and other operating profit (loss).

Foreword by the Chairman of the Executive Board

In the wake of the US subprime crisis, we saw a massive loss of confidence in the mechanisms of the money and capital markets worldwide in 2008. Ultimately, persistent cash flow shortages led to a general banking crisis. Without a doubt, it was primarily the investment banks with global operations whose business models – after the major real estate lenders – failed to pass the real stress test and which, particularly in the USA and in the United Kingdom, had to be absorbed by the competition or by the government. After the US government decided in September 2008 to send Lehman Brothers into bankruptcy, the crisis deepened in such a way and to such an extent that, amid the globalised and densely interlinked economic structure of the market, no market or industry escaped its effects. For our company – as the specialized financial institution of the RZB Group for equity business – performance in 2008 was particularly impacted by the historic price declines on the international stock exchanges. These triggered above-average price drops of more than 60% on the Austrian exchange, which in turn was forced, in the view of investors, to accept a reversal of the “Eastern bonus” into a disadvantage. A similar development took place on the stock markets in the CEE region, where price drops of up to 70% reflected the dramatic loss of confidence in the global economic situation. In correlation with this, the market for capital market transactions virtually dried up, and the market for M&A transactions reacted sensitively with a decline due to a lack of appropriate financing and satisfactory pricing.

While shrinking volumes on the equity markets and increasing risk aversion among investors left their mark on the 2008 consolidated net income of Raiffeisen Centrobank where the record result of 2007 was not repeated, it must be stressed in considering the mood described above that our company did manage to demonstrate impressively in 2008 the intactness of both our investment banking business model and the structures we have chosen, even in times of crisis.

Our approach as a cross-regional investment bank operating from its Vienna location rests on a strong, transaction-orientated customer business with a large advisory component. With more than 2,000 certificates and warrants, Raiffeisen Centrobank is Austria's leading issuer and a major niche provider in Germany's certificate market. Unlike the Anglo-American investment banks which are the subject of negative headlines, the Group is seeing steady and impressive growth in net assets, which is based on its customer business rather than on any business with high leverage factors and poor equity ratios. With regards to the Tier 1 capital of the bank, the equity ratio of Raiffeisen Centrobank at the end of 2008 was a stable 12.3%.

We also have the customer business structure mentioned above to thank for the fact that we were not actually impacted by liquidity problems, the main factor behind the crisis of 2008.

Another factor in the good result during the “annus horribilis” on the capital markets was the circumstance that we had already begun in 2007 to react to the deteriorating credit spreads of the international financial institutions and to adjust our marked-to-market valuations on a running basis rather than all at once – a practice that we continued in 2008 because of the stable operating result.

2008 was used very actively to improve systems and processes, particularly those in the area of risk management, to make minor adjustments to our resources, and to fine-tune our range of services to the changing needs of our customers. We view these as important steps toward securing our company over the long term amid a persistently challenging market environment.

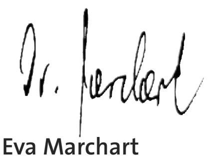
*** Eva Marchart**
Chairman of the Executive Board

The quality of our services and the expertise of our employees were once again confirmed by external recognition – such as that for our team of analysts, who were honoured in the annual ranking compiled by the US analytics firm StarMine for forecasting earnings more accurately than their peers. As in the previous year, the Team Structured Products beat out renowned international competitors for Raiffeisen Centrobank to become the overall winner in Certificates Awards Austria 2008, published by "Zertifikate Journal Austria" in cooperation with Zertifikate Forum Austria.

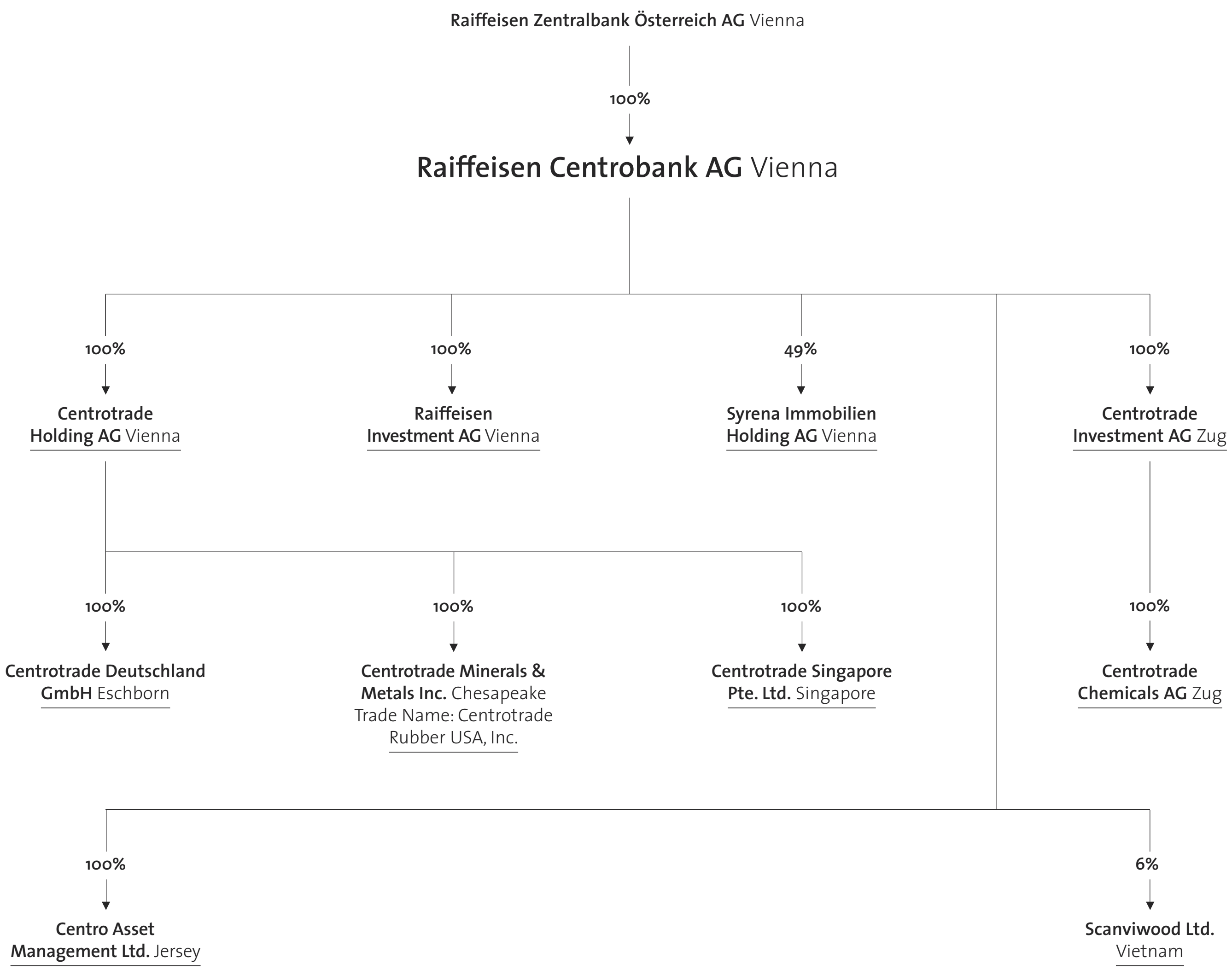
As far as the expectations for 2009 are concerned, preliminary economic indicators show no overall recovery. However, it must be noted that the effects of the governmental and supranational emergency measures – which this time, in contrast to past crises, were adopted promptly and with substantial amounts – will only be implemented gradually, delaying their full impact on the intended recipients and rendering forecasting instruments unable to reflect them sufficiently, due to the unique nature of the current economic situation. Initial positive effects, although modest, may still be expected in 2009 thanks to expansive fiscal and monetary policy. The economy is expected to resume growth in 2010, though on a smaller scale. We must in any case avoid engaging in a type of "tunnel vision" and focussing exclusively on the bad news, failing, for example, to differentiate sufficiently the above-average potential still afforded by the ongoing development of the CEE region so vital to our domestic market, or even ignoring it altogether.

It will be essential to our support of these measures that we implement additional measures to build confidence in the financial markets and, above all, in those who participate in these markets. At the EU level, work is progressing on proposals for an improved regulatory function, particularly in regards to cross-border cooperation and to the inclusion of previously unregulated market players, but also in respect of a paradigm shift to a more complex, more quality-orientated regulatory function. Topics such as reinforcing the capital adequacy of financial institutions, but also revising financial reporting standards (IFRS) to avoid the undesirable procyclical effects which emerged during the current financial crisis, may be added to the list of necessary measures. Another welcome development, which would act to counterbalance the market domination of the US agencies that played a leading role in triggering the financial crisis, would be the creation of a European rating agency. Such an agency, if established, could avoid the systemic shortfalls of the current rating agencies.

Despite a still challenging market climate, Raiffeisen Centrobank is well equipped in 2009 to generate positive earnings for its sole owner, Raiffeisen Zentralbank, which we would like to thank for its continued confidence in and support for our business activities. Our particular thanks are due also to our employees, who were able to adjust quickly and efficiently to a drastically different market climate, while still managing to achieve the excellent performance already described under conditions that were at times very difficult. Naturally, the basis and starting point for all of our efforts are our customers and business partners, whom we would like to thank for their cooperation and trust and with whom we will continue to collaborate as we overcome the challenging business conditions of 2009.



Eva Marchart
Chairman of the Executive Board


Raiffeisen Zentralbank Österreich AG Vienna
100%
Raiffeisen Centrobank AG Vienna
100%
Centrotrade Holding AG Vienna
100%
Raiffeisen Investment AG Vienna
49%
Syrena Immobilien Holding AG Vienna
100%
Centrotrade Investment AG Zug
100%
Centrotrade Deutschland GmbH Eschborn
100%
Centrotrade Minerals & Metals Inc. Chesapeake Trade Name: Centrotrade Rubber USA, Inc.
100%
Centrotrade Singapore Pte. Ltd. Singapore
100%
Centrotrade Chemicals AG Zug
100%
Centro Asset Management Ltd. Jersey
6%
Scanviwood Ltd. Vietnam

Corporate Bodies

Executive Board	Eva Marchart	Chairman
	Alfred Michael Spiss	Deputy Chairman
	Gerhard Grund	Member
Supervisory Board	Walter Rothensteiner Chairman of the Management Board, Raiffeisen Zentralbank Österreich AG, Vienna	Chairman
	Patrick Butler Member of the Management Board, Raiffeisen Zentralbank Österreich AG, Vienna	First Deputy Chairman
	Herbert Stepic Chairman, Raiffeisen International Bank-Holding AG, Vienna	Second Deputy Chairman
	Helfried Marek Vienna	Member until April 23, 2008
	Karl Sevelda Member of the Management Board, Raiffeisen Zentralbank Österreich AG, Vienna	Member
	Johann Strobl Member of the Executive Board, Raiffeisen Zentralbank Österreich AG, Vienna	Member since April 23, 2008
	Christian Teufl Director, Raiffeisen Zentralbank Österreich AG, Vienna	Member
State Commissioners	Peter Braumüller Divisional Director	
	Tamara Els Deputy Assistant	

*** Gerhard Grund, Alfred Michael Spiss, Eva Marchart**
(from left to right)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Corporate Governance Report

The shares of Raiffeisen Centrobank itself are not quoted on an exchange. As issuer of a large range of structured products and as one of the most prominent securities trading houses in Vienna and other securities exchange centres, Raiffeisen Centrobank orients itself by the rules and principles of good and responsible business administration as set forth in the Austrian Corporate Governance Code to the extent these rules and principles are applicable to Raiffeisen Centrobank. Raiffeisen Centrobank has not (thus far) made a formal commitment to follow the Corporate Governance Code.

Trusting and efficient cooperation between the various corporate bodies of the company, preservation of shareholder interests and open and transparent communication are core principles for Raiffeisen Centrobank in observing modern corporate governance. The present comments are examples of observance of the Code by Raiffeisen Centrobank during the period under review (1 January through 31 December, 2008) and have reference to the new version of the Austrian Corporate Governance Code of January 2006.

Executive Board

The Executive Board consists of several individuals, one of whom is chairperson. The allocation of duties and co-operation of the Executive Board are governed by the bye-laws.

The Executive Board comprehensively exercises communication functions that significantly shape the image of the company for the owners and is supported therewith by the respective departments.

An internal audit is established as a personal staff unit of the Executive Board. It reports regularly to the Executive Board on the audit programme and on significant findings of its work.

Supervisory Board

The Supervisory Board supervises and supports the Executive Board in the context of managing Raiffeisen Centrobank, particularly with decisions of fundamental importance.

The Supervisory Board has created the catalogue of transactions of Raiffeisen Centrobank (and its group of companies) that are subject to approval and it has defined appropriate monetary thresholds.

Executive and Supervisory Board cooperation

Business management following the principles of good corporate governance takes place in the framework of open discussions between and within the Executive and Supervisory Boards.

The Executive Board informs the Supervisory Board regularly, in a timely manner and comprehensively concerning all relevant issues of company performance, including the risk situation and risk management in the company and its principal group companies. The chairperson of the Supervisory Board maintains regular contact with the chairperson of the Executive Board in particular and discusses company performance and risk management with her. The Executive Board reports promptly to the chairperson of the Supervisory Board on important matters, also concerning circumstances which are of considerable significance to the profitability or liquidity of the company.

The Executive Board approves the strategic alignment of the company with the Supervisory Board and discusses the status of strategy implementation with it in regular intervals. The Supervisory Board meets at least four times each financial year.

Rules for conflicts of interest and personal trading

Raiffeisen Centrobank has taken precautionary measures to avoid insider trading (setting up confidentiality area) and issued internal guidelines for dealings with insider or insider-relevant information (compliance manual). Raiffeisen Centrobank instructs all employees with training sessions on these measures and monitors the observance of these measures accordingly.

The Executive Board adopts its resolutions professionally and free of personal interests. Members of the Executive Board disclose significant personal interests in transactions of Raiffeisen Centrobank and its group companies and other conflicts of interest to the Supervisory Board. All transactions between Raiffeisen Centrobank or its group companies and the members of the Executive Board and closely related persons or companies are in keeping with industry standards and are approved in advance by the Supervisory Board.

Members of the Executive Board and executive staff do not carry on a business or assume a function in the executive bodies of other companies without the consent of the Supervisory Board unless they are affiliated with the Raiffeisen Centrobank Group or Raiffeisen Centrobank owns a business interest in them. Equally members of the Executive Board and executive staff do not implement transactions for their own account or for the account of third parties in a branch of business of Raiffeisen Centrobank or acquire entrepreneurial interests as general partners in other companies without the consent of the Supervisory Board.

Transparent information policy

Openness and transparency in communication with shareholders and the interested public are of special concern to Raiffeisen Centrobank. Consequently, comprehensive information is offered on the website:

» Press releases, data summary
» Shareholder and ownership structure
» Annual reports downloadable in pdf format
» Securities prospectuses downloadable in pdf format
» Raiffeisen Centrobank share analyses and product brochures downloadable in pdf format, etc.

Criteria for the independence of Supervisory Board members within the meaning of the Austrian Corporate Governance Code

A member of the Supervisory Board is considered to be independent if he or she has no business or personal affiliation with the company or its Executive Board that constitutes a material conflict of interest and is consequently capable of influencing the behaviour of the member.

The Supervisory Board of Raiffeisen Centrobank orients itself with the following guidelines in establishing criteria for assessing the independence of a member of the Supervisory Board:

» The Supervisory Board member shall not have been a member of the Executive Board or an executive of the company or a subsidiary of the company in the last five years.
» The Supervisory Board member shall not maintain, or have maintained within the last year, a business relationship with the company or a subsidiary of the company to a degree which is significant for the member of the Supervisory Board
» The Supervisory Board member shall not, in the last three years, have been an auditor of the company or a partner or shareholder or an employee of the auditing firm which conducted the audit.
» The Supervisory Board member shall not be an Executive Board member in another company in which an Executive Board member of the company is a member of the Supervisory Board.
» The Supervisory Board member shall not be a close family member (direct descendant, spouse, significant other, parent, uncle, aunt, sibling, niece, nephew) of a Supervisory Board member or of persons who are in a position described in the foregoing points.

All Supervisory Board members of Raiffeisen Centrobank are to be considered independent within the meaning of the criteria for the independence of Supervisory Board members.

Compliance

Of course, Raiffeisen Centrobank applies the complete Standard Compliance Code developed collectively by the Austrian banking industry as the basis of its business activity, particularly in the areas of trading in financial instruments, investment advice, asset management, issuance of securities and financial analysis and public relations and marketing, and in many areas greatly exceeds the standards set forth there.

Foreword by the Chairman of the Supervisory Board

Dear Ladies and Gentlemen, For the banking and financial sector, 2008 was characterised by the worst financial market crisis to date. It has become clear that the frequently cited process of globalisation and economic interdependencies has become a reality. By virtue of the shared circulatory system of the global economy, deeply rooted problems in the financial systems of individual economies – specifically that of the USA in this case – are able to spill over to an unprecedented degree into other countries and markets. While the upheavals initially affected financial institutions and exchanges in particular, the negative developments have now blazed a trail into the real economy, where they pit business and politics alike against new challenges. The governments and national banks of the G-20 nations took prompt and progressively coordinated action to provide substantial funds in order to stabilise the financial markets, and introduced economic stimulus packages to cope with the spreading economic downturn. It may thus be expected, primarily on the basis of government guarantees, that industry confidence will gradually return and that funds will begin to circulate once again. For this reason, I believe that the banking crisis in Western Europe can be overcome in 2009. The crisis in the real economy will presumably last somewhat longer, extending into 2010.

Against the backdrop of this scenario, it is all the more gratifying that the RZB Group with its subsidiary Raiffeisen Centrobank and that company's subsidiary Raiffeisen Investment AG managed to close out this year – so negative specifically for investment banks – with very respectable earnings, thus furnishing proof that a proper business model oriented toward sustainability can professionally guide even the business of investment banks through economically tough times. The increased efforts of our specialised equity bank in the area of modern risk management, reflected for one in a project dealing with overall risk management, have stood the test of time.

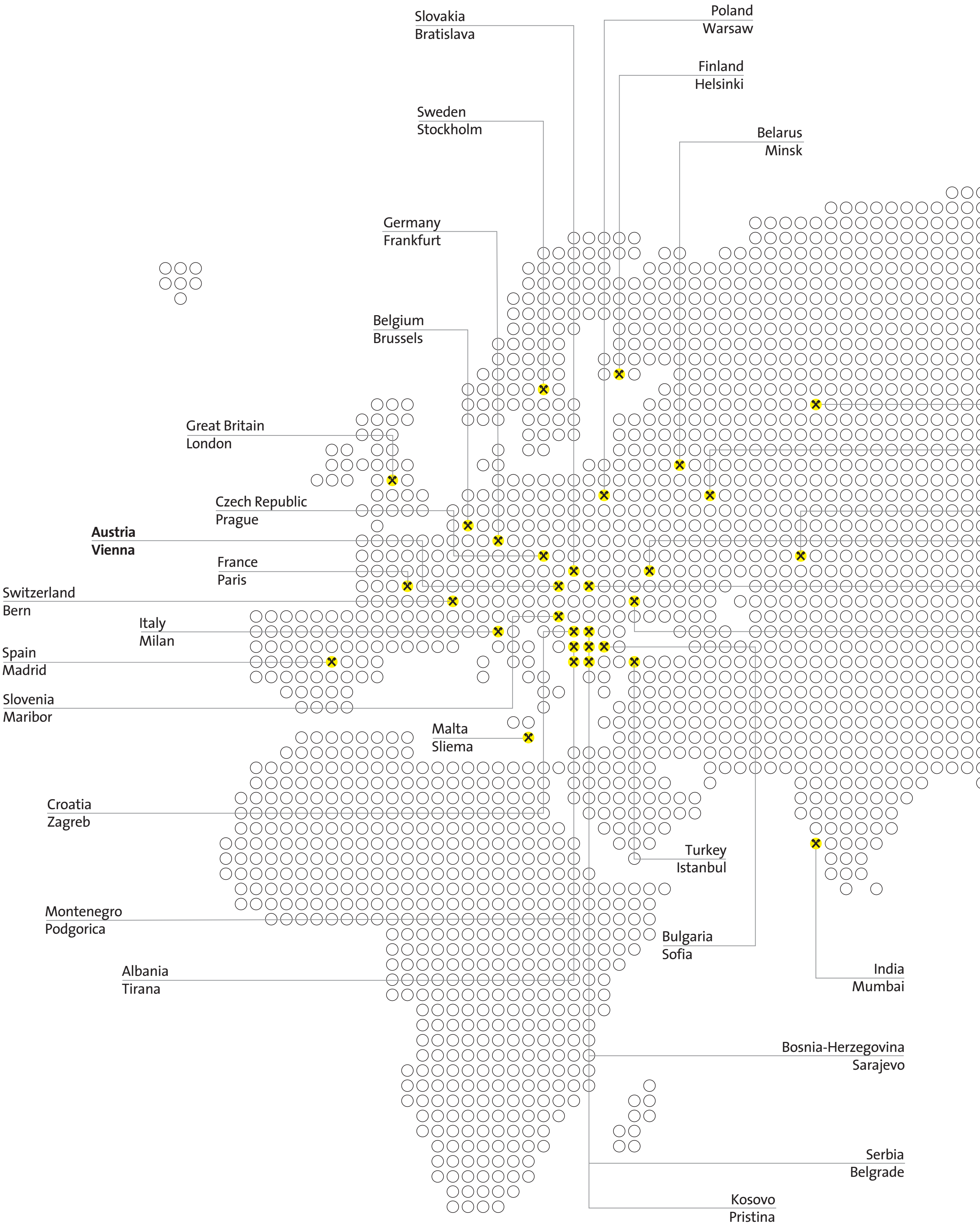
To be sure, business will be more challenging in future. However, demand for high-quality capital market products and services will continue. It will be crucial for any investment bank to respond with a range of services tailored to the altered needs of customers.

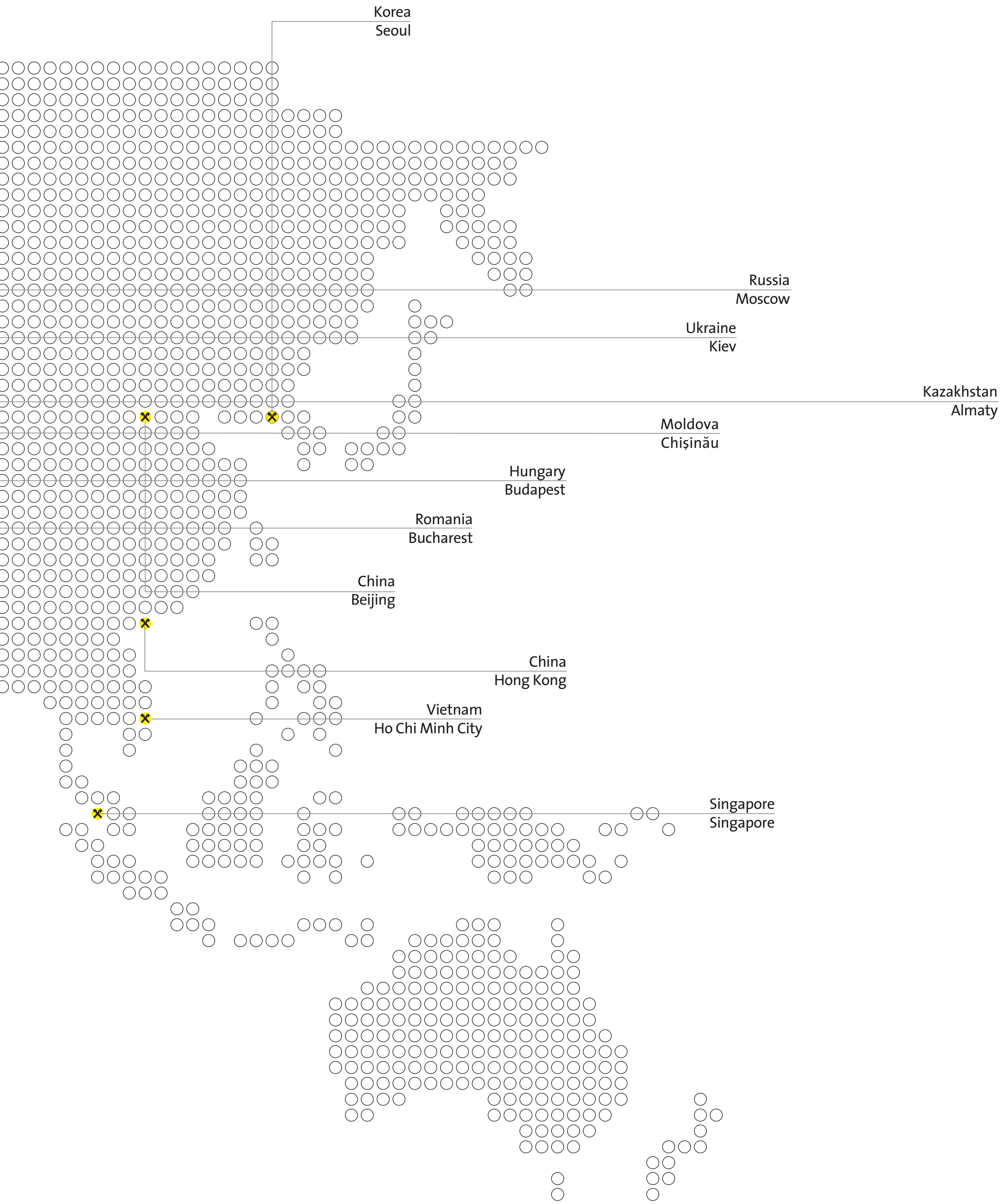
The Raiffeisen Centrobank Group has withstood a particularly difficult year which put the knowledge, expertise and dedication to the test once again. In the name of the Supervisory Board, I would like to express my gratitude for this. I believe that the conditions necessary to face the challenges of the 2009 financial year with success are in place.

Walter Rothensteiner
Chairman of the Supervisory Board

*** Walter Rothensteiner**
Chairman of the Supervisory Board

The RZB Group





Korea
Seoul
Russia
Moscow
Ukraine
Kiev
Kazakhstan
Almaty
Moldova
Chișinău
Hungary
Budapest
Romania
Bucharest
China
Beijing
China
Hong Kong
Vietnam
Ho Chi Minh City
Singapore
Singapore

An Overview of the Raiffeisen Centrobank Group

The financial crisis triggered by the US property market developed last year into a global conflagration that particularly affected the investment banking sector. Many major institutions made massive losses or even slid into bankruptcy as in the case of US-based Lehman Brothers. Others, such as Bear Stearns and Merrill Lynch, had to be rescued at the last minute. By contrast, Raiffeisen Centrobank, the equity house of the RZB Group, coped successfully with the crisis and posted very respectable profits again in the 2008 financial year.

The decisive factor here was the business model that differs markedly from that of American and British institutions and proved stable during the previous year. Raiffeisen Centrobank concentrates on the equity financing, securities trading and sales, certificates, private banking and mergers & acquisitions sectors, in which it covers the EU area with a particular focus on the Austrian market and the countries of Central and Eastern Europe. The growth in the balance sheet total was brought about by organic growth and an expansion of the product and customer base. The pillars of Raiffeisen Centrobank's business activities are the high turnover and transaction frequency of securities trading, the strong customer base and the supraregional approach that now also comprises an integrated range of services for the CEE region.

Securities Trading and Sales

Raiffeisen Centrobank is among the largest securities trading institutions on the Austrian capital market. It is also one of the leading investment banks in the CEE region. Furthermore, it is one of the largest issuers of warrants and certificates. As a specialised equity bank it was unable to escape the impact of the major financial crisis and its revenues and earnings in the year under review failed to reach the above-average figures for 2007. Raiffeisen Centrobank's share of the domestic equity market and on the Austrian Futures and Options Exchange (ÖTOB) remains high.

Equity Capital Markets

As one of the leading domestic investment banks, Raiffeisen Centrobank has a strong market position in the equity capital markets sector in both Austria and Central and Eastern Europe. The environment for IPOs was extremely unfavourable in 2008 so that other products such as recapitalisations, consulting mandates, relistings and convertible bonds were promoted and achieved a satisfactory result.

Company Research

In the area of company research, Raiffeisen Centrobank regularly analyses 100 companies in a total of eight countries. The team of analysts comprises 30 employees and was internationally rewarded again last year. The sector specialists in Vienna and local experts in Eastern Europe jointly cater for both the Austrian and key Eastern European equity markets.

Private Banking

Raiffeisen Centrobank caters for some 800 private banking customers. Two thirds of these are private individuals while one third is made up of companies and trusts. Customers are offered professional and risk-aware investment and financial advice as well as tailored portfolio management, with the focus placed on securing assets. Owing to the financial crisis, the assets under management in the field of private banking at Raiffeisen Centrobank fell from euro 1.8 billion to euro 1.45 billion in 2008. Despite the challenging market situation, new customer assets were also gained last year.

Mergers & Acquisitions

Raiffeisen Investment AG is a fully-owned subsidiary of Raiffeisen Centrobank and the leading M&A and privatisation consultant in both Austria and Central and Eastern Europe. It is represented by its teams in a total of 13 countries and its sector expertise covers all key industry sectors. In the 2008 financial year the experts at Raiffeisen Investment AG were involved in a total of 33 transactions. Due to the financial crisis there was a decline in M&A business above all in the second half of the year which was compensated by a rise in government mandates. The co-operation with the international investment bank Lazard that has existed since 2007 developed very successfully.

Commodities Trading

The group is also active in rubber and olefins trading via its subsidiaries Centrotrade Holding AG and Centrotrade Investment AG.

The Raiffeisen Centrobank Group Highlights of the 2008 Financial Year

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Securities & Certificates

Membership in Bucharest Stock Exchange

Largest market maker on stock exchange in Vienna

First certificates listed on the Budapest Stock Exchange in February 2008 in cooperation with Raiffeisenbank of Hungary.

Expansion of listed certificate product range on the Warsaw and Prague stock exchanges

Award for “creation of a new segment at Warsaw Stock Exchange” for pioneer listing of investment certificates in Poland awarded by CEE Market Forum 2008

Certificates Award Austria – overall winner

Innovations in commodity certificates

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Company Research

Named no. 1 in the category of “accuracy of earnings forecasts” by US analytics firm StarMine

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ECM Austria & CEE

The Banker – Deal of the Year award 2008 for STRABAG IPO (EUR 1.3 billion)

With AT&S guided another Austrian company listed abroad through relisting on stock exchange in Vienna.

SPO: X5 Retail Group (USD 1.18 billion), Russia

>

Raiffeisen Investment AG

EMEA Finance Award: Best M&A House in CEE

EMEA Finance Award: Best Deal in CEE: Acquisition of Romania's Asiban by French insurance group Groupama

Heineken: Acquisition of two breweries in Belarus

Stock exchange in Vienna: Acquisition of Ljubljana Stock Exchange

The Banker – 2008 Deal of the Year award for advising AIG on purchase of Bulgarian telecommunications provider BTC (EUR 1.6 billion)

»DESPITE THE POOR PERFORMANCE, THE INTEREST IN INFORMATION ON THE PART OF INVESTORS WAS HIGH IN 2008 AND AT TIMES EVEN HIGHER THAN IN PREVIOUS YEARS.«

Wilhelm Celeda
Head of Securities Trading & Sales

Wilhelm Celeda

Head of Securities Trading & Sales

How did the Securities Trading and Sales area of Raiffeisen Centrobank handle the crisis of 2008?
Naturally, the financial crisis had an impact on us as well. Last year we saw significant declines in sales, and profits also fell steeply. However, overall Raiffeisen Centrobank, the securities company of the Raiffeisen Banking Group, stood its ground as one of the leading investment banks for Austria and the region of Central and Eastern Europe – even amid the turbulence of 2008.

What was the most stressful point for you last year?
The most difficult phase was in September and October when the financial market as a whole collapsed. Every day we met with other bad news about other banks. We had to re-analyse the risk positions and gain control of the situation.

What did you do in the equity sales area to keep investors informed?
We continued to focus on informing international investors about the Austrian stock market and the CEE markets by means of analyses and road shows that we organised. The highlight, as in previous years, came in April with our event in Zürs. 55 Austrian and Eastern European companies and 120 institutional customers attended – new record numbers in both cases. Conferences were held in cooperation with the stock exchanges of Vienna and Ljubljana. Moreover, together with a total of 55 listed companies, we organised individual road shows and 36 presentations of our research publications to institutional investors in Vienna and major European trading centres. In other words, we stood by our strategy of offering comprehensive service for the stock markets in Austria and Central and Eastern Europe.

Share prices last year plummeted. Particularly those of Austrian companies, which in previous years had performed excellently, took a beating. With such a negative atmosphere, do road shows and presentations even make sense?
Despite poor price performance, interest was high, at times even higher than in previous years. Obviously there is increased demand for information among investors, precisely because of the uncertain situation. They have a need to talk with management to get a personal impression of listed companies, in addition to their share prices. What's more, some of our competitors can no longer cover the regions of Austria and CEE due to cost cutting measures, and this has impacted service quality. This made our offerings even more popular.

How did the structured products area perform last year?
Our issuing activity encompassed the entire range of products, from guarantee certificates, index and basket certificates all the way to bonus certificates, warrants and turbo certificates. This provided the right instrument for every risk propensity among investors and also favoured market entry to more exotic stock markets as well, such as Kazakhstan or Ukraine. In 2008, we expanded the range of certificates listed at the trading centres of Prague and Warsaw; in Budapest our structured products were listed for the first time. In 2008, as in previous years, the sustainable quality of our work bore fruit in the form of numerous awards.

How do earnings play out, in figures?
It goes without saying that our figures reflect the financial crisis. Compared to the 2007 financial year, which saw record earnings, there was a drop of about 60 percent, although the contribution of the Securities Trading and Sales area remains unrivalled with a 55 percent share of total earnings.

What was the trading volume on exchanges like last year? Business was certainly enormously difficult, particularly in the fourth quarter when the financial crisis came to a dramatic head.
After 2007, which was marked by record trading volume, 2008 was dominated by sharp drops in volume. And the smaller and less liquid a financial market was, the more drastic these drops were. As a result, trading volume on the stock exchange in Vienna decreased by about 24 percent to EUR 144 billion. In Germany, trading volume declined by only 12 percent, while in Romania it fell by roughly 50 percent. These figures show clearly that risk reduction was the focus in 2008. Across the globe, measures were taken to reduce the total assets and thus the risks of the banks. The result of this was that equity transactions, particularly in the fourth quarter, nearly came to a halt in Austria and the CEE region, which is our focus. Our main task was to seek investors for blocks of shares that became available due to repayments to investment funds, in order to effect a transaction that was satisfactory for both parties.

And how was trading volume at Raiffeisen Centrobank?
The trading volume of Raiffeisen Centrobank on the stock exchange in Vienna, which reached record heights in 2007 with EUR 18.1 billion, dropped last year to EUR 10.4 billion. As a market maker, we are still number one in Vienna – we manage most of the Austrian shares. Our total trading volume in the area of Securities Trading and Sales fell from EUR 58.8 billion in 2007 to EUR 36.billion in the 2008 financial year.

How did nostro trading at Raiffeisen Centrobank do last year?
In our nostro trading, we also attempted to reduce risk positions and thus take into account the new market climate and its higher volatility and lower liquidity. Considering this extremely challenging environment, the results were very satisfactory. That also shows that ongoing monitoring of positions and thus of risk functioned excellently.

What are your expectations for 2009?
At the moment, there is great uncertainty. Neither analysts nor companies can offer reliable forecasts. Naturally, that has an effect on the behaviour of investors. For this reason, trading volume on exchanges could continue to decline significantly, not only because prices have seen another steep drop even since the beginning of the year, but also because of the low level of activity among our customers. We see recovery taking place when the money and credit markets stabilise.

Eastern Europe is currently assessed negativly by analysts across the board. Is that justified, in your opinion? And what impact does it have on Raiffeisen Centrobank if international investors avoid the financial markets to the east?
I think that one should take a differentiated view of Eastern Europe. Markets such as Romania or Ukraine are having persistent problems and will need more time to recover. Markets like Russia or Poland are much more mature, and there I expect initial signs of recovery earlier on, roughly at the same time as the Western markets. The aversion investors have toward Eastern Europe naturally affects us. But we will continue to focus on it. Once we have weathered the crisis, our involvement in these countries, in terms of both trading and analysis, will pay off.

Several international banks are withdrawing from Eastern Europe because of the financial crisis. Will this benefit you?
I think that it will enable us to gain market share in the region. That, along with increased activity in our nostro trading, will help us to compensate at least partially for the lower trading volume that is expected.

»CERTIFICATES HAVE WITHSTOOD THE TEST OF FIRE VERY WELL THROUGH THE FINANCIAL CRISIS.«

Heike Arbter
Deputy Head, Structured Products

Heike Arbter

Deputy Head, Structured Products

How has last year's financial crisis affected the Austrian certificates market, and what was the situation at Raiffeisen Centrobank?
As measured by the outstanding volume Austria's certificates market with private investors amounts to approximately EUR 12 billion. It shrank by almost six percent due to the financial crisis in 2008. The decline turned out to be very mild because 80 percent of the volume accounted for guarantee certificates, i.e. the safest category. There was hardly any returns here. The decline at Raiffeisen Centrobank was greater at 12.5 percent. Raiffeisen Centrobank is offering more leveraged products and has focused strongly on East European products. In both of these areas there have been more returns due to increasing perception of risk. On the other hand, index-linked life insurance products did well. Here we have created products with equity components for insurance companies.

What advantages do certificates offer to customers?
In making his stock or index assessment, a customer may not only map his thematic priorities through the correct selection of certificates but also coordinate these with his own risk tolerance. Anyone willing to accept a market risk selects the index certificate. Anyone able to risk more reaches for turbo certificates or warrants. For a smaller risk appetite, there is a large palette of so-called risk-optimised products such as bonus or discount certificates, right up to products with a full capital guarantee. In addition, certificates are easy to handle and have a permanent secondary market.

How extensive is your product palette and which products were most in demand last year?
We offer a full range and, with approximately 2,000 products, we are no. 1 in Austria. The greatest share of sales is guarantee and index certificates. About 20 percent of our sales are turbo certificates to investors who can tolerate risk.

What innovations were there in the area of certificates last year?
There were enormous price fluctuations in the commodities market in 2008. With our short certificates, which were new to the market, one could position oneself for a commodities price decline without leveraging for the first time. Also new were outperformance certificates. One buys this product with the hope that, for example, the price of gold will outperform the Eurostoxx. Our work was, accordingly, also highly valued last year. We were the overall winner at Certificates Award Austria 2008 and in Warsaw received the "Award for Creation of a New Segment at Warsaw Stock Exchange."

Legally, certificates are bonds of a bank. The purchaser thus bears the issuer-related risk. Did you notice uncertainty with the customers after the collapse of the US investment bank Lehman?
That was less the case in Austria, very much in Germany where the Lehman bankruptcy made big waves. The German certificates market, which is likewise very much dominated by guarantee products, shrank last year from EUR 135 billion to EUR 80 billion.

What new exchange listings were there last year?
All of our products are listed in Vienna. The market place in second place for us is the EUWAX in Stuttgart, the largest certificate exchange in the world. In 2006, we listed certificates for the first time in Prague; in 2007, in Warsaw. In both markets, we expanded the palette of listed certificates. In addition, there was a listing in Budapest for the first time last year in cooperation with Raiffeisenbank of Hungary.

What expectations do you have for 2009?
Certificates have withstood the test of fire very well through the financial crisis. Interest is growing in these products, which have also made derivatives acceptable to private investors. Above all, in view of sinking interest rates, many investors who took hold of their savings book last year are looking around for alternatives again–and that could also well be certificates. Low-risk products like guarantee and bonus certificates are especially in demand. Commodity certificates might also continue to be interesting. Additional goals are the continuing expansion of the product palette and a listing on the certificate exchange Scoach.

»ANYONE IN OUR BUSINESS WHO HAS NOT LIVED THROUGH A CRISIS IS NOT A FULL-BLOODED ANALYST.«

Birgit Kuras
Head of Company Research

Birgit Kuras
Head of Company Research

What distinguishes the research of Raiffeisen Centrobank from other firms? What is your USP?
With our team of 30, we completely cover the domestic and major East European stock markets. We are constantly covering a total of 100 companies in eight countries. For many international firms, the analysis of the eastern region is only an add-on. We not only study these regions, we live in them. We have a comprehensive network there and are able to use the integrated expertise of the group. Also in Austria, the capital market has gradually developed. We are now in a perfect position to use the years of experience which we have acquired through this.

Is the analysis at Raiffeisen Centrobank organised by industry or country?
We have been pursuing an industry approach for some years, which has very much proven itself. Sitting in Vienna, individuals in charge of a sector take responsibility for an entire industry. The local analysts on site contribute local expertise and local newsflow within a matrix structure. Sustainability is very important to us. We will continue our approach to the east and the matrix structure and not start something else two years from now.

How did 2008 go for you, and what did investors attach special importance to?
In difficult times, research is of fundamental, if not utmost, importance. Economic cycles have always existed. This is nothing new for analysts. This time, however, the financial market crisis and the recession coincided to a completely surprising degree that did not allow any planning. We analysts were presented with a difficult task. It was a situation that had not occurred since analysis began. The primary problem was that the companies themselves no longer knew what growth to expect in the coming months. Analysts work with scenarios, and this want of guidance from the side of the companies pushed the assumptions of the forecast models into an extremely broad arc. Consequently, target prices and recommendations often no longer corresponded. The individual research firms were sometimes miles apart in their assessments. Investors clearly focused on liquidity with the motto “cash is king.” Growth was less important than the question whether a company would survive the crisis at all. There was a tendency to demand defensive stocks with high dividend yields.

In the opinion of many investors, stock analysts completely failed last year for reacting much too slowly to the crisis. Does this criticism give you food for thought?
Of course, I am concerned about it, and it is a fact that all analysts in the world were not quick enough. We analysts obviously also prefer to be optimistic. You always have to keep in mind that analysis consists of more than target prices and recommendations. In order to support investors in their decision making, the main concern is to filter out which factors influence the result and how strongly. And, precisely in difficult times like these, in-depth research is in incomparably much greater demand than mere trading ideas. It was important that we did not go into seclusion like many other banks but consistently expressed clear opinions.

Are analysts afraid of making a sell recommendation for a stock?
We do not shrink from it. We also make reduce and sell recommendations, although less frequently than buy recommendations. The affected companies can live well today with reduce or sell. The times have passed when there were complaints in such cases. The field has become much more professional.

How has the job as analyst changed over the years?
Our work has changed dramatically. It was just desk work before. The work was supply-oriented. We simply circulated information. Today, analysts are very close to investors and know their desires and needs. Today, investors generally are extremely well schooled and speak directly with the analysts. There are more presentations and investor functions than before, and we more frequently visit the companies we analyse. Due to the great volatility, right timing in analysis has grown even more important.

There are star analysts, primarily in the Anglo-American sphere. Who are your stars?
We have a star team. After a restructuring two years ago, we now have a very well recognised, powerful team – but without all the airs of a star. The group is very cohesive. Friendships extend beyond collegiality. These are very important factors for success.

How do you find out whether investors are satisfied with your work?
Frequently directly – there are more and more investors who speak directly with us analysts. We also receive feedback through our colleagues in the sales department. And, in addition, there are official rankings in which our work is assessed objectively. In our research team at Raiffeisen Centrobank, we are especially proud of being ranked number one in the category of accuracy by the American analyst firm StarMine. In accuracy of recommendations, we were number four worldwide and thereby the best Austrian bank. Such distinctions create a great amount of trust in the customers.

Does the research at investment firms like Raiffeisen Centrobank also open doors for customers in other departments?
Yes, clearly. We have credit of trust with issuers who know and value our research. Good analysts are desirable contacts for issuers because through our industry approach we know their market and also know what investors are thinking. Our work thus often opens the door to other departments, all the way to private banking.

Have you learned lessons from the financial crisis?
Anyone in our business who has not lived through a crisis is not a full-blooded analyst. A certain degree of humility is also important in our trade, and you learn much more in times of crisis than when the markets are booming.

What will be the focal points of your work in 2009? There will be hardly any IPO candidates for you to analyse?
No, there will not be very many of them, but perhaps increases in capital. We will continue to cover our universe. We want to design the products so that they are even closer to the market and timelier. Thus we want to provide investors with a clear opinion and as much information as possible, above all in the industries which are momentarily of greatest interest. Examples are our sector reports on banks and the oil and gas arena. In addition, we want to be quicker with our products, possibly reacting immediately with an initial assessment to news from the companies. Then more in-depth analysis containing comprehensive planning models will come later. Investors really appreciate this multistage concept.

Due to the financial crisis, some firms are reducing the number of their analysis experts. How is your firm reacting?
We are seeing this reduction with some competitors, and it is certainly a disadvantage to investors when diversity of opinion is missing for many companies. Raiffeisen Centrobank is not making any reductions. The coverage of our universe, which includes approximately 100 companies, is continuing to be conducted without interruption. We are not fair weather analysts – we work in good times and in bad.

»WE DID NOT COME UP WITH ANY TOXIC PRODUCTS AND WE DID NOT BOTCH ANY OF OUR ISSUES.«

Gerhard Grund
Member of the Executive Board, Equity Capital Markets

Gerhard Grund

Member of the Executive Board, Equity Capital Markets

How did the turbulence on the capital market affect business in the equity capital markets area?
2007 was the best year in our history. The positive impact of the two major transactions that we engineered that year – the IPO of Strabag and the capital increase of Raiffeisen International – spilled over into 2008. What emerged in 2008 from the collapse of the capital markets and the recession was a toxic cocktail that forced even very experienced and hardened investment bankers to face a challenge like none they had ever seen. Some sectors of the capital market were completely down. Across the globe, the IPO business fell apart. On the domestic capital market as well, all IPOs were cancelled or postponed indefinitely.

When you lose your most important business, you can either wait for better times or look around for alternatives. How did you react?
We quickly concentrated on other products. For instance, we masterminded the capital increases of AUA and Uniqa Versicherung. We also accepted various consulting mandates and relistings such as that of AT & S and conducted takeovers, ultimately closing out 2008 on a very successful note. Our decades of experience in the capital market have given us plenty of know-how when it comes to difficult phases, most recently in 2002 and 2003.

Is it possible to reorient yourself that quickly?
We are a relatively small team, and thus are not as compartmentalised as the large international banks. In our organisation, every employee must be capable of many things. This allowed us to react flexibly to the changed situation. The age of standard products in the capital market business is over, and Raiffeisen Centrobank benefits from that too.

How do you gain new customers?
As a rule, we always approach our customers actively – assisted by the customer advisors of RZB – rather than waiting for the companies to come to us. Particularly in difficult times like these, we concentrate strongly on finding out what the customer's needs are and whether there are products that suit his situation.

What is the bottom line as far as your earnings go?
In 2007 we were in charge of the largest number of IPOs and the heaviest volume listed on the stock exchange, thereby generating absolutely record earnings. In 2008, despite the extremely negative climate, we brought in 80 percent of the previous year's earnings, albeit with other products. In our business as well, linear thinking is a thing of the past.

Will the capital market business essentially change due to the financial crisis, or will everything proceed as before after two years?
I think we will have to lower our sights in future. The deals will simply be smaller, and for the foreseeable future I do not expect to see any of the gigantic IPOs that bring investment banks high fees. There will be fewer transactions, and smaller ones. They will include consulting mandates involving the question of how companies can streamline their financing and shareholder structure.

Investment bankers are currently under heavy fire because they are seen as the cause of the global financial crisis. As head of the ECM area, what is your take on this criticism?
The criticism does not apply to us at Raiffeisen Centrobank. I can still look anyone who has bought a product from us in the eye. We did not come up with any toxic products, and we did not botch any of our issues. Every share transaction that our firm made in the past yielded price gains for the investor after the deal was made. Even the Strabag share, which entered the market at a critical time, rose slightly before the entire market, and then the share, collapsed. Unlike the major international investment bankers, we even gained confidence. They devised the right financial instrument for everything except, to date, the market crisis.

What are your expectations for 2009?
As mentioned before, we will have to lower our sights. For at least the first half of 2009, I do not expect to see any IPOs. On the other hand, we will most probably see capital increases – larger ones, in fact. Investors still have access to money; what we are currently experiencing is a reluctance to accept offers. I expect to see a paradigm shift in capital increases. Until now, they were primarily used to finance large takeovers. The market wanted a growth story, and nothing else was sexy enough. In future, companies will use capital increases primarily to improve their balance sheet structure. That doesn't sound very exciting, but it will be necessary, because it will become more important to banks that companies have an adequate capital ratio.

How is Raiffeisen Centrobank different from its competitors? What sort of competitive advantages do you see emerging from the transformation on the equity capital markets?
One of our strengths is the manageability of the firm and our lean and flexible structure. We are able to "tailor" the products that our customers need cost-effectively. Another advantage, particularly in difficult times, is the well-developed network of Raiffeisen and the option of offering the entire range of investment banking products in cooperation with Raiffeisen Zentralbank Österreich AG. If an M&A transaction is more cost-effective for a customer than a capital increase, we have specialists available for that through our subsidiary Raiffeisen Investment AG. The stability of our customer relationships is of the utmost importance to me. We have been in existence as an ECM team for longer than most CEOs or CFOs have remained in office at companies listed for trading in Vienna. We are completely familiar with the companies managed by us and their corporate bodies, and – unlike our international competitors – do not have to conduct "surveillance" first. We focus on shares, and thus offer consistency in our product range. Unlike other firms, we do not keep coming up with brand-new gimmicks. Also, there is good collaboration between the Equity Capital Markets, Sales and Research areas. Although we must comply with strict regulations calling for Chinese walls between the departments, organised knowledge transfer simply works better if the industry analyst is two offices down the hall rather than in Chicago.

»IN 1998, RUSSIA WAS COMPLETELY OUT, AND TWO YEARS LATER THIS MARKET WAS BOOMING AGAIN.«

Erich Obersteiner
Head of Equity Capital Markets CEE

Erich Obersteiner

Head of Equity Capital Markets CEE

Eastern capital markets were also fully impacted by the financial crisis in the preceding year. At Raiffeisen Centrobank, you manage the Equity Capital Markets Central and Eastern Europe unit – how strongly did this collapse affect you?

In the region under our charge, the environment for initial public offerings was still rather good at the beginning of 2008. We started off with a full IPO pipeline. Starting in the summer, sentiment clearly worsened and the issuers withdrew from all projects on which we had already worked. It was no longer possible to place IPOs. We participated in the Russian retailer, X5's, capital increase and that was the only one which we were able to bring to the floor. There were no new mandates. Transactions that had been prepared were cancelled or postponed for the long-term. During the third quarter of 2008, year-on-year IPO volume in the region collapsed by 90 percent. Then in the fourth quarter, everything stopped. And, by the way, the situation in the West wasn't any different: There were months in the US where there wasn't even a single new company going public. We hadn't experienced something like this in ten years.

How did you react to this difficult situation?

We expanded our palette beginning in the fall of 2008 because IPOs and capital injections, which are our core business, fell into a complete lull. Once we analyzed what worked really well in the past – even during times of bad markets – we turned our attention to the convertible bond. Even during difficult phases, this product can be of interest both to issuers and to investors. We already have several projects, for example in Russia and Slovenia, and several more are in the pipeline. Even delisting is an issue now; and this is something for which we offer know-how support. Many countries in Central Europa urgently need money and are being urged to privatise by the International Monetary Fund, which grants credit lines only under strict conditions. But at the moment this isn't that easy to implement either. Exchangeable bonds which function like a convertible bond, could be an interesting solution for these governments. So we offered this at the same time as we offered investor relations packages, independent company valuations, fairness opinions, or pre-IPO advisory. Depending on the company's situation, this can take up to one and a half years which is why now is the ideal time to do it.

In terms of income did these alternatives compensate for the lack of IPOs and capital increases?

Also in terms of income, an IPO is the royal product of the capital markets business. Our business is extremely cyclical. While for example the automotive industry will already experience serious problems when there is a 20% collapse, swings of up to 90% are not rare events for us. In times like these, we are happy if we are able to cover our costs.

Central and Eastern Europe were praised during the last few years as growth markets. Now analysts consistently give these countries extremely negative evaluations. Given your on-site experiences, how do you see the outlook for the region?

I remain convinced that over the long term it offers more opportunities than risks and that it will recover again. No one should ignore how we in Austria have already profited significantly from Eastern Europe. For several years now the growth rates in the East have been very high, in which case there naturally will be a correspondingly high likelihood of a correction. All in all, growth in the region even now is markedly stronger than in Western Europe. The current phase is naturally a real challenge. In the long term, the opportunities in Eastern Europe are far greater than in the West. They have raw materials, a large domestic market, and well educated inhabitants who are ready to improve their lives.

Are there differences between individual countries and how do you think Russia will continue to develop?
It would be completely wrong to see the entire region as just one block. There are enormous differences. Countries which belong to the EU should be judged differently than those which do not. Russia will certainly overcome the crisis. There, they have built a huge state reserve from their oil income. Today, Russia is in a completely different position than it was in the 1990s when it also found itself in a difficult financial crisis. In those days, the Russian government was completely at its end. Now the oligarchs are at the end of their tether. Now the state is taking back their companies for next to nothing. Certainly this is an irony of fate. Russia is the only country in the East which is implementing an active program for banks and business. This too is positive.

You expect then that Eastern Europe will recover again economically. When will these markets be in demand again for international investors?
I expect this trend reversal will occur no later than when Western European investors start to post initial profits. They will turn their attention back to the region as soon as profits in the West start slackening and new opportunities open up in Eastern Europe. That it works like this, we learned at the end of the crisis in the 1990s. In 1998, Russia was completely out; and two years later this market was booming again. Initially, the recovery will take root in the large markets and then it will spread with a time lag to the smaller ones. Based on the assessment, some of the Eastern European markets are extremely cheap and the fundamentals and enormous potential for catching up continue to speak for the region.

What is the outlook for the Eastern European capital markets business?
It is an unfavourable climate for classic public offerings. If anything at all will move then it will be a very small number of special IPOs during the second half of the year. Here, the agricultural products sector could be particularly interesting. Agricultural products like wheat and soy could easily be used for obtaining energy in countries like Romania, Bulgaria, Serbia and Belarus. Only after 2010 are we counting on a clear revival of the IPO market. But for capital increases the Eastern European market will revive even earlier. Given the credit crisis, companies will have to make greater efforts to tap alternative financing forms. Even the number of consulting mandates will increase – and for two reasons in particular: The companies have to adjust to the new financing conditions and those who stay with a public offering solution over the medium-term will use the intervening time for intensive preparations. We are also reckoning with good opportunities in unorthodox privatisations; such as via exchangeable bonds.

Y*ou operate in a total of 17 countries and cover the entire Eastern region all the way to Kazakhstan. Will you pull back your presence because of the crisis and even withdraw from a few countries?*
We cover the region from Vienna; we accomplish this by working very closely with local units of Raiffeisen International Bank Holding AG and our subsidiary Raiffeisen Investment AG which we also use as a marketing arm. Raiffeisen will certainly remain in Eastern Europe. For the time being, and from our location in Vienna, we will focus our attention on larger countries because that is where the recovery will begin. Poland will be the quickest to recover. Russia too will come back; and even Romania, given the size of its market. In the smaller countries, our plan is to concentrate on specialty products. The crisis could even create greater opportunities for us because the international investment banks are tearing down their tents there so that, with the exception of Russia and Poland, large competitors are no longer on the market.

»WE HAVE FULL LATI-
TUDE IN CHOOSING
PRODUCTS. THIS
MEANS THAT OUR
CUSTOMERS ARE NOT
REDUCED TO BUYING
A HOUSE PRODUCT.«

Monika Jung
Head of Private Banking

Monika Jung

Head of Private Banking

The international financial markets of 2008 were shaped by the worst crisis since the 1930s. How did you in the Private Banking department of Raiffeisen Centrobank react to this difficult situation?
Although we too were taken by surprise by the extent and duration of the crisis, we reduced risk continuously in customer investments. In other words, we sold equities on an ongoing basis, although by current standards we certainly could have taken more radical action. Eliminating risk and parking funds in safe havens like fixed-term deposits or short-term government issues is the only possible strategy. We deliberately did not make bear market speculations because as a matter of principle, we use derivative instruments on customer portfolios only for hedging purposes. It was also important to us to maintain especially intensive contact with our customers. I am sure that my employees and I had five times as many conversations with customers last year as in “normal” years.

What phase was the most stressful for you and your staff, and where do you get your motivation in situations like that?
The end of September and beginning of October were the worst two weeks. What is important in such phases is to work together well as a team. Reacting to external crises by assigning blame internally is of no use. In the extreme phase, we met several times a day to analyse the situation together and settle on appropriate steps.

What is the investment philosophy of your company? What makes you different from the competition?
Our hallmark is professional and risk-aware investment advice and active, tailored portfolio management. The primary aim is to protect the assets of our customers. Naturally, we offer the entire range of securities – equities, funds, bonds, certificates etc. – and are free to choose any provider when selecting products. This means that our customers are not reduced to buying a “house product” if another would be better for them – a feature that is widely appreciated. Our core competencies include not only investment advice and portfolio management but also brokerage. Our trading-oriented customers benefit from our customer advisors' closeness to the market and the high number of direct stock exchange connections Raiffeisen Centrobank has. Shares can also be purchased by phone; our own traders carry out the orders immediately.

How many customers does Raiffeisen Centrobank Private Banking have, and where do they come from? Do you also manage ultra-rich Russians?
We have about 800 customers. Two-thirds of them are private individuals, and one-third is enterprises and foundations. One-fifth of customers come from other countries, and several of those are from Eastern Europe. Through a cooperative venture with Raiffeisenbank Moscow, we have received several customers from Russia, but in those cases as well, the customer portfolio is as diversified as with other nationalities. In principle, this group of customers invests very conservatively, mainly in fixed-term deposits and government issues in USD or EUR.

How did the assets managed by your company perform in the past year, and how much did your customers lose last year?
The assets that we manage decreased last year from EUR 1.8 billion to EUR 1.45 billion. Customers who have portfolios with low to medium risk experienced losses of up to 10 percent. Those with more risk propensity lost 15 percent to 20 percent. Naturally, any loss is painful to a customer, particularly when there is no prospect of recovering it in the immediate future. The developments were particularly bitter for those customers who had not been investing in shares for long, and thus did not benefit from the good years up to 2007. One positive aspect is the fact that our customers did not buy shares on credit.

How did customers react to the fact that they suffered losses, while simple savings books earned good interest?
They were brave about it. I have worked in the banking business for 20 years. Investors today are much better informed than they used to be. So the trend did not come as a complete surprise to them, and they were well able to interpret the causes. We even gained new customer accounts – in other words, despite the poor market conditions, we gained additional trust. Naturally, however, the need for advice and ongoing communication has increased.

Several of your competitors, such as Constantia Bank or Meinl Bank, have become the stuff of negative headlines. Has your company benefited from this?
Yes, there were numerous customers from both banks who transferred their investments to Raiffeisen Centrobank, but in principle, such developments are primarily to be regretted and are not beneficial for the marketplace.

What investment strategy did you pursue in 2008?
Unlike several of our competitors, we began as early as February to sell commodity funds. Starting in May, the equity ratio was systematically lowered. We sold in several stages – across portfolios. The funds were parked in fixed-term deposits and government issues with short maturities. In doing so, we relied on jumbos, i.e. large issues, and naturally those with the best ratings. Although several banks deployed special products with an inflation bias in 2008, we did not. We did not believe in it, and developments have proven us right. Inflation is not of interest now.

What is the outlook for you today?
Because we believe further setbacks are possible, we are continuing with our defensive strategy for the time being. In the case of corporate bonds, we are proceeding with extreme reserve. Because both governments and companies will be issuing huge volumes today, we can assume that better returns will be there for the taking if we purchase later on. We do believe in shares and particularly in securities with asset values that show a sustainable and transparent business model and a corresponding history. In the next few months we intend to buy more cautiously, in several steps. The focus is on established markets, i.e. the eurozone and the USA. As for industries, we will take a positions on foodstuffs, health care and utilities. Later on we might venture again into cyclicals, for instance in engineering. What will be extremely important is the selection of individual stocks. As for government issues, we are sticking with solid EU countries like Germany, Austria or France and maturities that do not run past 2011. Interest on fixed-term deposits has dropped drastically. But if you want to park your funds, you have to accept this. We advise those who are willing to accept more risk to buy bonus certificates.

Do you think the financial crisis will trigger a general shift among investors?
The customers still only want investment products that are clear and comprehensible. This also applies to extreme transparency with regards to conditions and costs. Moreover, investors have become very disciplined; there are more limit orders and stop losses than there used to be. That is where we are headed. Buying shares and then holding them is no longer "in". When you make a wrong investment decision, you pull out after a short time.

When do you see the turning point coming to the global capital markets?
The turning point could come when the companies once again have good news. The lows that we have reached make it easier to show an improvement. Once sentiment improves, the stock market will favour recovery as well. Last year, depending on the company, we saw 40 percent to 80 percent drops, so a 50-percent recovery is quite possible. However, we will still have to expect huge leaps in prices. It is almost certain that the markets will remain volatile.

»VALUATIONS HAVE BEEN CUT IN HALF AND WILL CONTINUE FALLING. AT SOME POINT WE WILL REACH THE BOTTOM, AND THEN IT WILL BE TIME TO ACT.«

Heinz Sernetz, Wolfgang Putschek and Martin Schwedler
Executive Board Raiffeisen Investment AG

Heinz Sernetz, Wolfgang Putschek and Martin Schwedler

Executive Board Raiffeisen Investment AG

What are Raiffeisen Investment AG's core competency areas, and what countries and industries do you do business in?

Sernetz: We're the only company in the corporate finance area with an on-site presence in all of Central and Eastern Europe and in Turkey. We are the leading M&A and privatisation consultants in the region. In Vienna we have an industry orientation, covering all the key sectors of the industry. The areas of expertise include energy, telecoms, chemicals, pharmaceuticals, as well as steel, consumer goods and foodstuffs. Our sector specialists maintain a close relationship with the companies they work with and stay abreast of all the latest developments and trends in their industry. We have teams representing us in twelve Eastern European countries and in Turkey and thus have access to local expertise. Our sector specialists work in conjunction with the local teams in conducting transactions. We also work very closely with Raiffeisen International's network banks in the relevant local markets.

How has the financial crisis of 2008 affected your company?

Sernetz: Internationally, M&A transactions have fallen by 50 percent from the record-breaking year we had in 2007. Business in the first half of 2008 continued to be strong for us and we completed a number of significant transactions. Raiffeisen Investment AG, which is 100% owned by Raiffeisen Centrobank, ranked first in the entire CEE and CIS region during the period measured by the number of deals. Then, in the second half of the year the crisis in the financial markets and the economy began affecting our markets in Eastern Europe, and especially in the fourth quarter M&A volume fell off in the region. The negative effects were mitigated somewhat by the fact that we had more government contracts. We were market leaders, along with a US competitor, in Russia for example in valuation of infrastructure projects.

What were the most significant deals that you oversaw in the previous year?

Sernetz: Altogether, there were 33 transactions. For example, we advised the local company RailCargo in the acquisition of Mav-Cargo from Hungary. We were mandated by the purchaser Yamaha on the Bösendorfer deal and the purchaser of Waldquelle. Other significant deals were the sale of Labormed, the Rumanian generics manufacturer, to Advent, the acquisition of two Belorussian breweries by Heineken / Brau Union, the purchase of the Ljubljana Stock Exchange by the stock exchange in Vienna and several privatisations in the Turkish e-economy. Our strongest markets in the first half of the year were those in Southern Europe, including Romania, and we also were quite active in Russia and the Ukraine. We received four awards in 2008 for our work.

How does the 2008 financial year look in the final analysis? How drastic were the effects of the crisis on your numbers?

Schwedler: With 96 employees, 40 of them in Vienna, Raiffeisen Investment AG had a gross fee volume last year of EUR 25.4 million. In 2007 it was EUR 30.7 million. Earnings before tax set a record of EUR 10.5 million in 2007, dropped to EUR 3.7 million. Here you can see the effects of the financial crisis, but there was only a slight drop in the number of transactions.

Since 2007, you have been in collaboration with the investment bank Lazard. How are things going with this partnership?

Schwedler: The partnership with Lazard is going very well and has been extended by two years. We have already successfully completed six transactions and we are currently working on 20 common mandates. The company culture at Lazard, which unlike the big players on the investment banking scene has not been impacted by the financial crisis, fits well with that of Raiffeisen Investment AG, and this is another reason we are quite satisfied with the partnership.

What are the prospects for the 2009 financial year?
Putschek: The first half of the year 2009 will certainly continue to be difficult in the M&A market, but we should start seeing some recovery by the second half of the year. Overall, we are cautiously optimistic. I do not expect to see any high-profile billion dollar deals this year in the international M&A industry as these transactions, which are typically conducted with high leverage, meaning large amounts of debt, are no longer possible due to the financial crisis. But this was not our market in any case. We also expect higher buying and selling activity in the mid market, with transaction sizes between EUR 50 million and EUR 500 million which is where we are strong. A good part of our mandate portfolio currently consists of cases in which there is a forced sale of a company because of the financial crisis and the transaction values are within the range I mentioned. For example, we have had several orders from Iceland. In the past, Icelandic holdings bought aggressively abroad and now have to sell again as quickly as possible. In general, due to the difficult financial situation many companies are having to realign their strategy and focus on their core business. Areas that are not part of that equation will be sold.

So you are saying that because of the financial crisis you don't expect less business but to have more deals than in economically rosier times?
Putschek: Yes, our portfolio has completely changed. Two years ago people congratulated themselves on each sell-side mandate because there was a 90-percent chance you would find a buyer – either a strategic investor or a private equity company. Whoever paid more made the deal. This trend will reverse in 2009. Promising mandates are those where we advise buyers with a lot of liquidity in acquiring companies.

How has the landscape for M&A deals changed with the financial crisis?
Sernetz: Measured by the multiples that are charged and paid, valuations had already been cut in half the previous year and will continue falling this year. So the companies are getting less expensive. At some point we will reach the bottom, which is the time to act. Another positive effect for buyers will be the depreciation of the currencies in the East, as they will get a larger market share for a price paid in euro than before. And finally, now buyers do not have to pay out much money for inflated goodwill, which was quite common through 2007 and has returned as a boomerang.

Who still has enough money to make additional purchases and what industries do you expect to make the most deals this year?
Putschek: I see three large groups of buyers: first, there are the strategic investors who in the past were not able to compete with the private equity firms. Many of them still have a large war chest and are just waiting for the right moment to enter the scene. Some private equity funds have been collecting money but have stopped their acquisition efforts on account of the financial crisis. They are now starting to feel the pressure and will have to invest. And not all the oligarchs have been ruined financially. There are also those who sold at just the right time and now have large cash holdings. In terms of industry, I expect to see the most activity in relatively stable industries such as food, energy, telecoms and pharmaceuticals. Our firm already has corresponding orders from these industries and we are hopeful we will be able to complete these deals successfully. In the telecoms area, I also expect additional privatisations as many countries in Eastern Europe are having to finance large budget deficits.

»A HEALTHY DOSE OF SCEPTICISM IS JUST AS NECESSARY FOR RISK MANAGEMENT AS COMPUTERS AND RATIOS. WE SHOULD NOT PLACE SO MUCH TRUST IN THE SYSTEM.«

Andreas Rosenbaum
Head of Controlling & Risk Management

Andreas Rosenbaum

Head of Controlling & Risk Management

For many banks, risk management used to be purely a matter of duty. Now, thanks to the financial crisis, the spotlight has shifted to this discipline. How did all of you at Raiffeisen Centrobank cope with the challenges of 2008?

Basically, because it specialises in trading and brokerage in shares and equity derivatives, Raiffeisen Centrobank was less exposed to the turmoil that gripped the global financial markets than banks which are also active in interest business – particularly that involving credit derivatives – and those with large securities positions. Our systems are geared to a transaction-orientated business model with clearly assigned responsibilities: We never have situations in which no one addresses or notices a pending matter. Particularly during the difficult year of 2008, this was a major advantage. In general, naturally, we have become more cautious and have continued to reduce our risk wherever possible since the summer. Another key factor was that the increase in the total assets of Raiffeisen Centrobank over the past few years was based on the successful placement of our own issues rather than on leverage.

How are the risk management activities of Raiffeisen Centrobank integrated into those of the group parent, RZB?

As a subsidiary of RZB, we are integrated into the risk management system of the RZB Group. The various risk management units operating at different management levels ensure that all major risks are monitored and limited and that business transactions are concluded by taking account of the risk/earnings ratio. Because we are a specialist bank, we naturally have a different risk profile than the average Group company. The support of relevant systems enables us to concentrate particularly on our core area on our own level of management, as well as on handling the market risks incurred by shares and equity derivatives.

Did the extent of the crisis take you by surprise?

What surprised us, like many others in the industry, was the fact that credit risk – which for years was considered minor, particularly in interbank business – quickly became the issue that determined everything else. One assumed it was under control, given Basel II and its system of ratings and historical default figures. But it does not cover extraordinary circumstances, such as those last September when the US government and the rest of the banking system let the US investment bank Lehman fail.

How does risk management at RCB function in concrete terms, and what were the particular challenges of 2008?

Raiffeisen Centrobank employs the approach of bank-wide risk management, which is based on a clearly defined risk policy and a sweeping planning and financial control process. The focus is trained particularly on market, credit and operational risk. Risk assessment itself relies on linking sensitivity limits to an overall Value-at-Risk concept. Comprehensive stress tests have been developed to supplement this practice. All of these measures, which are described in a detailed risk report, allow the Executive Board to detect and evaluate risks promptly and introduce the necessary control mechanisms.

Because we are a major issuer of certificates and derivatives, we must maintain particular control over the market risk incurred by dynamic hedging. We have gathered years of expertise in this area and have worked consistently to perfect our systems. Last year, in addition to implementing the standards of MiFID and Basel II, we completed an ambitious project to develop the risk management scheme into a bank-wide risk management system with the help of outside experts. It focused on revising and redefining the risk strategy, emphasising risk propensity and risk capacity, developing a Monte Carlo simulation for market risk and quantifying operational risk using parameters consistent with a Value-at-Risk approach.

Were all of these measures sufficient to meet the particular challenges of 2008?
Yes, we can affirm that. The extreme aberrations evidenced by the global financial markets, particularly from September 2008 onward, made hedging significantly more difficult, but we managed to conduct it successfully. In our business with major international investment banks, which we need as partners for many products, we used the opportunity presented by the broadening of credit spreads in summer 2007 to position ourselves more conservatively and to institute precautionary measures.

Another major issue for many banks last year was liquidity risk. We are much less affected by this than other houses. For the most part, we are refinancing ourselves on our own, drawing particularly on the securities issuance business. In doing so, we had no trouble covering small overhangs in the interbank market, naturally supported by the good standing of our parent company RZB.

Many believe that the collapse of Lehman in September 2008 was a key factor in the disastrous development of the financial crisis. Do you share this assessment?
In retrospect, the decision-makers in the USA obviously underestimated the domino effect triggered by the Lehman failure. Up to that point, it was thought that the system would not drop any major bank. But on that day, the world of finance did a complete about-face. The confidence between the banks was gone, and interbank business collapsed. This is the problem plaguing finance – and, to an increasing degree, the economy – today.

Could it happen that you raise an objection to a new product that your colleagues in the Securities Trading & Sales Department hope to launch on the market for risk reasons?
Yes, we do come across product ideas that we cannot support because of the associated market or credit risk. In such cases, the Chief Risk Officer has the last word on the Executive Board. However, in difficult times such as those we are currently seeing on the securities markets, we tend to view product ideas with reserve. Innovations tend to spring up during boom phases.

Many experts believe that the Basel II provisions and international accounting policies not only did not prevent the financial crisis, but actually even made it more serious. As a risk manager, do you share this assessment?
Basel II certainly raised our awareness about coping with crises, but in individual areas it must be viewed critically. This caused people to rely too heavily on systems and forget to maintain a critical view of reality. Basel II has a procyclical effect and thus contributes to the credit squeeze in critical periods. I am also very critical of the US accounting principles. When an investment bank can turn a profit on its worsening credit rating by downgrading its liabilities, it gives you pause. Ultimately, we should take a critical view of how the marked-to-market measurement is implemented. The fact that banks are now forced to evaluate positions for which there is no market certainly has aggravated problems in recent months.

Are there lessons to be learned in risk management that can be applied to the future?
It is important for us to adapt our tools for new developments on an ongoing basis, and we should not place so much trust in the system. We need to understand the business and remember what drives a position, rather than relying on risk tools and their mathematical/statistical methods – as important as they are – alone. A healthy dose of scepticism is just as necessary as computers and ratios.

What challenges do you see for the 2009 financial year? Your work is not likely to get any easier, is it?
No, but it will not be any more difficult than it was in 2008.

»OUR EMPLOYEES ARE NOT ONLY IT-SPECIALISTS, THEY ALSO HAVE A DEEP UNDERSTANDING OF THE BANKING INDUSTRY.«

Günter Völker
Head of IT & Organization

Günter Völker
Head of IT & Organization

As we know, the entire financial industry today is extremely dependent on technology. What are the specific challenges in the IT area facing a firm like Raiffeisen Centrobank which is highly specialised in the securities business?
Our motto for IT is – concentration on the essential and a permanent focus on the "whole". This requires an IT strategy that is implemented in a consistent way, along with an equally consistent IT architecture management. Uncontrolled growth must be avoided and the IT structure must constantly be scrutinised to ensure maximum efficiency and effectiveness. An effort must always be made to stay fit for competition – and this is a task we believe we are up to.

What distinguishes the IT team at Raiffeisen Centrobank?
We are a small but distinguished team, a high-quality group that brings the right know-how and effectiveness to the ongoing development on our IT systems. The solutions are tailor-made to meet our clients' needs. Our employees are not only IT specialists, they also have a deep understanding of the bank industry, which is perhaps a critical competitive advantage for our firm. To meet the needs of our clients even more effectively, last year we expanded our team in the areas of security & quality management and helpdesk.

What distinguishes Raiffeisen Centrobank in the securities trade?
In Austria we are the bank with the most "direct" memberships on stock exchanges. The majority of our competitors abroad cooperate with local brokers – we want to do that ourselves and that is why we are linked directly to a total of 15 stock exchanges. This not only includes the large Western European stock exchanges, but also such markets in Central and Eastern Europe as Budapest, Bucharest, Warsaw, and Moscow. This is naturally a considerable challenge for our IT department because of the high costs of maintenance. But our clients benefit because the direct access we offer gives them even closer access to the local market. So they are able to stay abreast of what is happening there directly and do not have to rely on second- or third-hand information. Especially in Eastern Europe, people do not get a lot of information from agencies but are more closely tied to local information sources than is the case in the West. Only we are able to offer our clients this added knowledge and proximity to the market and that is why we often have a slight but critical edge on our competition.

What were some of the other new developments in this area in 2008?
Since September 2008, we have been a member of the Bucharest Stock Exchange. The groundwork was already laid in the previous year for membership in Scoach, a new stock market segment for structured products in Frankfurt. It will be possible to trade our entire range of certificates in Scoach in early 2009.

How would you describe your services for Raiffeisen Centrobank's institutional clients?
Our motto is "You say. We act". Our IT team is able to provide each client with just the right standard of technology they need for electronic order routing. We know exactly what is required for insurance companies, investment funds, etc., and we are able to offer virtually any standard order routing solution to institutional clients at the click of a button, but we also provide customised solutions upon client request.

And what do you offer private investors?
The most important thing for our private clients is of course the return. This, along with the portfolio itself, should be presented in the best possible way, both in terms of the performance over a certain time period and the current status. We offer our private banking clients a very extensive, up-to-date and constantly accessible portfolio, one which includes a breakdown based on the current net asset value that resembles a financial statement. Anyone can generate this portfolio report on a day-to-day basis

in real time on the Internet. We also offer our clients a range of sophisticated tools and online services at www.rcb.at, including watch lists, fact sheets and SMS alerts: at no charge! Our clients can also access our services from their Blackberry or iPhone via pda.rcb.at and thus stay up to date.

Has the financial crisis that roiled the capital markets in 2008 passed by without leaving a trace or have its effects also been felt in the IT department, for example through an increased order quantity in certain areas?
We in the IT field are of course feeling the effects of the financial crisis. In times of extreme price volatility, transaction figures also increase at a hefty rate. In the months of September and October 2008, while the crisis was reaching a fever pitch, we saw the number of securities transactions shoot up temporarily to as high as 12,000 per day. Under normal circumstances we see 5,000 – 6,000 transactions per day on average. Our systems achieved this order flow easily. There were no problems.

Has technological development slowed in the financial industry in your estimation due to the financial crisis?
Well of course budgets have been reduced in all the banks, and in the IT area too. But technological development has not been curtailed by the financial crisis in my view. On the contrary: The banks are forced to innovate because the cost pressures are getting more intense. Increased efficiencies are needed for transaction processing, particularly in difficult times. In the mid-term, I expect to see an additional boost to technology in the financial world.

What areas will your work focus on in 2009?
We will be offering our clients a portfolio report that has been optimised and modernised one step further. In the interest of continued development of the risk management system, a new and comprehensive limit monitoring system has been provided for all the areas of the business. In addition, we are planning a new website for our institutional clients to allow us to provide them with high-quality research information. Our website will also be relaunched with updated layout and content. We will be paying particular attention to the topic of IT safety & IT security.

How specifically will you be going about that?
Even before Basel II we were working on the topic of operational risk and on minimising dangers of this type. This is required because of the increased risk of system failures we face given the relatively complex IT environment in which we work, with the wide range of interfaces and external connections to stock markets and data suppliers, and the operation of electronic order routing systems. So, for example, we operate using two full-fledged and completely state-of-the-art data centres. All business-critical systems are redundantly designed and data is mirrored between the data centres in real-time. Our technicians stay informed of any IT system irregularities via SMS alerts, which are generated 24 hours a day and seven days a week. Overall, we currently oversee about 1,800 IT parameters and measuring points such as temperature and humidity sensors. As soon as a problem occurs, an SMS alert is sent to the responsible technician. The fact that the system works is born out by the statistics - in 2007 we had a total of six business-critical partial failures in IT systems. The previous year we did not have a single “Operational Risk Incident”. The system of SMS alerts is constantly being refined to improve the reliability of our systems further.

What's the greatest threat to a bank in an IT context, the worst case scenario?
The worst case scenario would be a case of a data pirate that enters our systems and steals data. Data theft has unfortunately become a major topic in the international financial industry and something which even the major industry players cannot ignore. For that reason, we place a premium on a strict IT security management system. There is no project at Raiffeisen Centrobank that does not require a green light from the security officer. Especially in the area of security, one can never rest on one's laurels but must be permanently working to uncover potential weaknesses before others do and invest in the newest defence mechanisms on a constant basis – even in crisis situations.

Management Report of Raiffeisen Centrobank AG as at December 31, 2008, in accordance with International Financial Reporting Standards (IFRS)

Throughout this report, Raiffeisen Centrobank Group is used to refer to the Raiffeisen Centrobank AG Group. Raiffeisen Centrobank is used whenever statements refer solely to Raiffeisen Centrobank AG, the parent company.

In the summing-up of rounded amounts and percentages, the application of automatic calculating devices could result in rounding-off differences. Information on percentage changes refers to the actual and not to the rounded-off figures.

Economic Environment

2008 will go down in the annals of the capital market as a year of horrors. The collapse of Lehman Brothers in the fourth quarter in particular further aggravated the financial market crisis centred in the USA, causing the worst economic crisis in recent years.

The banking crisis and, in its wake, the strict embargo on lending brought about a global downturn in the economy. The financial and economic crises together hastened the downward spiral on the capital markets, resulting in a complete loss of confidence. The uncertainty over the extent of the developments in the real economy paralysed both companies and financial market participants to an equal degree. Forecasts were dispensed with or lost credibility as a basis for investment decisions.

Particularly in the last months of the past year, leading economic indicators saw a dramatic downward slide. Surveys of companies and consumers alike had not registered such low values in decades; every small correction in the opposite direction was succeeded by new historic lows. Worldwide, policymakers and national banks reacted both by introducing measures for economic relief packages and relaxing monetary policy. Central banks everywhere settled on a zero-interest policy. Even the European Central Bank (ECB) is heading toward historically low interest rates in conjunction with very low rates of inflation.

Thus, even at mid-year, the European central banks were faced with the decision of whether or not to raise interest in view of the increasing inflation resulting from rapid rises in raw materials prices and combat the “great adversary rearing its head again”, or to counter an emerging economic low by lowering interest rates. After international raw materials prices and the price of oil rose sharply well into the late summer, subsequent months saw an equally dramatic price drop – for example the price for crude oil fell 70% from its highest point.

The economic downturn also left its mark on the fourth-quarter figures of individual companies. After many reports of good to excellent results for the first three quarters of 2008, early cycle companies saw plummeting demand as soon as the third quarter, a trend that spread to almost every sector. With few exceptions, the fourth-quarter figures just reported brought unpleasant surprises. There were absolutely no results that came in above expectations; only a few companies fulfilled forecasts.

The uncertainty of companies over the developments to come has caused an almost complete absence of specific, quantified outlooks. The associated broad range of possible scenarios has resulted in above-average price discounts. A dramatic shift in focus emerged at the microeconomic level. Objectives such as growth, investments and acquisitions have been replaced by the need for sufficient liquidity and capital adequacy.

The predominating concerns, not only in the immediate reporting period but also for the months ahead, are the development of the global banking system and the stability of the banking industry, which must be guaranteed by means of nationalisation, in some cases already undertaken.

Economy

In the USA, where the economic downturn stemming from the shrinking real estate market was aggravated further – primarily by the lending crisis, which rendered all modes of market-based refinancing impossible – we can expect one of the worst recessions in history. Stabilisation in the US economy can only be expected once the lending crisis settles and leading indicators bottom out.

Although the key indicators are now at their lowest level in 30 years, the steep downward trend has not yet halted, although initial tiny counter-corrections can be seen.

The economy and the financial markets are expecting the new US administration to come up with an economic relief package with the dimensions of the already approved bank bailout package of USD 750 billion, which would correspond to some 3% of the gross national product and thus represent a significant boost to the economy. That, in combination with oil prices which have dropped sharply and the extremely low prime lending rates, is expected to provide the US economy positive momentum. Because an easing up of lending practices will have a delayed effect on economic growth, we cannot expect the negative economic trend to stabilise until the second half of the year; hence positive – though weak – growth is not anticipated before 2010.

The economy of the eurozone initially appeared to be sounder than expected, although hopes for a decoupling from the economic trends in the US were dashed, to everyone's shock, in the middle of the year, precisely at a time when concerns over increasing inflation prompted yet another rise in the prime rate. The causes of the downturn in Western Europe were many. In addition to the downturn in the US, a sharp upward revaluation of the euro, exploding raw materials prices and soaring inflation rates put businesses and consumers under gradually increasing pressure. The United Kingdom, Ireland, Spain and the Scandinavian countries were also negatively impacted when the real estate boom came to a screeching halt. Anxiety over inflation, which remained acute well into the middle of the year, eventually was replaced by fears of the spectre of deflation due to the heavy drop in raw materials prices.

To date, there are no signs that the economic lows will soon hit bottom or even that it will be possible to overcome them. On balance, the leading economic indicators are not showing any sign of recovering; market movements continue their free fall. The deepening recession is accompanied by heavy downturns in industrial production and in investment and export demand. However, throughout Europe, several initiatives have been launched to counteract this trend. In the wake of government aid for banks, which administrations have already begun to implement step by step, economic relief packages are being tied up. In contrast to past stages of decline, fiscal policy in most European countries this time is orientated toward expansion, aided by the central bank, which continues to lower interest rates anyway.

Initial positive effects, prompted by expansive fiscal and monetary policy, are still expected to become visible on a modest scale during 2009; for 2010, the economy is expected to resume growth, however slight.

Following the record growth rates of previous years, the Central and Eastern European economies are facing a serious cooling-off period. The reason for this was the indirect effects of the developments on the world's finance markets, which manifested themselves more clearly in the second half of the year. Factors that drove the economy in past years now demand careful corrections to economic growth, a situation attributable to the drastic deterioration of the outlook for exports and, first and foremost, the abrupt end of capital movements and thus of reasonable financing options through loans. To again tap long-term growth potential, an adjustment process has been introduced that will have an impact well into 2010. Significant rollbacks in lending, as well as losses in actual wages, in conjunction with the halting of budget expenditure, represent the preconditions for the rehabilitation of the unsustainably large deficits in the balance of trade.

The heaviest setbacks can most likely be expected in Hungary and Ukraine. The European Union sent an important signal with the financial aid provided to Hungary – thereby emphasising that the European Union is able and willing to assist its member states in a financial emergency. The possibility that other countries may seek financial help from the International Monetary Fund (IMF) and the European Union to support their economies and currencies cannot be ruled out. Although Russia is also in an acute stage of distress, it does not have the resources for rehabilitation.

In the emerging markets, 2008 was still a very successful year. In Latin America, growth was driven by sharply increasing raw material prices. In Asia, the stimulus initially stemmed from the demand from established countries and a steadily increasing domestic rate of consumption, while the highs in raw materials prices led to higher inflation rates and increases in interest rates. However, on the emerging markets as well, the turbulence on the financial markets made the liquidity situation more acute. As a result, Latin America was negatively impacted by the crash of raw material prices. Asia began to feel the decline in demand from the established regions of the world.

Equity markets

It is no exaggeration to say that 2008 will go down in the annals of the stock market as “historic”. The significant price declines on the international exchanges in the first half of the year were followed briefly by a levelling off driven by uncertainty. However, this was succeeded from September onward by a renewed acceleration of price losses triggered by the escalation of the financial market crisis, a development that for many capital market players resulted in losses of historically unprecedented dimensions.

The Austrian stock market saw particular impact from this. In 2008, it dropped by more than 60% and thus, instead of enjoying the “Eastern bonus”, now had to cope with a corresponding demerit in the eyes of investors. A similar and somewhat more drastic development emerged on the stock markets in the CEE region, where such countries as Russia, Ukraine and Romania sustained price drops of more than 70% in some cases. With declines ranging around 40%, the overall collapses on the major stock markets of the USA, Japan and the eurozone were not quite as dramatic. The emerging markets, where heightened risk awareness in conjunction with customarily low market liquidity caused huge price drops, saw particularly heavy impact.

Unfortunately, the downwards trend has persisted in 2009. Since the beginning of the year, the major exchanges have posted downturns in the double digits of around 20%. Only the emerging markets, with the exception of India, showed price gains.

Expected profits for 2009 have special significance. After annual results for 2008 published on a running basis showed significant declines in profit and for the most part came in below expectations, the profit forecasts made for 2009 seem far too optimistic, if not totally unrealistic. The failure of companies to provide guidance adds to the uncertainty. In spite of this, some valuations are already at a historic low, allowing a significant buffer in the event that profits continue to disappoint.

With regards to this, the situation on the Austrian stock market is especially convenient. The equity valuation, with a price/profit ratio of not more than 5 or 6 to 1, represents an historic low.

In general, stock markets are currently caught between hopes that initial positive signals will ensue from the economic relief plans and the poor or negative economic and corporate data still being published. We can expect the indices to recover toward the end of the year as the first positive effects of the economic aid packages appear and the financial sector experiences sustainable stabilising effects. Over the course of the year, initial positive surprises from the corporate front will almost certainly bring attractive rebounds.

Business development 2008

Business development during the year under review was noticeably compromised by the effects of the global financial crisis. Group net profit after taxes for the 2008 financial year stood at EUR 10.643m, remaining EUR 31.810m, or about 75%, under the net profit of 2007, to date the most successful financial year in the history of the Raiffeisen Centrobank Group. Ranked by earnings contributions (before consolidation entries), Raiffeisen Centrobank, which achieved net consolidated profit for the period of EUR 19.112m, took first place. This includes a dividend payment of the fully consolidated Raiffeisen Investment AG for the 2007 financial year of EUR 10.000m, which was as intercompany profit not taken into account when consolidated net income was calculated. Placing a distant second is Centrotrade Chemicals AG, active in olefines trading, which posted annual results after taxes of EUR 1.954m.

The earnings development described can be attributed particularly to the roughly 47% or EUR 30.058m decrease in trading profit to EUR 33.300m (previous year: EUR 63.358m) and to net commission income which fell about 54% or EUR 20.353m to EUR 17.605m (previous year: EUR 37.958m).

The aforementioned declines in earnings were partially offset by an increase in net interest income of EUR 1.661m to EUR 8.004m (previous year: EUR 6.343m) and a rise in net income from financial investments of EUR 1.762m to EUR 1.314 (previous year: EUR –0.448m). Moreover, the change in the result of operations prompted counteractive measures which resulted in general administrative expenses being reduced by about 8% or EUR 4.854m to EUR 53.353m (previous year: EUR 58.207m).

The significantly weaker trading profit reflects the dramatic developments of the international financial markets of the past months with sinking price levels and reduced trading volumes. The sales volume of structured products of Raiffeisen Centrobank also declined. The share of Eastern Europe-related products that was so deliberately built up in the past had a particular effect here, as the economies of that region have been heavily impacted by the current crisis. The declines in customer business were partially offset by pushing nostro trading in line with strict risk requirements.

In addition to the negative effects of the financial market turmoil on business operations, trading profit was negatively impacted by the substantial devaluation of structured notes of various banks and financial institutions due to the rising credit spreads of issuers. Depreciation resulting from a Lehman exposure also caused trading profit to shrink by roughly EUR 18m. The negative impact of a Lehman commitment of EUR 57m was avoided by enforcing a claim arising from a third-party guarantee.

The decrease in net commission income can be attributed first to the financial market crisis to which we have made such frequent reference, which practically put an end to capital market transactions and thus revenues from issuances, and second to lower income from M&A advisory services.

The reduction of general administrative expenses stems mostly from staff costs, where increases resulting from the number of employees and from collective contracting agreements were more than compensated for by lower provisions for bonus schemes.

Moreover, it was possible to keep other administrative expenses below the comparable figure of the previous year by means of more stringent cost management. On the other hand, depreciation on tangible and intangible fixed assets remains at the level of the previous year.

Overall, revenue, which includes net interest income, net commission income, trading profit and net income from financial investments, declined from the previous year by EUR 46.988m or roughly 44% to EUR 60.223m. Other operating earnings, which includes the key item of the gross profits of the consolidated commodity trading subsidiary, is EUR 5.635m, roughly the same as the previous year (EUR 6.006m).

Net profit for the year before tax thus came to EUR 12.421m, which is some 77%, or EUR 42.505m, less than the result of the previous year. Taking into account income taxes, which came to EUR 1.778m (previous year: EUR 12.473m), consolidated net profit after taxes was EUR 10.643m (previous year: EUR 42.453m).

With regard to the balance sheet, total assets declined by about 18% from the previous year, going from EUR 2,159.951m to EUR 1,769.298m.

On the asset side of the balance sheet, the most significant change from the previous year was in trading assets, which dropped from the last day of 2007 by EUR 516.819m, reaching EUR 1,167.902m. Its contribution to total assets thus shrank from 78% as at 31 December 2007 to roughly 66%. This development was partially compensated for by an increase in the "Claims on credit institutions" item by roughly EUR 161.525m to EUR 359.384m (share in total assets as at 31 December 2008 was roughly 20%, at 31 December 2007 it was around 9%).

The reduction in trading assets is volume-related, resulting from the decrease in warrants and other certificates issued by Raiffeisen Centrobank in response to the changes occurring on the market. While the share portfolios included in trading assets, together with purchased options and zero bonds, represent the hedge position for the certificates and warrants issued, they also form part of the market making activities of the Bank.

The "Claims on credit institutions" balance sheet item comprises mainly interbank deposits and collateral for securities lending. As of the end of December, the interbank deposits just mentioned include investments transferred to RZB.

The "Claims on customers" balance sheet item decreased from the figure of the previous year, particularly due to the rollback of a major loan.

Reflecting the development on the asset side of the balance sheet, the most significant change on the liabilities and equities side was in trading liabilities(share of total assets: about 64%; previous year: roughly 75%), which declined by EUR 487.390m from the year before, reaching EUR 1,130.609m. "Trading liabilities" are, first, structured warranty products of Raiffeisen Centrobank such as the well-known Winner or Blue Chip certificates, as well as warrants and other certificates such as turbo certificates on indices and shares. Following the decline in the prices of their respective underlyings, it was necessary to make adjustments in the past financial year to inventory values. Issuing volume was also down as a result of the market environment, or was rolled back. Reference is made to the explanations on the development of trading assets above and on the hedging relationships between these two items.

The decline in trading liabilities was offset by an increase in liabilities to credit institutions (share of total assets: 13%, previous year: about 6%) due to a demand for refinancing, from EUR 122.907m to EUR 235.303m.

The "Subordinated capital" balance sheet item (share of total assets: about 1%) constitutes the EUR 20.986m subordinated bond issued in January 2008, including accrued interest. The subordinated capital was issued to increase regulatory capital adequacy.

As a result of the lower consolidated net profit for the year and the dividend payments in the amount of EUR 34.715m, consolidated equity shrank year-on-year from EUR 129.556m to EUR 106.246m.

Review of business segments

Banking segments

Securities Trading & Sales Department

The development of earnings of the Securities Trading & Sales Department consists primarily of the total trading profits of the Corporate Customers, Financial Institutions and Public Sector and Treasury/Investment Banking segments which can be found under Segment Reporting.

The development of the Securities Trading & Sales Department in 2008 was shaped by the drop in earnings in the third quarter due to the collapse of the world's financial markets triggered by the insolvency of the Lehman Brothers investment bank.

The drop in earnings from the record value of the previous year is attributable to the declining volumes of customer business in all markets and to a significant drop in the sales volume of structured products. Adding to this negative effect was the positioning in CEE-related products, which, although enhanced in the past, suffered under the given circumstances stemming from the particularly heavy impact of the current crisis on the economies of this region.

The business volume of Raiffeisen Centrobank, measured by the trading volume on the stock exchange in Vienna, decreased in 2008 to about EUR 11 billion (2007: EUR 18 billion). The resulting market share of about 8% (2007: about 10%) puts it in fourth place among all market participants. Of particular interest is the decreased presence of foreign participants on the stock exchange in Vienna starting in the fourth quarter of the previous year. Depending on the market, this may continue in the period to come.

The position of Raiffeisen Centrobank as the largest market maker and specialist on the stock exchange in Vienna has remained uncontested since roughly 50% of new mandates were assigned once again in the auction in April 2008.

In contrast to the stock market, Raiffeisen Centrobank not only maintained its market share in Austrian derivatives business during the past financial year but managed to increase it. A share of more than 30% of the derivatives traded on the stock exchange in Vienna put it in second place. The business in warrants and structured products, currently encompassing more than 1,700 listed instruments, helped to defend successfully our market leadership in equity derivatives in Austria.

In the Eastern European derivatives business on the Austrian Futures and Options Exchange (ÖTOB), Raiffeisen Centrobank maintained a leading position among all participants in 2008 with a market share of about 30%.

All issues of structured and derivative products of Raiffeisen Centrobank are admitted to trading not only on the stock exchange in Vienna but also on what is actually the principal trading floor of the derivatives exchange in Stuttgart, Europe's leading exchange for derivatives. However, as a result of the heavily reduced issuing activity in structured products caused by the market downturn, the sales volume of Raiffeisen Centrobank products on the Stuttgart securities exchange reached an historic low during the period under review.

Despite the heavy mood of the financial markets, the road show and presentation activities in secondary market activities were continued without restriction in 2008 as part of continuous customer support.

Equity Capital Markets (ECM)

Austria

The critical developments on the financial markets – which made it difficult, if not impossible, to place issues – brought numerous cancellations and postponements of planned initial public offerings during 2008.

This prevented the IPOs of Energie AG – in which Raiffeisen Centrobank acted as co-lead manager in the consortium – from being realised, as well as those of Saubermacher Dienstleistungs-Aktiengesellschaft, Frequentis AG, Breitenfeld AG and most recently KNAPP Aktiengesellschaft.

However, as the examples below demonstrate, successful market positioning was possible even under these challenging conditions.

Raiffeisen Centrobank was awarded a contract to handle and effect a capital increase of roughly 10% for UNIQA Versicherungen AG, which was completed in mid-November 2008.

In December 2008, KTM Power Sports AG gave the ECM department a mandate to manage and implement a capital increase of about 10%. The transaction was completed in March 2009.

Moreover, Raiffeisen Centrobank was entrusted with the preparations for a planned capital increase and rights offering for a listed Austrian company in connection with the intended participation of a major investor.

Together with a German bank, Raiffeisen Centrobank received a mandate from Raiffeisen Informatik Beteiligungen GmbH to assist in and manage a cross-border acquisition.

In May, ECM successfully managed the relisting of AT&S Austria Technologie & Systemtechnik Aktiengesellschaft on the Prime Market of the stock exchange in Vienna. A company was also listed on the Third Market of the stock exchange in Vienna.

Ottakringer Brauerei AG issued a mandate to Raiffeisen Centrobank in July 2008 to effect the termination of earnings certificates as part of a swap or cash settlement offer.

The high quality of the work performed by the ECM department is recognised worldwide as well. In June, the renowned industry magazine, "The Banker" conferred the 2008 "Deal of the Year" award for Austria on Raiffeisen Centrobank for the extremely successful IPO of STRABAG SE under difficult market conditions.

Central and Eastern Europe (CEE)

The 2008 financial year on the stock markets in Eastern Europe was marked by exceptionally negative market trends, which worsened over the course of the second half of the year. Declining prices and the extreme volatility that accompanied it on the stock exchanges caused a complete collapse of the Central and Eastern European issue market. Broad placement of new issues was not possible, and existing mandates could not be fulfilled.

ECM CEE prepared three IPOs of companies from the region (Russia, Czech Republic, Southeastern Europe) up to the marketing phase. However, the persistently poor situation on the stock exchanges prevented these IPOs, in the sectors of information technology, steel and retail, from being implemented.

In the first half of 2008, ECM CEE acted as co-lead manager to guide a Russian company in its largest capital market transaction of 2008. The capital increase of the X5 Retail Group was carried out using global depository receipts (GDR) traded on the London Stock Exchange and had a volume of more than USD 1 billion. ECM CEE also provided pre-IPO consulting for a Russian steel company in the first half of 2008.

While interest in capital market transactions remained generally strong on the part of companies in Russia and Eastern Europe up to summer 2008, the situation of the capital markets themselves worsened by degrees, particularly in Russia. The Russian stock exchange, which was the last exchange in the region to show slightly positive performance before the summer, came increasingly under pressure in the second half of the year under review. The downward trend was hastened and aggravated by the somewhat extreme share of borrowed funds in Russian investments. The Moscow exchanges now count as some of the world's biggest losers, first and foremost because of the heavy dependency of the Russian capital markets on international investors. The RTS index, which has relevance for the Russian market, lost over 70% of its value in 2008.

Measured against the MSCI Emerging Markets Eastern Europe equity index, the stock markets in Central and Eastern Europe overall fell 67% in 2008. It was primarily international investors, our primary target group for sales, who withdrew increasing amounts of capital from the regional stock markets and are still showing very cautious interest in buying, even amid sharp negative price fluctuations. Trading volume on the stock markets of the region thus dropped significantly from the previous year.

With the exception of isolated capital increases to current shareholders for the purpose of raising liquidity and recapitalisation, the market for capital market transactions in Eastern Europe has completely dried up for now.

Company Research

Against the backdrop of an extremely volatile capital market climate, the Company Research department systematically continued its comprehensive coverage of Austrian and Eastern European equity markets. Although it was extremely difficult to adjust target prices and recommendations to the irrational market circumstances, the analysts of Raiffeisen Centrobank – unlike many competitors – provided clear opinions on scenarios and expectations.

They also came closer to meeting their goal of being "faster and better" by significantly increasing the frequency of updates. Overall, 253 company updates on the companies analysed by us were written, more than half of which covered the companies in Central and Eastern Europe.

The intranational sector teams published sector roadshow reports on oil and gas, banks (which owed their particular popularity to the precarious situation of the sector), construction, engineering, basic materials, telecommunications, CEE utilities and a special report on privatisations. These reports were presented to international investors in roadshows at the financial centres of London, Paris, Frankfurt, Dublin, Edinburgh, Milan, Zurich, Geneva, Warsaw, Moscow, Prague, Basel and Stockholm. Particularly gratifying in this respect is the international endorsement of the research team's knowledge of markets and companies by the annually published rankings of the renowned US analytics firm StarMine. The research of Raiffeisen Centrobank was recognised in the StarMine Report as the best analytics firm for earnings forecasts. In "Investment Recommendations", Raiffeisen Centrobank was ranked 4th as the best-placed Austrian research firm.

Most of the earnings of the Research department are included in Financial Institutions and Public Sector and Corporate Customers in segment reporting.

Private Banking

Private Banking, one of the key components of the Bank's business activities, faced a significant drop in earnings in the 2008 financial year.

The prevailing difficulties caused the deposit volume to decline in the year under review and as of 31 December 2008 amounted to roughly EUR 1.5 billion (31 December 2007: about EUR 1.8 billion). Customers began as early as February to sell commodity funds. Starting in May, equity ratios were deliberately lowered. The released funds were parked in fixed-term deposits and government issues with short maturities. The lower margin to equity ratio and declining performance caused a decrease in management fees.

All the more pleasing is the fact that we succeeded, even under these difficult conditions, to retain our existing customers and even to increase the number of customers from about 700 to roughly 800. Not only were customers gained from Austria, but marketing begun in 2007 in Central and Eastern Europe and particularly in Russia was intensified. One-fifth of all customers now come from other countries. Two-thirds of them are private individuals, and one-third comprises businesses and foundations.

During the difficult year of 2008, contact with customers was especially intensive. About five times as many customer conversations were conducted as in an average "normal" year.

Subsidiaries

Raiffeisen Investment AG

Raiffeisen Investment AG, a fully owned subsidiary of Raiffeisen Centrobank, has worked successfully as an advisor in M&A and privatisation matters in Central, Eastern and Southeastern Europe for 19 years. The local expertise of the on-site branches is supplemented by industrial sector teams (such as telecommunications media technology, energy, heavy industry, food & beverage / retail, financial sponsors and chemicals and industrials) who have gained detailed familiarity with relevant developments and trends by maintaining constant contact with enterprises in the sector. These sector specialists collaborate with the local teams on individual transactions.

While in Western Europe the M&A volume had already collapsed in the first half of 2008, Raiffeisen Investment AG worked their markets very successfully until the middle of the year and scored several major transactions. Notable among these are the sale of LaborMed, a Romanian producer of generic pharmaceuticals, to Advent; the second acquisition by Heineken of a Belarusian brewery; the acquisition by the stock exchange in Vienna of the Ljubljana Stock Exchange; and the privatisation of several electrical power distributors in Turkey. Moreover, Raiffeisen Investment AG successfully handled several state-mandated infrastructure consultations in Russia.

The successful first half of the year was also reflected in top placements in relevant publications. In the official "League Tables" of the international information provider Mergermarket for that period, Raiffeisen Investment AG took first place for the number of deals for the entire CEE and CIS region.

In the second half of the year, the financial and economic crisis spread to the markets in Eastern Europe, which caused a drop in the fourth-quarter M&A volume in this region.

For 2008, Raiffeisen Investment AG shows earnings before taxes of EUR 0.2m (2007: 7.4m). In addition, Raiffeisen Investment Romania SRL and Raiffeisen Investment Moscow Ltd., in which Raiffeisen Investment AG holds 100% of shares, achieved total earnings for the year before taxes of EUR 3.6m or EUR 1.1m on the strength of major deals. The earnings of these companies, which are not fully consolidated companies of the Raiffeisen

Centrobank Group, will count toward the income from equity participations of Raiffeisen Investment AG on a delayed basis.

The successful cooperation with the leading M&A specialist Lazard was extended for another two years. Work is currently in progress on 20 joint mandates; six transactions have already been carried out.

Tough M&A market conditions are expected for the first half of 2009. However, recovery is anticipated during the second half of the year. The changed economic conditions will cause the company to implement strategic changes and particularly to concentrate on the core business – and to sell non-core segments. Given the significantly lower valuations, this should spark appropriate buyer interest. This applies in particular to relatively stable areas such as foodstuffs, energy, telecommunications, media and technology and pharmaceuticals. In those areas, Raiffeisen Investment AG has also had a solid order backlog and is optimistic that it will meet with success in handling these transactions.

Commodity Trading

The subsidiaries of the Centrotrade Group combined under Centrotrade Holding AG, Vienna, are active in rubber trading and trading in olefines. In the latter segment, the best earnings of recent years were achieved in 2008, while the earnings of the companies operating in rubber trading remained below expectations due to problems in the automobile and automotive supply industry in the previous year.

Performance indicators

Financial performance indicators

	2008	2007
Return on equity before tax (in%)	13.5	64.6
Cost/income ratio (in%)	82.8	51.2
Earnings per share (in Euro)	16.25	64.81

The profit before tax, which was well below that of the previous year, resulted in a clear reduction in return on equity before tax, from 64.6% to 13.5%. Because revenue in the past financial year saw a considerably heavier decline than expenses, the cost/income ratio worsened accordingly, rising from 51.2% in 2007 to 82.8%.

Earnings per share on the existing 655,000 ordinary shares outstanding fell by about 75% from the previous year, equalling EUR 16.25 in the 2008 financial year.

Non-financial performance indicators

	2008	2007
Average number of staff over the year	306	259
Stock exchange memberships	12	12
Number of new warrants and certificates issued	1,433	1,696

During the 2008 financial year, the staff comprised an average of 306 employees, which represents an increase of 47 individuals or 18%.

The number of stock exchange memberships remains at the previous year's level of 12, while that of warrants and certificates fell 16% in 2008 to about 1,400.

Risk Management

As a subsidiary of RZB, Raiffeisen Centrobank is integrated into the risk management processes of the RZB Group. The various risk management units operating at different management levels ensure that all major risks are monitored and limited and that business transactions are concluded by taking account of the risk/earnings ratio. For this purpose, the concept of risk management takes into consideration the legal and regulatory framework, but also the type of transaction, scale, and complexity and the accompanying risks.

The concept of risk management as practiced by Raiffeisen Centrobank focuses on the individual risk profile of the company. The basic principles and methods underlying risk management are defined in the bylaws for the Supervisory Board and the Executive Board as well as in the bank's organisational guidelines and manuals. A comprehensive planning and controlling process enables the Executive Board to identify risks at an early stage, evaluate them and take appropriate countermeasures. Within the framework of its decision-making authority, the Executive Board determines the bank's risk management policies, authorizing the principles of risk management, the specification of limits for all relevant risks as well as the precise processes to monitor risks. Risk management is an integral part of managing the bank, i.e., the management of earnings and risks in all business segments are systematically linked with each other.

An independent department for risk management, incorporated into the controlling division, assists the Executive Board in effectively fulfilling its duties. The department reports regularly to the Executive Board and evaluates the current risk situation by taking account of the risk capacity and risk limits. It supports the Executive Board in allocating a risk management budget and in managing risks. As a cross-divisional and enterprise-wide body, the department is responsible for the ongoing further development and implementation of methods to measure risks, to refine risk management instruments as well as to maintain and update the regulatory framework. The risk committee, which meets regularly, addresses all issues and regulations in the area of risk management, develops recommendations for the Executive Board as a whole, or prepares resolutions. The evaluation of interest rate changes and balance sheet structure risks as well as liquidity risks takes place within the framework of the Assets/Liabilities Management Committee.

Raiffeisen Centrobank employs innovative methods and schemes in its risk management activities. Risk management is based on a risk strategy that focuses on risk propensity and risk capacity. On this basis, a unified risk limit system throughout the bank was conceived, which divides the predefined risk exposure on a division, department and individual manager level. The quantification of operational risk using a Value-at-Risk (VaR) consistent parameter continues to be important. This enables Raiffeisen Centrobank to quantify this risk as well and appropriately take account of the operational risks in the bank's overall risk management efforts led by the Executive Board by means of a Value-at-Risk (VaR) consistent risk measurement approach, along with the main risks to which the bank is subject, namely the market risk and credit risk.

Due to its specialisation in trading and brokerage in equities and equity derivatives, Raiffeisen Centrobank was less heavily exposed to the turbulence affecting the international financial markets than banks whose balance sheet structure is characterised by a high leverage factor. Although hedging of Raiffeisen Centrobank positions was made more difficult by the extremely sharp swings on the international financial markets, particularly from September 2008 onwards, this was still possible in all phases. In general, by acting with increased caution and taking a suitably defensive stance, even these difficult months were overcome.

During the year, the exposure towards international investment banks resulting from hedge transactions was decreased, primarily through reallocations to our owner, but also through reducing positions.

Reference is made here to the in-depth risk report in the Notes, which covers the current risk assessment processes in particular.

Human Resources

The turbulent times of the past financial year were countered very successfully by an extremely dedicated and skilled staff, which grew from 280 to 312 employees from the end of 2007. While all segments saw a slight increase, Financial Control/Risk Management and the IT segment grew more significantly to tackle the increasing complexity while maintaining its own high standards.

The Raiffeisen Centrobank Group invests in the motivation and development of the entire staff on an ongoing basis through internal and external training initiatives, mainly in specialist fields.

The broad and deep knowledge of employees in our core areas is reflected in the range of country-specific expertise. In the Raiffeisen Centrobank parent company alone, 14 different nationalities are represented. Women are also represented in a balanced manner. Women account for 47% of authorised signatories and directors and 44% of all functions generally, an exceptionally high proportion. With low fluctuation of 4.6%, the staff is extremely stable.

On average in the Raiffeisen Centrobank Group, 306 individuals were employed during the year under review (previous year: 259).

Outlook for 2009

From the point of view of the capital markets and seen historically, 2008 could well be described a "year of horrors". As of this writing at the beginning of 2009, there are no signs that the economic lows will soon hit bottom or even that it will be possible to overcome them. On balance, the leading economic indicators are not showing any sign of recovering; market movements continue their free fall. The deepening recession is accompanied by heavy downturns in industrial production and in investment and export demand.

However, throughout Europe, several initiatives have been launched to counteract this trend. In the wake of government aid for banks, which administrations have begun to implement step by step, economic relief packages are being tied up. In contrast to past stages of decline, fiscal policy in most European countries this time is orientated toward expansion, aided by the European Central Bank (ECB), which continues to lower interest rates anyway.

The economy and the financial markets are expecting the new US administration to come up with economic relief packages of unprecedented proportions: the already adopted TARP (Troubled Assets Relief Program) bank bailout package amounting to about USD 700 billion, the Bad Asset Program of about USD 1,000 billion and a fiscal package of approximately USD 790 billion, which would represent a significant boost to the economy. That, in combination with oil prices which have dropped sharply and the extremely low prime lending rates, is expected to provide the US economy positive momentum. Because an easing up of lending practices will have a delayed effect on economic growth, we cannot expect the negative economic trend to stabilise until the second half of the year; hence positive – though weak – growth is not anticipated before 2010.

In general, stock markets are currently caught between hopes that initial positive signals will ensue from the economic relief plans and the poor or negative economic and corporate data still being published. We can expect the indices to recover toward the end of the year as the first positive effects of the economic aid packages appear and the financial sector experiences sustainable stabilising effects. However, over the course of the year initial positive surprises from the corporate front will almost certainly bring attractive rebounds.

Despite these unsettling conditions, the existing cost-efficient structures and the measures instituted in 2008 (strict market assessments of assets that take into consideration credit spreads, the reduction of total assets, and an even closer collaboration with the owner) will enable Raiffeisen Centrobank to meet the challenges of what could potentially be an even weaker 2009 financial year with respectable earnings.

Events after the Balance Sheet Date

No material events occurred after the balance sheet date.

Research and Development

The Raiffeisen Centrobank Group, whose business activities are focused on investment banking and on trading in rubber and olefines, does not engage in any research and development activities.

Responsibility statement in accordance with § 82 Börsegesetz (Austrian Stock Exchange Act)

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces."

Vienna, 3 April 2008
The Executive Board

Eva Marchart
Chairman of the Executive Board

Alfred Michael Spiss
Deputy Chairman of the Executive Board

Gerhard Grund
Member of the Executive Board

Report of the Supervisory Board

The 2008 annual financial statements audited and issued with an unqualified opinion by the appointed auditor – KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Porzellangasse 51, 1090 Vienna, Austria – were presented to the 36th Annual General Meeting on 28 April 2009 and ratified by that body.

In April 2009, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft completed its audit of the consolidated financial statements for the 2008 financial year and also issued an unqualified audit opinion. The Supervisory Board has reviewed thoroughly and approved the Consolidated Annual Financial Statements for the 2008 financial year audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft.

Vienna, April 2009

Dr. Walter Rothensteiner
Chairman of the Supervisory Board

Consolidated Annual Financial Statements of Raiffeisen Centrobank AG as at December 31, 2008, in accordance with International Financial Reporting Standards (IFRS)

Income Statement

Amounts in thousand Euros	Notes	1/1 – 31/12/2008	1/1 – 31/12/2007	Change
Interest income		19,321	20,361	– 5.1%
Interest expenses		– 11,318	– 14,018	– 19.3%
Net interest income	**(2)**	**8,004**	**6,343**	**26.2%**
Provisioning for impairment losses	(3)	– 83	– 84	– 1.2%
Net interest income after provisioning		**7,921**	**6,259**	**26.6%**
Fee and commission income		27,437	45,108	– 39.2%
Fee and commission expenses		– 9,831	– 7,150	37.5%
Net commission income	**(4)**	**17,605**	**37,958**	**– 53.6%**
Trading profit	(5)	33,300	63,358	– 47.4%
Valuation result from derivative financial instruments	(6)	0	0	0
Net income from financial investments	(7)	1,314	– 448	>100%
General administrative expenses	(8)	– 53,353	– 58,207	– 8.3%
Other operating result	(9)	5,635	6,006	– 6.2%
Profit before tax		**12,421**	**54,926**	**– 77.4%**
Income taxes	(10)	– 1,778	– 12,473	– 85.7%
Profit after tax = group net profit		**10,643**	**42,453**	**– 74.9%**
Earnings per share (in Euros)	**(11)**	**16.25**	**64.81**	**– 48.56**

Balance Sheet

Assets Amounts in thousand Euros	**Notes**	**31/12/2008**	**31/12/2007**	**Change**
Cash reserve	(13)	16,327	9,940	64.3%
Claims on credit institutions	(14, 32, 33)	359,384	197,859	81.6%
Claims on customers	(15, 32, 33)	96,104	118,647	– 19.0%
Provisioning for impairment losses	(16)	– 625	– 1,342	– 53.4%
Trading assets	(17, 32)	1,167,902	1,684,721	– 30.7%
Derivative financial instruments	(18, 32)	129	813	– 84.1%
Securities and financial investments	(19, 32)	47,613	72,249	– 34.1%
Intangible fixed assets	(20, 22)	244	437	– 44.2%
Tangible fixed assets	(21, 22)	14,841	15,153	– 2.1%
Other assets	(23)	67,379	61,474	9.6%
Total assets		**1,769,298**	**2,159,951**	**– 18.1%**

Equity and liabilities Amounts in thousand Euros	**Notes**	**31/12/2008**	**31/12/2007**	**Change**
Liabilities to credit institutions	(24, 32, 33)	235,303	122,907	91.5%
Liabilities to customers	(25, 32, 33)	215,589	218,779	– 1.5%
Provisions	(26)	25,486	32,924	– 22.6%
Trading liabilities	(27)	1,130,609	1,617,999	– 30.1%
Derivative financial instruments	(28)	50	110	– 54.5%
Other liabilities	(29)	35,029	37,676	– 7.0%
Subordinated capital	(30)	20,986	–	–
Equity	(31)	106,246	129,556	– 18.0%
Consolidated equity		95,603	87,103	9.8%
Group net profit		10,643	42,453	– 74.9%
Total equity and liabilities		**1,769,298**	**2,159,951**	**– 18.1%**

Statement of Changes in Equity

Amounts in thousand Euros	Subscribed capital	Capital reserves	Retained earnings	Consolidated net profit for the period	Minority interests	Total
Equity 1/1/2008	**47,599**	**6,651**	**32,853**	**42,453**	**0**	**129,556**
Capital increase/decrease	0	0	0	0	0	0
Transferred to retained earnings	0	0	7,738	– 7,738	0	0
Dividend payments	0	0	0	– 34,715	0	– 34,715
Profit after tax	0	0	763	10,643	0	11,406
Equity as at 31/12/2008	**47,599**	**6,651**	**41,354**	**10,643**	**0**	**106,246**
Equity 1/1/2007	**47,599**	**6,651**	**25,482**	**27,698**	**0**	**107,431**
Capital increase/decrease	0	0	0	0	0	0
Transferred to retained earnings	0	0	10,013	– 10,013	0	0
Dividend payments	0	0	0	– 17,685	0	– 17,685
Profit after tax	0	0	– 2,643	42,453	0	39,810
Equity as at 31/12/2007	**47,599**	**6,651**	**32,853**	**42,453**	**0**	**129,556**

Consolidated equity Amounts in thousand Euros	**2008**	**2007**
Group net profit	10,643	42,453
Exchange differences	763	– 1,318
Valuation result of available-for-sale financial assets	0	– 1,325
Profit after tax	11,406	39,810

The development of the items encompassed in retained earnings is as follows:

Retained earnings Amounts in thousand Euros	**Currency translation differences**	**Available-for-sale reserves**
Total as at 1/1/2008	**– 3,968**	**0**
Net changes in the financial year	763	0
Total as at 31/12/2008	**– 3,205**	**0**
Total as at 1/1/2007	**– 2,650**	**1,325**
Net changes in the financial year	– 1,318	– 1,325
Total as at 31/12/2007	**– 3,968**	**0**

Cash Flow Statement

Amounts in thousand Euros	2008	2007
Group net profit	**10,643**	**42,453**
Non-cash positions in profit and transition to net cash from operating activities:		
Write-downs, write-ups of tangible fixed assets and financial assets	2,575	2,645
Net provisions for liabilities and charges and impairment losses	– 8,220	10,581
Gains/loss on the disposal of tangible fixed assets and financial assets	0	– 76
Other adjustments (net)	3,475	– 1,432
Subtotal	**8,473**	**54,171**
Change in assets and liabilities arising from operating activities after corrections for cash items:		
Loans and advances to banks and customers	– 150,144	96,041
Trading assets/trading liabilities (net)	– 261,058	– 153,333
Other assets/liabilities (net)	306,203	– 17,736
Liabilities to credit institutions and customers	114,484	42,831
Net interest received	12,073	16,184
Interest paid	– 5,980	– 11,756
income taxes paid	– 553	0
Net cash flow from operating activities	**23,498**	**26,402**
Proceeds from the sale of:		
Financial assets and equity participations	24	3,451
Tangible and intangible fixed assets	82	123
Payment for the acquisition of:		
Financial assets and equity participations	– 367	– 707
Tangible and intangible fixed assets	– 2,135	– 3,667
Net cash flow from investment activities	**– 2,397**	**– 800**
Inflows/outflows of subordinated capital	20,000	0
Dividends paid	– 34,715	– 17,685
Net cash flow from financing activities	**– 14,715**	**– 17,685**

Cash and cash equivalents at the end of the previous period	**9,940**	**2,023**
Net cash flow from operating activities	23,498	26,402
Net cash flow from investment activities	– 2,397	– 800
Net cash flow from financing activities	– 14,715	– 17,685
Cash and cash equivalents at the end of the period	**16,327**	**9,940**

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 financial 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.

Cash flow from financing activities comprises inflows and outflows in equity and subordinated capital. In the financial year under review these were dividends paid and inflows from the issue of a senior subordinated note.

Cash and cash equivalents include the cash reserve recognised in the balance sheet, which consists of cash in hand and balances at central banks due at call. Loans and advances to banks due on call were not included. They are included under operating activities.

Segment Reporting

Segment reporting by business segment

Primary segment reporting as described in IAS 14 is customer-orientated. Business is thus broken down into the following segments:

» Corporate Customers
» Financial Institutions and Public Sector
» Private Banking
» Treasury and Investment Banking
» Commodity Trading and Other Participations

The Corporate Customers segment encompasses business with companies which focus on loan and payment transactions and companies which require advisory services for capital market as well as for M&A transactions. Small, medium-sized and large companies as well as group companies and profit-oriented state-owned companies are included in this segment. The differentiation to the Private Banking segment results from the focal point of the business relationships to the corporate customers.

The Financial Institutions and Public Sector segment encompasses business with banks, financial service providers, insurance companies, and public sector entities. Also included in this segment are the issuances (warrants, structured products).

The Private Banking segment encompasses business with private individuals, self-employed persons (high net worth individuals), and companies which require individualised advisory approach and asset management services.

Treasury and Investment Banking: The treasury segment encompasses the bank's own positions in on-balance-sheet (e.g., money market deposits) and off-balance-sheet-based products (futures, forwards, options). These encompass interest rate business, foreign exchange business, liquidity management and asset/liability management (covering with matching assets). The Investment Banking segment encompasses proprietary securities trading. Reference is made to the fact that the "basis of assessment" includes the hedge positions for structured products and certificates by volume, while the income earned is presented in the trading profit of the respective segments.

The Commodity Trading and Other Participations segment includes the result of the consolidated trading companies of Raiffeisen Centrobank Group as well as other non-banking activities.

The group applies two central steering benchmarks:

» The return on equity before tax is the ratio that states the profit before tax to average equity employed and expresses the return on capital employed.
» The cost/income ratio represents the cost efficiency of business segments. The cost/income ratio is calculated as the quotient of general administrative expenses and sum of net interest income, net commission income, trading profit/loss, and other operating result (adjusted for the net result from hedge accounting and other derivative financial instruments).

Segment reporting is based on the group's internal management income statement, and thus constitutes multi-stage contribution costing calculation. Income and expenses are allocated according to the causation principle. Income items are net interest income, net commission income, trading profit, and other operating result. Net interest income is calculated using the market interest rate method.

Net interest received from equity and the refinancing of equity participations in the parent company are assigned to individual segments on the basis of regulatory capital requirements and recognised under net interest income.

Provisioning for impairment losses on loans and advances consists of net allocations of individual and portfolio-based impairment losses on credit risks, direct write-downs as well as income received from written-down claims. General administrative expenses include direct and indirect costs. Direct costs (staff expenses and other administrative expenses) are incurred by business segments while the indirect costs are allocated according to agreed ratios.

The risk-weighted assessment base pursuant to § 22 of the Austrian Banking Act (BWG) serves as sector-specific substitute for segment assets (including market risk).

2008 financial year Amounts in thousand Euros	**Corporate Customers**	**Financial Institutions and Public Sector**	**Private Banking**	**Treasury and Investment Banking**	**Commodity Trading and other Participations**	**Total**
Net interest income	2,177	199	3,223	3,015	– 610	8,004
Provisioning for impairment losses	– 60	0	– 23	0	0	– 83
Net interest income after provisioning	2,117	199	3,200	3,015	– 610	7,921
Net commission income	13,825	513	2,739	– 150	679	17,605
Trading profit	1,534	17,804	343	13,618	0	33,300
Valuation result from derivative financial instruments	0	0	0	0	0	0
Net income from financial investments	0	0	0	1,322	– 8	1,314
General administrative expenses	– 14,876	– 15,112	– 3,387	– 11,103	– 8,875	– 53,353
Other operating result	0	0	0	0	5,635	5,635
Profit before tax	**2,600**	**3,404**	**2,895**	**6,701**	**– 3,179**	**12,421**
Basis of assessment (incl. market risk)	64,725	25,501	56,700	341,636	49,513	538,075
Average number of staff	84	85	21	62	54	306
Cost/income ratio	85.1%	81.6%	53.9%	67.4%	155.6%	82.8%
Average equity	11,095	4,371	9,720	58,564	8,488	92,237
Return on equity before tax	**23.4%**	**77.9%**	**29.8%**	**11.4%**	**– 37.5%**	**13.5%**

2007 financial year Amounts in thousand Euros	**Corporate Customers**	**Financial Institutions and Public Sector**	**Private Banking**	**Treasury and Investment Banking**	**Commodity Trading and other Participations**	**Total**
Net interest income [1]	920	– 601	2,165	4,116	– 258	6,343
Provisioning for impairment losses	– 63	0	– 21	–0	0	– 84
Net interest income after provisioning	857	– 601	2,144	4,116	– 258	6,259
Net commission income	28,086	3,117	3,963	2,656	136	37,958
Trading profit	1,754	38,609	1,674	21,174	147	63,358
Valuation result from derivative financial instruments	0	0	0	0	0	0
Net income from financial investments	0	0	0	– 481	33	– 448
General administrative expenses	– 19,646	– 18,538	– 3,820	– 10,376	– 5,827	– 58,207
Other operating result	0	0	0	0	6,006	6,006
Profit before tax	**11,051**	**22,587**	**3,961**	**17,089**	**237**	**54,926**
Basis of assessment (incl. market risk)	49,468	19,197	46,688	503,793	58,123	677,269
Average number of staff	70	83	19	47	40	259
Cost/income ratio	63.9%	45.1%	49.0%	37.1%	96.6%	51.2%
Average equity	6,208	2,409	5,859	63,219	7,294	84,987
Return on equity before tax	**178.0%**	**937.6%**	**67.6%**	**27.0%**	**3.2%**	**64.6%**

1) Starting in 2008, the benefit arising from equity and the refinancing of equity participations in the parent company was allocated to the segments and presented in net interest income. To secure a basis for comparison with the current 2008 segment report, the 2007 figures were adjusted accordingly.

Segment reporting by region

Secondary segment reporting shows earnings components and portfolio figures by regional aspects. Allocation criteria are the headquarters of the respective company. In addition to direct results, funding costs, capital hedging costs, and direct management costs are allocated to regions according to their causes. The regional segments under review are described below:

» **Austria** Austria encompasses banking business, corporate finance advisory, and head office functions for the bank's trading subsidiaries.

» **Western Europe** This segment comprises the commodity trading subsidiaries in Germany and Switzerland.

» **USA** In the United States another commodity trading subsidiary is located.

The regional distribution according to the respective location of the branch offices is as follows:

2008 financial year Amounts in thousand Euros	**Austria**	**Western Europe**	**USA**	**Total**
Net interest income	9,378	– 745	– 629	8,004
Provisioning for impairment losses	– 83	0	0	– 83
Net interest income after provisioning	9,295	– 745	– 629	7,921
Net commission income	17,822	– 179	– 38	17,605
Trading profit	33,300	0	0	33,300
Valuation result from derivative financial instruments	0	0	0	0
Net income from financial investments	1,314	0	0	1,314
General administrative expenses	– 48,801	– 3,562	– 990	– 53,353
Other operating result	– 1,351	5,009	1,977	5,635
Profit before tax	**11,579**	**522**	**320**	**12,421**
Total assets	1,703,069	43,978	22,251	1,769,298
Average number of staff	276	19	11	306
Cost/income ratio	82.6%	87.2%	75.6%	82.8%
Average equity	76,238	13,323	2,676	92,237
Return on equity before tax	**15.2%**	**3.9%**	**12.0%**	**13.5%**

2007 financial year Amounts in thousand Euros	**Austria**	**Western Europe**	**USA**	**Total**
Net interest income	8,114	– 914	– 857	6,343
Provisioning for impairment losses	– 84	0	0	– 84
Net interest income after provisioning	8,030	– 914	– 857	6,259
Net commission income	38,104	– 149	3	37,958
Trading profit	63,358	0	0	63,358
Valuation result from derivative financial instruments	0	0	0	0
Net income from financial investments	– 448	0	0	– 448
General administrative expenses	– 53,881	– 3,365	– 961	– 58,207
Other operating result	– 2,723	6,373	2,356	6,006
Profit before tax	**52,440**	**1,945**	**541**	**54,926**
Total assets	2,096,173	43,980	19,798	2,159,951
Average number of staff	228	20	11	259
Cost/income ratio	50.4%	63.4%	64.0%	51.2%
Average equity	71,952	10,776	2,259	84,987
Return on equity before tax	**72.9%**	**18.0%**	**23.9%**	**64.6%**

Notes

The company

Raiffeisen Centrobank AG, Vienna (Raiffeisen Centrobank), has been registered in the company register at the Vienna Commercial Court under the number 117507 f since 29 March 1974. The registered offices are located in Tegetthoffstrasse 1, Vienna, Austria.

Raiffeisen Centrobank is a subsidiary of Raiffeisen Zentralbank Österreich Aktiengesellschaft, which holds 654,999 no-par-value shares of the share capital divided into 655,000 no-par-value shares via RZB KI-Beteiligungs GmbH and its subsidiary RZB IB Beteiligungs GmbH, Vienna. One no-par-value share is held by Raiffeisen Invest GmbH, Vienna.

Raiffeisen Centrobank, Vienna, is in a group relationship with Raffeisen-Landesbanken-Holding GmbH, Vienna (parent company), and belongs to the latter's range of fully-consolidated companies. This financial holding company has a majority shareholding in Raiffeisen Zentralbank Österreich Aktiengesellschaft. In addition, the Raiffeisen Centrobank Group is included in the consolidated financial statements of Raiffeisen Zentralbank Österreich Aktiengesellschaft.

Raiffeisen Centrobank is a leading Austrian investment bank which provides the entire spectrum of services and products focusing on shares, derivatives, and its own listed and unlisted capital market transactions. On the basis of this market position, this specialised bank also offers exclusive and individually tailored private banking services. Mergers & Acquisitions business is conducted through the Raiffeisen Investment AG subsidiary, which as a 100% holding is included in the consolidated financial statements. The other companies comprising the Raiffeisen Centrobank Group are active in the fields of international commodity trading, focusing on rubber and chemicals (olefins).

The consolidated financial statements were approved by the Executive Board on 3 April 2009, and submitted to the Supervisory Board for their examination and approval.

Basis of preparation

Principle

The consolidated financial statements for the 2008 financial year and the comparative figures for the 2007 financial year were prepared in accordance with the International Financial Reporting Standards (IFRSs) 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. IAS 11, 20, 23, 29, 31, 34, 40, and 41 as well as IFRS 2,4,5, and 6 are not applied as there were no relevant business transactions in the group.

No specific applications subject to new interpretations mandatory since 2008, such as IFRIC 12 (Service Concession Agreements), 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 (Hedges of a Net Investment in a Foreign Operation), occurred during the year under review.

IAS 39.50, which was amended in October 2008 and adopted by the EU, provides for the reclassification, in exceptional circumstances, of non-derivative financial instruments from the "Trading assets" category to the "Financial assets held to maturity" and "Loans and claims" categories – a provision which, until 31 October 2008, has retroactive effect to 1 July 2008. This reclassification option was not exercised.

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 euro (TEUR).

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, 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 our current perspective. This primarily affects impairment loss provisions in the credit business, fair value (particularly individual parameters used in calculations), impairment of financial instruments and provisions for retirement benefits and severance payments. The actual figures may differ from estimates.

Deferred taxes are not recognised separately in the income statement and balance sheet. Details are presented under the appropriate headings in the Notes.

Published IFRS not yet in effect and not yet applied

Relevant standards and interpretations published but not yet mandatory have not been applied: the amended IAS 1 (Presentation of Financial Statements; effective 1 January 2009), IAS 23 (Borrowing Costs; effective 1 January 2009), IFRS 8 (Operating Segments; effective 1 January 2009), IAS 32 (Financial Instruments: Disclosure; effective 1 January 2009), IFRS 2 (Share-based Remuneration; effective 1 January 2009) and amendments introduced as part of the Improvement Project.

Consolidation methods

Raiffeisen Centrobank fully consolidates all material subsidiaries in which the company directly or indirectly holds either more than 50 percent of the voting rights or otherwise has control over the financial and operating policies. Generally, these subsidiaries are included in the scope of the consolidated financial statements from the date on which the Group attains de facto control of the company and are excluded from the scope of the consolidated financial statements when the group no longer has control of the company.

Material interests in associated companies are included at equity. Due to the immateriality of such companies on the consolidated financial statements, no company was valued at equity.

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

Shareholdings in other companies, all of which are not publicly listed on the stock exchange, are recognised at cost. This can be attributed to the fact that a market value for them is either unavailable or can not be reliably determined.

Business combinations

In the course of capital consolidation, all identifiable assets, liabilities and contingent liabilities of the subsidiary are recognised at their fair values on the acquisition date according to IFRS 3. The acquisition costs are offset against the proportional net assets. The resulting positive differences are capitalised as goodwill, which is tested annually for impairment. If there are indications of impairment, goodwill is also tested during the course of the year.

Negative differences arising within initial consolidation will be recognised immediately through profit or loss.

Consolidation entries

Intragroup receivables and liabilities are eliminated in the consolidated financial statements. Remaining temporary differences are recognised under Other assets/ other liabilities.

Expenses and income within the Group are also offset against one another. Temporary offsetting differences arising from banking business are presented in net interest income. Other differences are recognised in the “Other operating result” item.

Intercompany profits are eliminated if they have a material influence on items in the income statement. Bank business and other transactions among the individual subsidiaries of the group are usually carried out at prevailing market rates.

Consolidation range

The number of fully consolidated companies in the Raiffeisen Centrobank Group remained unchanged in the 2008 financial year, amounting to seven subsidiaries.

A total of 16 affiliated companies (2007: 19) were not consolidated due to their immaterial significance on the assets, financial position, and profitability of the Raiffeisen Centrobank Group. They are recognised at cost as investments in associates and other affiliated companies under the Securities and financial investments item.

A list of the fully consolidated companies and other interests may be found starting on page 133 ff.

Foreign currency translation

Financial statements of fully-consolidated companies prepared in foreign currencies were translated into euro employing the modified current rate method in accordance with IAS 21. Equity was translated at its historical exchange rates while all other assets, equity and liabilities and the notes to the financial statements 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 recognised in profit or loss.

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 recognised in the income statement.

Due to the economic nature of the underlying business transactions, the USD represents the functional currency of three companies in the Raiffeisen Centrobank Group.

For currency translation, the following exchange rates for USD were used:

Exchange rates in currency per Euro	2008 balance sheet date	2008 average	2007 balance sheet date	2007 average
USD	1.392	1.473	1.472	1.374

Accounting and valuation principles

Financial instruments: recognition and valuation (IAS 39)

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. The measurement of financial instruments is governed by their allocation to the following specific measurement categories:

» Financial assets or liabilities at fair value through profit and loss
  a. Trading assets/liabilities
  b. Designated financial instruments at fair value
» Financial assets held-to-maturity
» Loans and claims
» Financial assets available-for-sale
» Financial liabilities

Financial assets or liabilities at fair value through profit and loss

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 recognised 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 primary financial instruments and warrants or option pricing models for options are applied. Present value calculations are based on the zero-coupon curve. Appropriate models are used as option price formulas, depending on the type of option.

For plain-vanilla options (American and European style), the Black-Scholes model and the binomial pricing model according to Cox-Ross-Rubinstein are applied. The Curran approximation is applied to Asian options and guarantee bonds, whereas barrier options use Heinen-Kat and spread options rely on the Kirk model.

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 recognised in the income statement under trading profit/loss.

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 the fair-value option designation only when doing so results in more relevant information for the reader. This is the case for all financial assets that are part of a portfolio or group of assets which the management and evaluation of asset performance are carried out on a fair-value basis.

These financial instruments – in this case, exclusively bonds – are measured at fair value in line with IAS 39. They are recognised in the balance sheet under the Securities and financial investments item. Current income is presented in net interest income; measurement results and net proceeds from disposals of are included through profit or loss in Net income from financial investments.

Financial assets held-to-maturity

Raiffeisen Centrobank does not hold any financial assets held-to-maturity.

Loans and claims

Loans and claims are recognised at their nominal value without deduction of impairment losses, including accrued interest. Accrued interest is recognised in the income statement if there is a high probability that it would be received.

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 to be included in any of the other three categories. They are stated at fair value, if a fair value is reliably measurable. Valuation differences are shown directly in equity and only recognised in the income statement if there is an objective indication of impairment. A reversal of impairment is recognised in the income statement only in the case of debt instruments. In case of equity instruments, such reversals of impairment are booked in equity. This type of financial instrument is reported under Securities and financial investments.

Financial liabilities

Liabilities are recognised at amortised cost. Discounted debt securities and similar obligations are measured at their present value.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

a. Quoted prices in an active market (Level I)

Fair value is best expressed as a market value if a published price quotation is available on an active market. This applies particularly to equity instruments traded on stock exchanges, debt instruments traded in the interbank market and derivatives traded on stock exchanges.

b. Measurement method using observable parameters (Level II)

In cases in which no published price quotations are available for financial instruments, the market prices of comparable financial instruments are used to determine fair value or are calculated using measurement methods based on observable prices or parameters (particularly present value techniques or option pricing models). These procedures relate to most OTC derivatives and unlisted debt instruments.

c. Measurement methods based on non-observable parameters (Level III)

If no observable published quotations or prices are available, fair value is calculated using measurement models appropriate to the respective financial instrument. The use of these models necessitates assumptions and estimates by management, the scope of which is determined by the price transparency of the relevant financial instrument, by the market and by the complexity of the instrument.

Classes of financial instruments as defined by IFRS 7

Because the nature of financial instruments is already expressed appropriately through the classification of the balance sheet items, classification addresses those items in the balance sheet which constitute financial instruments.

Classes of financial instruments on the asset side of the balance sheet are, first and foremost, cash reserves, Claims on credit institutions, claims on customers, trading assets, derivative financial instruments, derivatives from hedging transactions and securities and financial investments (separately including financial assets not traded on any active market, which are measured at cost).

Classes of financial instruments on the equity and liabilities side of the balance sheet are, in particular, trading liabilities, derivative financial instruments, derivatives from hedging transactions, Liabilities to credit institutions, liabilities to customers, securitised liabilities and subordinate liabilities.

Classification		**Measure**		**IAS 39 category**
	Fair Value	**Amortised Cost**	**Other**	
Asset classes				
Cash reserve			Nominal value	n/a
Trading assets	X			Trading assets
Derivative financial instruments	X			Trading assets
Claims on credit institutions		X		Loans and claims
Claims on customers		X		Loans and claims
Securities and financial investments	X			Financial assets held at fair value through profit or loss
Securities and financial investments	X			Financial assets available-for-sale
of which financial investments not traded on an active market			At cost	Financial assets available-for-sale
Positive fair values of derivatives for hedge accounting (IAS 39)	X			n/a
Liability classes				
Trading liabilities	X			Trading liabilities
Derivative financial instruments	X			Trading liabilities
Liabilities to credit institutions		X		Financial liabilities
Liabilities to customers		X		Financial liabilities
Subordinate liabilities		X		Financial liabilities
Negative fair values from hedging derivatives (IAS 39)	X			n/a

Hedging

The derivative financial instruments employed in the Raiffeisen Centrobank Group include swaps, standardised forward contracts, forward transactions, options and similar contracts. In the ordinary course of business, different transactions are effected with derivative financial instruments for trading and hedging purposes.

Derivative financial instruments not held for trading because they have been acquired for hedging purposes are subdivided into the following categories, reflecting differing modes of recognition on the IFRS-compliant balance sheet:

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. In particular, 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. 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 range of 80 to 125 percent.

Derivative instruments held to hedge the fair values of individual balance sheet items (except trading assets/liabilities) are recognised at their fair values (dirty prices) under Derivative financial instruments (on the assets side: positive dirty prices; on the 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 amounts of positions requiring hedging and the effects of changes in the clean prices of the derivative instruments are recorded under Valuation result from derivatives (net result from hedge accounting).

b. Other derivative instruments

Derivatives instruments held to which are purchased for the purpose of hedging against market risks in the banking book and do not fulfil the requirement of IAS 39 hedge accounting are recognised as follows: The positive dirty prices are recognised under Derivative financial instruments (on the asset side: Positive fair values, on the equity and liabilities side: Negative fair values). The change in value of these derivatives on a clean-price basis is recognised under trading profit, whereas interest is recorded under Net interest income.

Cash reserve

The cash reserve includes cash on hand and balances at the Austrian National Bank that are due on call. They are shown at their nominal value.

Provisioning for impairment losses

Credit risk is accounted for by making specific impairment provisions and portfolio-based impairment provisions. Specific and portfolio-based impairment provisions are not netted against corresponding receivables but are stated separately in the balance sheet. Portfolio-based provisions were not formed due to immateriality.

For credit risks related to claims on credit institutions and customers, provisions are made in the amount of expected loss according to unified group-wide standards. The risk of loss is deemed to exist if the discounted projected repayment amounts and interest payments are below the carrying amount of the loans, taking the existing collateral into account.

The entire amount of the provision for impairment losses arising from on-balance-sheet loans (specific provisions) is shown as a separate item on the assets side of the balance sheet. The provision for impairment losses arising from off-balance-sheet transactions is recorded as provisions.

Derecognition of financial assets

Derecognition of a financial asset is considered when the contractually agreed claims to cash flow from the financial asset expire, or if the Group has transferred such claims or, given certain criteria, has assumed the obligation to pass this cash flow on to one or several recipients. A transferred asset is derecognised if all material risks and opportunities associated with the ownership of the asset are transferred.

Equity participations

Shareholdings in subsidiaries not included in the consolidated financial statements because of their immaterial significance, shareholdings in companies that are not valued at equity and other shareholdings are shown under Securities and financial investments. They are measured at amortised cost if no shares prices are available.

Intangible fixed assets

Purchased software is reported under this item. Acquired intangible fixed assets are capitalised at acquisition cost and amortised over their estimated useful lives. Intangible fixed assets without determinable useful lives do not exist in the Raiffeisen Centrobank Group. The useful life for software amounts to between three and seven years.

Tangible fixed assets

Tangible fixed assets are carried at cost less depreciation and impairment losses. Depreciation is calculated on a straight line basis in line with the following useful lives applied uniformly in the company:

Useful life	Years
Buildings	10 – 40
Equipment, furniture, and fittings	3 – 10
Hardware	3 – 5

If a permanent impairment is to be expected, extraordinary write-downs are 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 amortised cost of the asset.

Operating leasing

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 Tangible fixed assets and depreciated in accordance with the principles applicable to the type of fixed assets involved. The lease instalments paid by the Raiffeisen Centrobank Group for the use of leased objects are recognised in the Income Statement as Other administrative expenses.

Inventories

Inventories are measured at the lower of cost or net realisable value. Write-downs are carried out if the acquisition cost is above the net realisable value as of the balance sheet date or if limited usage or longer periods for storage have impaired the value of the inventory.

Provision

All provisions related to so-called social capital (provisions for retirement benefits and severance payments) are measured using the Projected Unit Credit Method in accordance with IAS 19–Employee Benefits.

Pension commitments exist towards certain employees. There are no pension commitments to people who are already retired. The actuarial calculation of the company's provisions for retirement benefits is based on the following assumptions:

In percent	2008	2007
Discount 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 defined benefit pension plans	4.25	4.25

Calculations are based on the earliest assumed retirement age, taking account of changes made to the General Social Insurance Act pursuant to the Year Tax Act 2003 and special arrangements in individual contracts.

Actuarial gains or losses relating to pension obligations are recognised immediately in profit. The right to vote according to IAS 19.92 ("corridor method") is not applied.

In percent	2008	2007
Discount 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 all provisions for social capital is provided by AVÖ 2008-P-Rechnungsgrundlagen für die Pensionsversicherung (Computational Framework for Pension Insurance) – Pagler & Pagler, using the variant for salaried employees.

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 pension fund. These payments are recognised as Staff expenses in the income statement.

Subordinated capital

The balance sheet item shows subordinate liabilities pursuant to § 23 (8) of the Austrian Banking Act. Securitised and unsecuritised investments are subordinated if, in the event of liquidation or bankruptcy proceedings, debts may only be satisfied after the debts of other non-subordinated creditors.

Net interest income

Interest and similar income primarily encompasses interest income on loans and claims on credit institutions and customers and from fixed-interest securities. Interest and similar expense mainly includes interest paid on liabilities to credit institutions and customers. Interest income and expenses are accrued in the reporting period. Moreover, current interest income from shares and other variable yield securities (dividends) – if not allocable to net trading income – as well as income from equity participations and from investments and income and expenses similar to interest are reported as interest income.

Net commission income

Net commission income mainly includes income and expenses arising from payment transfers, securities transactions not classified as trading profit including income from providing services in connection with capital market transactions (IPOs and SPOs), currency and credit transactions as well as income from advisory services provided to clients in connection with Mergers & Acquisitions. Commission income and expenses are accrued in the reporting period.

Trading profit

Trading profit comprises the customer margins resulting from the foreign exchange business, results due to currency exchange translation, and all realised and unrealised 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 amortisation/depreciation and impairment losses for fixed and intangible fixed assets.

Income taxes

Deferred taxes are recognised 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 which will be reversed in the future. A deferred tax asset should also be recognised 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 utilised within the same entity. Deferred tax assets and deferred tax liabilities within the same entity are netted.

Since 2008, Raiffeisen Centrobank AG, Vienna, and Raiffeisen Investment Aktiengesellschaft, Vienna, have been members of the corporate group of Raiffeisen Zentralbank Österreich Aktiengesellschaft pursuant to § 9 of the Austrian Corporate Income Tax Act. In addition, since 2006, Raiffeisen Centrobank AG has also been a member of an equity group pursuant to § 9 Austrian Corporate Income Tax Act in regard to a company in which it has a minority shareholding. Receivables and liabilities from group taxation schemes arising from a positive or negative tax contribution are reported respectively under Other assets or Other liabilities.

Fiduciary business

Transactions arising from the holding and placement of assets on behalf of third parties are not shown in the balance sheet. Commission fees arising from these transactions are shown under net commission income.

Disclosures regarding the nature and scope of risks

In addition to the information pertaining to risks arising from financial instruments disclosures to the Notes, the Risk report section in particular provides detailed explanations on the topics of market risk, credit risk, operational risks, equity participation risks, and other risks.

Management of capital

Disclosures on the management of capital and on regulatory capital and risk-weighted assets are presented in the Notes under section 47, Management of capital and regulatory capital pursuant to Austrian Banking Act.

Notes to the Income Statement

(1) Income statement by measurement category

The following table presents the income statement according to valuation categories pursuant to the definitions contained in IAS 39:

Amounts in thousand Euros	2008	2007
Net gains/losses on financial assets and liabilities held for trading	**29,911**	**58,891**
Financial assets and liabilities at fair value through profit or loss	**3,169**	**1,044**
Net interest income	1,817	1,527
Net gains/losses on financial assets and liabilities at fair value through profit or loss	1,352	– 483
Financial assets available-for-sale	**1,301**	**1,616**
Net interest income	1,340	1,581
Net realised gains/losses on financial assets available-for-sale	0	1,393
Impairment loss on financial assets not measured at fair value	– 39	– 1,359
Loans and claims	**15,870**	**17,148**
Net interest income	15,953	17,232
Realised gains (losses) from financial assets not measured at fair value (net)	0	0
Impairment loss on financial assets not measured at fair value	– 83	– 84
Financial assets held-to-maturity	0	0
Net interest income	0	0
Realised gains (losses) from financial assets not measured at fair value (net)	0	0
Impairment loss on financial assets not measured at fair value	0	0
Financial liabilities measured at amortised cost	**– 11,318**	**– 14,018**
Interest expenses	– 11,318	– 14,018
Derivatives (hedging)	**211**	**20**
Net interest income	211	20
Positive (negative) adjustments to fair value in the recognition of hedging transactions (net)	0	0
Net profit contribution from currency translation	**3,389**	**4,467**
Other operating income/expenses	**– 30,112**	**– 14,242**
Total profit before tax from continuing operations	**12,421**	**54,926**

(2) Net interest income

Net interest income includes income and expenses from items of the banking business, dividend income, and commissions similar to interest.

Amounts in thousand Euros	2008	2007
Interest income	**17,956**	**18,745**
from balances with central banks	215	216
from claims on credit institutions	9,511	10,744
from claims on customers	6,206	6,264
from securities	1,814	1,500
from derivative financial instruments (non-trading, net)	210	21
Current income	**1,343**	**1,609**
from shares and variable yield securities	3	28
from investments in affiliated companies	1,340	1,468
from other interests	0	113
Interest-like income	**22**	**7**
Total interest and interest-like income	**19,321**	**20,361**
Interest expenses	**– 11,299**	**– 13,992**
Liabilities to credit institutions	– 4,102	– 3,162
Liabilities to customers	– 6,212	– 10,830
from subordinated capital	– 985	0
Interest-like expenses	**– 19**	**– 26**
Total interest and interest-like expenses	**– 11,318**	**– 14,018**
Net interest income	**8,004**	**6,343**

The interest margin in relation to the respective averages of the stated base developed as follows:

Amounts in percent	2008	2007
Interest margin (total assets)	0.41	0.30
Interest margin (weighted risk assets of the banking book)	3.91	2.93

(3) Provisioning for impairment losses

The provisions for impairment losses (credit risk) for on-balance-sheet and off-balance-sheet transactions is comprised of the following:

Amounts in thousand Euros	2008	2007
Individual loan loss provisions	**– 83**	**– 84**
Additions to provisions for impairment losses	– 83	– 84
Direct write-downs	0	0
Income received on written-down claims	0	0
Total	**– 83**	**– 84**

Detailed information on provisions is presented in Note 16, Provisioning for impairment losses.

(4) Net commission income

Amounts in thousand Euros	2008	2007
Payment transfer business	– 117	– 39
Loan administration and guarantee business	9	22
Securities business	8,734	16,782
Consulting income from Mergers & Acquisitions	8,649	20,415
Other banking services	330	778
Total	**17,605**	**37,958**

Net commission income amounted to TEUR 27,436 (previous year: TEUR 45,108). Net commission expenses amounted to TEUR 9,831 (previous year: TEUR 7,150).

(5) Trading profit

Amounts in thousand Euros	2008	2007
Interest-based transactions	706	2,489
Currency-based transactions	– 5,958	– 8,928
Equity-/index-based transactions	38,552	69,797
Total	**33,300**	**63,358**

In addition to realised and unrealised gains from the trading portfolio, trading profit also refers to interest income from debt instruments, dividend income from equity instruments of the trading portfolio, and refinancing costs of trading assets.

(6) Valuation result from derivative financial instruments

Amounts in thousand Euros	2008	2007
Changes in the present value of derivative financial instruments	703	226
Changes in the fair value of the underlying transaction	– 703	– 226
Total	**0**	**0**

The valuation result for derivative financial instruments refers to fair-value hedges for hedge accounting pursuant to IAS 39.

(7) Net income from financial investments

Net income from financial investments includes valuation results and net proceeds from disposals from securities measured at fair value in profit or loss and from equity participations. This includes investments in affiliated companies and other equity investments.

Amounts in thousand Euros	2008	2007
Net income from financial investments and equity participations	**– 38**	**34**
Net valuations from financial investments and equity participations	– 7	0
Net proceeds from the sales of financial investments and equity participations	– 31	34
Earnings from securities measured at fair value in profit or loss	**1,352**	**– 483**
Net valuation of securities held as other current financial assets	1,075	– 483
Net proceeds from sales of securities held at fair value through profit or loss	277	0
Total	**1,314**	**– 448**

The income reported under "Measurement gain/loss of securities held as other current financial assets" results from crediting fixed-interest securities held in other current assets to the revaluation reserve due to market conditions. Net proceeds from the sales of financial investments and equity participations refers to the closing of three unconsolidated affiliated subsidiaries of Raiffeisen Centrobank.

(8) General administrative expenses

General administrative expenses in the Raiffeisen Centrobank Group include staff expenses, other administrative expenses as well as depreciation on tangible and intangible assets, as follows:

Amounts in thousand Euros	2008	2007
Staff expenses	**– 35,618**	**– 39,634**
Wages and salaries	– 27,751	– 32,588
Social security costs and staff-related taxes	– 5,062	– 5,122
Voluntary social expenses	– 996	– 753
Expenses on severance payments and retirement benefits	– 1,809	– 1,171
Other administrative expenses	**– 15,167**	**– 15,928**
Office space expenses	– 1,869	– 1,752
IT costs	– 1,602	– 1,843
Communication expenses	– 3,232	– 2,717
Legal, advisory and consulting expenses	– 1,800	– 3,779
Advertising, PR and promotional expenses	– 2,208	– 2,344
Office supplies	– 327	– 368
Car expenses	– 541	– 353
Security expenses	– 28	– 23
Travel expenses	– 1,519	– 1,452
Staff training expenses	– 411	– 334
Sundry administrative expenses	– 1,630	– 963
Depreciation on tangible and intangible fixed assets	**– 2,568**	**– 2,645**
Tangible fixed assets	– 2,248	– 2,290
Intangible fixed assets	– 320	– 355
Total	**– 53,353**	**– 58,207**

(9) Other operating result

The Other operating result item includes sales revenues and expenses of Raiffeisen Centrobank's commodity operations and from other non-banking activities, income and expenses from disposal of tangible and intangible fixed assets.

Amounts in thousand Euros	2008	2007
Net result	10,408	7,144
Sales revenues from non-banking activities	407,297	315,301
Expenses arising from non-banking activities	– 396,889	– 308,157
Net proceeds from the disposal of tangible and intangible fixed assets	0	42
Other taxes	– 3,002	– 1,216
Net result from the allocation and release of other provisions	– 1,388	– 2,192
Other operating income	4,989	7,586
Other operating expenses	– 5,372	– 5,358
Total	**5,635**	**6,006**

Expenses under "Other taxes", which were higher than 2007, are primarily attributable to the allocation of reserves for sales tax obligations following the tax audit.

(10) Income taxes

Income taxes are comprised of the following:

Amounts in thousand Euros	2008	2007
Current income taxes	– 1,651	– 11,985
Austria	– 1,647	– 11,529
Other countries	– 4	– 456
Deferred taxes	– 127	– 488
Total	**– 1,778**	**– 12,473**

The following transition shows the relation between the profit before tax and the effective tax burden:

Amounts in thousand Euros	2008	2007
Profit before tax	12,421	54,926
Theoretical income tax expense in the financial year based on the domestic income tax rate of 25 percent	– 3,105	– 13,731
Effect of divergent foreign tax rates	141	193
Tax deductions due to tax-exempted income from equity participations and other income	833	821
Tax increases due to non-deductible expenses	– 414	– 112
Other	767	357
Effective tax burden	**– 1,778**	**– 12,472**
Tax rate in percent	**14.3%**	**22.7%**

The "Other" item includes tax savings resulting from the group taxation scheme in Austria in the amount of TEUR 1,050 (2007: TEUR 316).

(11) Earnings per share

Amounts in thousand Euros	2008	2007
Group net profit	10,643	42,453
Average number of ordinary shares outstanding	655,000	655,000
Earnings per share in Euros	**16.25**	**64.81**

No option or conversion rights were issued. For this reason, there is no dilution of earnings per share.

Notes to the Balance Sheet

(12) Balance sheet by measurement category

The following table shows the carrying amount of the valuation categories as defined in IAS 39:

Assets by measurement category Amounts in thousand Euros	**2008**	**2007**
Trading assets	**1,168,031**	**1,684,881**
Positive fair values of derivative financial instruments	562,955	1,045,290
Shares and other variable-yield securities	214,667	621,372
Bonds, notes, and other fixed-interest securities	390,409	18,219
Financial assets held at fair value through profit or loss	**40,680**	**65,652**
Shares and other variable-yield securities	50	124
Bonds, notes, and other fixed-interest securities	40,630	65,528
Financial assets available-for-sale	**5,168**	**5,168**
Other interests	5,168	5,168
Loans and claims	**538,569**	**386,577**
Claims on credit institutions	375,711	207,799
Claims on customers	96,104	118,647
Other non-derivative financial assets	67,379	61,473
Provisioning for impairment losses	– 625	– 1,342
Derivatives (hedging)	**0**	**653**
Positive fair values of derivatives in fair-value hedge (IAS 39)	0	653
Other assets	**16,850**	**17,018**
Investments in associates and other affiliated companies	1,765	1,429
Intangible and tangible fixed assets	15,085	15,589
Total assets	**1,769,298**	**2,159,951**

Equity and liabilities by measurement category Amounts in thousand Euros	2008	2007
Trading liabilities	**1,130,660**	**1,618,109**
Negative fair values of other derivative financial instruments	1,055,057	1,565,186
Short selling of trading assets	75,602	52,923
Financial liabilities measured at amortised cost	**506,855**	**379,362**
Liabilities to credit institutions	235,303	122,907
Liabilities to customers	215,589	218,779
Subordinated capital	20,985	0
Other non-derivative financial liabilities	34,978	37,677
Derivatives (hedging)	**50**	**0**
Negative fair values of derivatives in fair-value hedge (IAS 39)	50	0
Provisions	**25,486**	**32,924**
Equity	**106,246**	**129,556**
Total equity and liabilities	**1,769,298**	**2,159,951**

(13) Cash reserve

Amounts in thousand Euros	2008	2007
Cash on hand	395	392
Balances at central banks	15,932	9,548
Total	**16,327**	**9,940**

(14) Claims on credit institutions

Amounts in thousand Euros	2008	2007
Giro and clearing business	88,844	96,085
Money market business	270,540	101,774
Total	**359,384**	**197,859**

Claims on credit institutions are classified regionally (counterparty's seat) as follows:

Amounts in thousand Euros	2008	2007
Austria	300,111	128,872
Other countries	59,273	68,987
Total	**359,384**	**197,859**

(15) Claims on customers

Amounts in thousand Euros	2008	2007
Corporate customers – large corporates	86,461	101,287
Retail customers – private individuals	9,643	17,360
Total	**96,104**	**118,647**

The claims on customers are comprised of the following asset classes (pursuant to Basel II definition):

Amounts in thousand Euros	2008	2007
Austria	4,848	9,377
Other countries	91,257	109,270
Total	**96,104**	**118,647**

(16) Provisioning for impairment losses

Provisions for impairment losses are formed in accordance with uniform group standards and cover all recognisable credit risks. A table with the development of the impairment losses for loans and advances can be found in the Risk Report on page 117. Provisions for impairment losses are allocated to the following asset classes according to the definition contained in Basel II:

Amounts in thousand Euros	2008	2007
Corporate customers – large corporates	196	936
Retail customers – private individuals	429	406
Total	**625**	**1,342**

Retail (private) customers refer exclusively to wealthy private individuals and self-employed people (high net worth individuals).

(17) Trading assets

The trading assets consist of the following securities and derivative financial instruments:

Amounts in thousand Euros	2008	2007
Bonds, notes, and other fixed-interest securities	**261,623**	**18,219**
Bonds and notes from banks	138,882	18,219
Bonds and notes of non-public issuers	122,741	0
Shares and other variable-yield securities	**214,667**	**621,372**
Shares and comparable securities	155,974	556,181
Investment fund shares	58,693	65,191
Positive fair values of derivative financial instruments	**691,612**	**1,045,130**
Structured products	491,364	740,606
Interest-based transactions	21,020	5,040
Currency-based transactions	2,012	0
Equity-/index-based transactions	177,216	299,484
Total	**1,167,902**	**1,684,722**

The share portfolios stemming from market-making activities also represent hedging items along with other securities, options and purchased structured products for certificates and warrants issued by Raiffeisen Centrobank.

(18) Derivative financial instruments

Amounts in thousand Euros	2008	2007
Positive fair values of derivatives in fair-value hedge (IAS 39)	**0**	**653**
Interest-based transactions	0	653
Positive market values of other banking book derivatives	**129**	**160**
Currency-based transactions	129	160
Total	**129**	**813**

This item shows the positive fair values of derivative financial instruments not held for trading purposes. In addition, if available and if 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 claims on customers. The hedged risks are interest rate risks. The changes in the carrying amount of the hedged underlying transactions in IAS 39 fair-value hedges are included in the respective balance sheet items.

(19) Securities and financial investments

This item comprises financial assets recognised at fair value through profit or loss and securities held-to-maturity as well as strategic equity participations held on a long-term basis.

Amounts in thousand Euros	2008	2007
Bonds, notes, and other fixed-interest securities	**40,630**	**65,528**
Treasury bills and bills of public authorities eligible for refinancing	0	62,704
Other bills of public authorities	10,304	2,824
Bonds and notes of non-public issuers	30,326	0
Shares and other variable-yield securities	**50**	**124**
Shares	50	50
Investment fund shares	0	74
Equity participations	**6,933**	**6,597**
Investments in related companies	1,765	1,429
Other interests	5,168	5,168
Total	**47,613**	**72,249**

The increase in investments in related companies is attributable primarily to the inflow of the second half of the subscribed capital at OOO Raiffeisen Investment, Moscow/Russia.
Disclosures relating to associates in accordance with IAS 28: In its provisional annual financial statements for the year ended 31 December 2008, Syrena Immobilien Holding AG reports total assets of TEUR 32,064 (31 December 2007: TEUR 31,592), equity of TEUR 29,057 (31 December 2007: TEUR 28,948) and net profit for the year of TEUR 109 (2007: TEUR 235).

(20) Intangible fixed assets

Amounts in thousand Euros	2008	2007
Software	241	432
Other intangible fixed assets	3	5
Total	**244**	**437**

(21) Tangible fixed assets

Amounts in thousand Euros	2008	2007
Properties and buildings used for own activities	7,954	7,968
Other equipment, furniture, and fittings	6,887	7,185
Total	**14,841**	**15,153**

(22) Statement of fixed assets

The tangible and intangible fixed assets developed in the 2008 financial year as follows:

Cost of acquisition or conversion Amounts in thousand Euros	Balance as at 1/1/2008	Change in consolidation group	Currency translation differences	Additions	Disposals	Transfers	Balance as at 31/12/2008
Intangible fixed assets	**3,161**	**0**	**7**	**131**	**– 10**	**0**	**3,289**
Goodwill	43	0	0	0	0	0	43
Software	3,118	0	7	131	– 10	0	3,246
Tangible fixed assets	**30,325**	**0**	**26**	**2,004**	**– 203**	**0**	**32,151**
Properties and buildings used for own activities	9,051	0	1	107	– 1	0	9,158
thereof value of developed land	2,006	0	0	0	0	0	2,006
Other tangible fixed assets	21,274	0	25	1,897	– 202	0	22,993
Total	**33,485**	**0**	**32**	**2,135**	**– 213**	**0**	**35,440**

Write-ups, amortisation, depreciation, and impairment Amounts in thousand Euros	Cumulative	Write-ups	Depreciation	Book value as at 31/12/2008
Intangible fixed assets	**– 3,045**	**0**	**– 320**	**244**
Goodwill	– 43	0	0	0
Software	– 3,002	0	– 320	244
Tangible fixed assets	**– 17,310**	**0**	**– 2,248**	**14,841**
Properties and buildings used for own activities	– 1,204	0	– 121	7,954
thereof value of developed land	0	0	0	2,006
Leased assets	– 16,106	0	– 2,127	6,887
Total	**– 20,355**	**0**	**– 2,568**	**15,085**

The tangible and intangible fixed assets developed in the 2007 financial year as follows:

Cost of acquisition or conversion Amounts in thousand Euros	**Balance as at 1/1/2007**	**Change in consolidation group**	**Currency translation differences**	**Additions**	**Disposals**	**Transfers**	**Balance as at 31/12/2007**
Intangible fixed assets	**2,964**	**0**	**– 15**	**219**	**– 8**	**0**	**3,160**
Goodwill	43	0	0	0	0	0	43
Software	2,921	0	– 15	219	– 8	0	3,117
Tangible fixed assets	**27,179**	**0**	**– 45**	**3,448**	**– 257**	**0**	**30,325**
Properties and buildings used for own activities	8,691	0	0	0	0	360	9,051
thereof value of developed land	2,006	0	0	0	0	0	2,006
Other tangible fixed assets	18,488	0	– 45	3,448	– 257	– 360	21,274
Total	**30,143**	**0**	**– 60**	**3,667**	**– 265**	**0**	**33,485**

Write-ups, amortisation, depreciation, and impairment Amounts in thousand Euros	**Cumulative**	**Write-ups**	**Depreciation**	**Book value as at 31/12/2007**
Intangible fixed assets	**– 2,725**	**0**	**– 355**	**437**
Goodwill	– 43	0	0	0
Software	– 2,682	0	– 355	437
Tangible fixed assets	**– 15,172**	**0**	**– 2,290**	**15,152**
Properties and buildings used for own activities	– 1,083	0	– 190	7,968
thereof value of developed land	0	0	0	2,006
Leased assets	– 14,089	0	– 2,099	7,184
Total	**– 17,897**	**0**	**– 2,645**	**15,589**

(23) Other assets

Amounts in thousand Euros	2008	2007
Tax assets	**3,685**	**5,699**
Current tax assets	775	2,670
Deferred tax assets	2,910	3,029
Receivables arising from non-banking activities	**30,311**	**31,011**
Prepayments and accrued income	**1,546**	**2,114**
Inventories	**25,808**	**19,742**
Other assets	**6,029**	**2,908**
Total	**67,379**	**61,474**

The net deferred taxes result from the following items:

Amounts in thousand Euros	2008	2007
Tangible and intangible fixed assets	1,268	1,302
Equity participations	667	938
Other assets	153	74
Provisions	317	337
Other liabilities	0	34
Tax loss carry-forwards	293	189
Other balance sheet items	265	347
Deferred tax assets	**2,963**	**3,221**
Other assets	47	163
Other balance sheet items	6	29
Deferred tax liabilities	**53**	**192**
Net deferred taxes	**2,910**	**3,029**

(24) Liabilities to credit institutions

Amounts in thousand Euros	2008	2007
Giro and clearing business	22,274	6,841
Money market business	212,865	115,739
Long-term loans	164	327
Total	**235,303**	**122,907**

Liabilities to credit institutions are classified regionally (counterparty's seat) as follows:

Amounts in thousand Euros	2008	2007
Austria	87,555	104,609
Other countries	147,748	18,298
Total	**235,303**	**122,907**

(25) Liabilities to customers

Amounts in thousand Euros	2008	2007
Sight deposits	111,541	163,748
Time deposits	104,048	55,031
Total	**215,589**	**218,779**

Liabilities to customers pursuant to the definition contained in Basel II are comprised of the following:

Amounts in thousand Euros	2008	2007
Corporate customers–large corporates	112,761	121,483
Retail customers–private individuals	102,828	97,296
Total	**215,589**	**218,779**

Retail (private) customers refer exclusively to wealthy private individuals and self-employed people (high net worth individuals).

Liabilities to customers are classified regionally (counterparty's seat) as follows:

Amounts in thousand Euros	2008	2007
Austria	159,369	135,975
Other countries	56,220	82,804
Total	**215,589**	**218,779**

(26) Provisions

Amounts in thousand Euros	Balance as at 1/1/2008	Change in consolidation group	Additions	Reversals	Use	Transfers, currency translation differences	Balance as at 31/12/2008
Severance payments	4,303	0	788	– 4	– 92	0	4,995
Retirement benefits	922	0	92	– 15	0	1	1,000
Taxes	382	0	164	– 4	– 84	10	468
Current taxes	382	0	164	– 4	– 84	10	468
Pending legal issues	4,707	0	1,120	0	– 1,380	0	4,447
Unused vacation	2,345	0	137	0	0	– 1	2,481
Other	20,265	0	12,541	– 3,157	– 17,609	55	12,095
Total	**32,924**	**0**	**14,842**	**– 3,180**	**– 19,165**	**65**	**25,486**

Amounts in thousand Euros	Balance as at 1/1/2007	Change in consolidation group	Additions	Reversals	Use	Transfers, currency translation differences	Balance as at 31/12/2007
Severance payments	4,069	0	429	– 195	0	0	4,303
Retirement benefits	756	0	168	– 1	0	– 1	922
Taxes	127	0	342	0	– 77	– 10	382
Current taxes	127	0	342	0	– 77	– 10	382
Pending legal issues	2,289	0	2,418	0	0	0	4,707
Unused vacation	2,251	0	548	– 455	0	1	2,345
Other	13,042	0	18,320	– 522	– 10,478	– 97	20,265
Total	**22,534**	**0**	**22,225**	**– 1,173**	**– 10,555**	**– 107**	**32,924**

Other provisions include primarily reserves for employee bonuses in the amount of TEUR 7,113 (previous year: TEUR 14,160). Moreover, the item includes reserves for sales tax obligations resulting from a tax audit of TEUR 1,500 (previous year: EUR 0) and provisions for unpaid incoming invoices in the amount of TEUR 1,964 (previous year: TEUR 1,682).

(27) Trading liabilities

Amounts in thousand Euros	2008	2007
Negative fair values of derivative financial instruments	1,055,007	1,565,076
Warrants	214,620	617,269
OTC business	90,944	13,485
Structured products	749,443	934,322
Short selling of trading assets	75,602	52,923
Total	**1,130,609**	**1,617,999**

"Trading liabilities" are structured guarantee products of Raiffeisen Centrobank such as the well-known Winner or Blue Chip certificates. The item also includes warrants and other certificates such as turbo certificates on indices and shares.

(28) Derivative financial instruments

Amounts in thousand Euros	2008	2007
Negative fair values of derivatives in fair-value hedge (IAS 39)	**50**	**0**
Interest-based transactions	50	0
Negative market values of other banking book derivatives	**0**	**110**
Currency-based transactions	0	110
Total	**50**	**110**

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 claims on customers. The hedged risks are interest rate risks. Negative fair values for derivative hedging instruments for fair value hedges as defined in IAS 39 did not exist in 2007. This item also includes the positive fair values of derivative financial instruments which are not held for trading and do not constitute fair-value hedging instruments as defined in IAS 39.

(29) Other liabilities

Amounts in thousand Euros	2008	2007
Liabilities from non-banking activities	14,050	22,621
Accruals and deferred income	883	614
Other liabilities	20,096	14,441
Total	**35,029**	**37,676**

(30) Subordinated capital

Amounts in thousand Euros	2008	2007
Subordinated capital	20,986	0
Total	**20,986**	**0**

Subordinated capital refers to a subordinated bond issued in January 2008 to add to the capital of Raiffeisen Centrobank required to meet capital adequacy requirements with a nominal value of TEUR 20,000, which is recognised under this item to the inclusion of the interest accrued up to the balance sheet date and totalling TEUR 20,986. The bond has an indefinite time to maturity granting a right to termination by the issuer no earlier than 31 January 2013. The yield amounts to EURIBOR + 100 bp. Expenses for subordinated capital amounted in 2008 to TEUR 986 (previous year: EUR 0).

(31) Equity

Amounts in thousand Euros	2008	2007
Consolidated equity	95,603	87,103
Subscribed capital	47,599	47,599
Capital reserves	6,651	6,651
Retained earnings	41,353	32,853
Group net profit	10,643	42,453
Total	**106,246**	**129,556**

The subscribed capital of Raiffeisen Centrobank AG continues to be divided into 655,000 no-par-value shares. In accordance with the Articles of Association, the total nominal value amounts to EUR 47,598,850. The Executive Board will propose to the Annual General Meeting that a dividend of EUR 21.00 per ordinary share be distributed from the balance sheet profit in the single-entity financial statements of Raiffeisen Centrobank AG as at 31 December 2008, amounting to TEUR 19,994. This represents a total dividend payment of TEUR 13,755. The remaining amount of TEUR 6,239 will be carried forward to the new balance sheet. The development of equity is detailed on page 74.

(32) Maturity structure

31/12/2008 Amounts in thousand Euros	**Payable on demand or with indefinite maturity dates**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Cash reserve	16,327	0	0	0	0
Claims on credit institutions	86,689	271,872	0	823	0
Claims on customers	33,940	5,670	35,056	14,204	7,234
Trading assets	281,504	29,273	58,341	476,013	322,771
Securities and financial investments	6,933	10,822	0	29,858	0
Sundry assets	40,667	32,840	8,461	0	0
Total assets	**466,060**	**350,477**	**101,858**	**520,898**	**330,005**
Liabilities to credit institutions	23,174	211,266	864	0	0
Liabilities to customers	111,541	71,244	32,804	0	0
Trading liabilities	128,732	26,374	62,739	620,340	292,424
Subordinated capital	0	985	0	0	20,000
Sundry liabilities	29,021	26,832	4,662	0	50
Subtotal	**292,468**	**336,701**	**101,069**	**620,340**	**312,474**
Equity	106,246	0	0	0	0
Total equity and liabilities	**398,714**	**336,701**	**101,069**	**620,340**	**312,474**

31/12/2007 Amounts in thousand Euros	**Payable on demand or with indefinite maturity dates**	**Up to 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**
Cash reserve	9,940	0	0	0	0
Claims on credit institutions	92,349	102,589	2,921	0	0
Claims on customers	41,010	5,822	6,464	50,171	15,180
Trading assets	621,992	5,158	96,981	490,838	469,753
Securities and financial investments	6,672	4,026	115	61,438	0
Sundry assets	36,698	31,489	7,679	0	666
Total assets	**808,661**	**149,084**	**114,160**	**602,447**	**485,599**
Liabilities to credit institutions	7,740	114,839	164	164	0
Liabilities to customers	135,737	47,016	6,456	28,012	1,558
Trading liabilities	52,923	15,004	166,079	943,335	440,658
Sundry liabilities	44,593	23,626	2,360	131	0
Subtotal	**240,993**	**200,485**	**175,059**	**971,642**	**442,216**
Equity	129,556	0	0	0	0
Total equity and liabilities	**370,549**	**200,485**	**175,059**	**971,642**	**442,216**

(33) 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 of the Raiffeisen Centrobank Group are divided into the following categories:

» The "parent companies" are Raiffeisen-Landesbanken-Holding GmbH, Raiffeisen Zentralbank Österreich Aktiengesellschaft, RZB KI Beteiligungs GmbH, and RZB IB Beteiligungs GmbH.
» "Affiliated companies" encompass those affiliated companies of Raiffeisen Zentralbank Österreich Aktiengesellschaft which are not included in consolidation in the consolidated financial statements of Raiffeisen Centrobank AG.
» Other interests

Information on the business ties of the Raiffeisen Centrobank Group with key management (Executive Board) is contained in section 50. In the 2008 financial year, transactions with related parties were as follows:

Amounts in thousand Euros	Parent company	Companies with significant influence	Affiliated companies	Other interests
Claims on credit institutions	275,265	0	1,452	0
Claims on customers	0	0	46,820	514
Trading assets	461,986	46,342	24,135	0
Securities and financial investments	0	0	1,765	5,168
Other assets including derivative financial instruments	1,020	0	60	24
Liabilities to credit institutions	17,140	0	981	0
Liabilities to customers	0	0	4,199	585
Provisions	160	0	0	0
Trading liabilities	14,398	0	3,194	0
Other liabilities	6,504	0	44	0
Subordinated capital	0	0	20,985	0

As at 31 December 2007, transactions with related parties were as follows:

Amounts in thousand Euros	Parent company	Companies with significant influence	Affiliated companies	Other interests
Claims on credit institutions	104,812	0	2,325	0
Claims on customers	0	0	47,663	514
Trading assets	305,579	0	36,703	0
Securities and Equity participations	0	0	1,429	5,168
Other assets including derivative financial instruments	889	34	55	25
Liabilities to credit institutions	100,178	0	5,897	0
Liabilities to customers	0	0	1,170	20
Provisions	770	0	0	0
Trading liabilities	0	0	1,916	0
Other liabilities	5,661	0	1	0

(34) Foreign currency volumes

The consolidated financial statements consist of the following volumes of assets and liabilities denominated in foreign currencies:

Amounts in thousand Euros	2008	2007
Assets	234,743	569,127
Liabilities	124,847	173,319

(35) Foreign assets/liabilities

Assets and liabilities with counterparties outside Austria are as follows:

Amounts in thousand Euros	2008	2007
Assets	628,497	1,338,343
Liabilities	195,423	188,539

(36) Subordinated assets

Assets include the following subordinated assets:

Amounts in thousand Euros	2008	2007
Trading assets	1,552	5,018
Total	**1,552**	**5,018**

(37) Assets pledged as collateral

The following liabilities are secured by assets shown in the balance sheet:

Amounts in thousand Euros	2008	2007
Other liabilities	89,665	77,504
Total	**89,665**	**77,504**

The following balance sheet assets are provided as collateral for the above-mentioned liabilities:

Amounts in thousand Euros	2008	2007
Claims on credit institutions	57,557	77,972
Trading assets	95,010	33,264
Other current financial assets	30,176	30,340
Total	**182,743**	**141,576**

(38) Operating leasing

Operating leases from the point of view of the Raiffeisen Centrobank as a lessee.

Future minimum leasing payments for non-cancellable operating leases are as follows:

Amounts in thousand Euros	2008	2007
Up to 1 year	1,098	651
1 – 5 year	3,002	2,505
Total	**4,100**	**3,156**

Risk report

(39) Risks from financial instruments

Principles of risk management

For Raiffeisen Centrobank, active risk management means the identification, evaluation, monitoring and management of economic risks. This process is designed to achieve profits by taking risks in a targeted, controlled manner. Transactions are evaluated in regard to their potential risk and return on investment according to the type of transaction, scale, and complexity, against the backdrop of prevailing legal regulations. A variety of risks are managed as part of a coordinated process, in particular market, credit, operational, equity participation and other risks.

As a subsidiary of Raiffeisen Zentralbank Österreich Aktiengesellschaft, Raiffeisen Centrobank is integrated into the risk management processes of the RZB Group. The various risk management units operating at different management levels ensure that all major risks are monitored and limited and that business transactions are concluded by taking account of the risk/earnings ratio. For this purpose, the concept of risk management takes into consideration the legal and regulatory framework, but also the type of transaction, scale, and complexity and the accompanying risks.

The concept of risk management as practiced by Raiffeisen Centrobank focuses on the individual risk profile of the company, which originates with the Bank's orientation toward the equity and equity derivatives business. The basic principles and methods underlying risk management are defined in the byelaws for the Supervisory Board and the Executive Board as well as in the bank's organisational guidelines and manuals. A comprehensive planning and controlling process enables the Executive Board to identify risks at an early stage, evaluate them and take appropriate countermeasures. Within the framework of its decision-making authority, the Executive Board determines the bank's risk management policies, authorising the principles of risk management, the specification of limits for all relevant risks as well as the precise processes to monitor risks. The risk policy is an integral part of the risk management scheme of the bank as a whole, which systematically links the profit management and risk management of all business segments.

An independent department for risk management, incorporated within the controlling division, supports the Executive Board in effectively fulfilling its duties. The department reports regularly to the Executive Board and evaluates the current risk situation by taking account of the risk capacity and risk limits. It supports the Executive Board in allocating a risk management budget and in managing risks. As a cross-divisional and enterprise-wide body, the department is responsible for the ongoing further development and implementation of methods to measure risks, to refine risk management instruments as well as to maintain and update the regulatory framework. The Risk Committee, which meets regularly, addresses all issues and regulations in the area of risk management, develops recommendations for the Executive Board as a whole, or prepares resolutions. Members of the Risk Committee, along with the Executive Board as a whole, are the head of the Risk Management, Securities Trading & Sales and Treasury departments. The evaluation of interest rate changes and balance sheet structure risks as well as liquidity risks takes place within the framework of the Assets/Liabilities Management Committee.

Raiffeisen Centrobank employs innovative methods and schemes in its risk management activities. Risk management is based on a risk strategy that focuses on risk propensity and risk capacity. On this basis, a unified bank-wide limit system is used that distributes the desired risk exposure of the Bank at division, department and individual manager level. The quantification of operational risk using a VaR-consistent parameter continues to be important. This enables Raiffeisen Centrobank to quantify this risk as well and appropriately take account of the operational risks in the bank's overall risk management efforts led by the Executive Board by means of a Value-at-Risk (VaR) consistent risk measurement approach, along with the main risks to which the bank is subject, namely the market risk and credit risk.

Ability to bear and manage risk

The ability to bear risk denotes the capacity of a bank to cover the risks arising from its transactions by furnishing equity capital and similar items. As banks cannot as a general rule completely preclude the incurring of risks, the losses arising from the realisation of these risks are to be defrayed by these funds, which are referred to as the "risk coverage sum". The amount of this sum determines which risk-bearing activities – and the maximum exposure associated with them – are suitable for a bank. The ability to bear risk thus significantly impacts on a bank's assumption of further risk. This, in turn, determines the focus and scope of the bank's transactions.

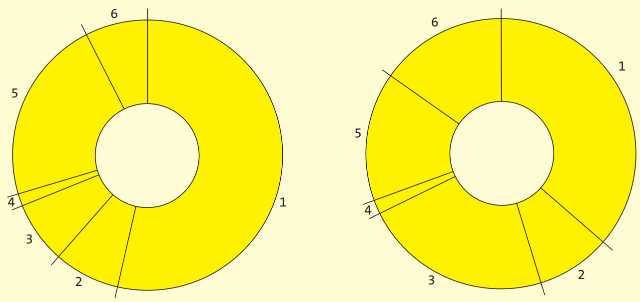
The existing risk capacity analysis of the RZB Group is supplemented by scenarios adapted to the business model of Raiffeisen Centrobank which are used to verify whether or not potential losses (the risk potential) exceeds the amount of the aggregate risk cover available at the time. Taking the going concern perspective (calculated using a confidence interval of 95 percent and retention period of three months), the scenarios' thrust is the assuring that the potential losses ("risk potential") arising from transactions do not exceed the associated risk coverage sums. Also factored in are the liquidation perspective (bearing with it a confidence level augmented to 99.9 percent) and the stress tests employed in the assessment of the effects of significant and negative alterations in the risk-causing factors which may possibly not be adequately depicted in Value-at-Risk models.

The determination and further development of its risk assessment strategy constitute key components of Raiffeisen Centrobank's total risk management operations. As it is derived from both the bank's approach to its business, its risk propensity and from its ability to bear risk, the strategy serves to intermesh the bank's business strategy and its ability to bear risk. For these reasons, the setting of the bank's risk strategy has been assigned to its Executive Board.

Securing capital adequacy is one of the primary goals of risk management at Raiffeisen Centrobank. The adequacy of capital is assessed every quarter on the basis of risk calculated according to internal models. This capital adequacy framework takes into account capital requirements both a regulatory perspective (going-concern perspective) and from an economic point of view (liquidation perspective). In both perspectives, all material risks are determined using a Value-at-Risk model.

Market risk constitutes the most significant specific risk from both perspectives. This accounts for 54 percent or 37 percent of total risk.

Shares of individual risk types



Going-concern perspective as at 31/12/2008	
1. Market risk	53.7%
2. Credit risk	7.7%
3. Operational risk	7.6%
4. Business risk	1.3%
5. Equity participation risk	22.2%
6. Other risks	7.5%

Liquidations perspective as at 31/12/2008	
1. Market risk	37.2%
2. Credit risk	9.0%
3. Operational risk	22.8%
4. Business risk	1.8%
5. Equity participation risk	15.5%
6. Other risks	15.5%

Market risk

The top priority of Raiffeisen Centrobank is to counteract market risk. Raiffeisen Centrobank defines market risk as incurring potential losses due to market changes resulting from fluctuating or changing market prices (e.g. share, currency, and securities prices) and parameters which affect prices (e.g. interest rates, volatilities). Comprehensive, real-time evaluations of market risk are developed, enabling the bank to combine this information with data on other risk factors to prepare an overall risk assessment. Market risks primarily consist of share and warrant prices as well as interest rate fluctuation and exchange rate risks and are managed by the bank's Securities Trading and Treasury segments.

The main focus of the business activities of Raiffeisen Centrobank is in securities trading and in the issue of securities and share-index-oriented derivatives and structured products (certificates and guarantee bonds). Risk positions primarily resulted from the dynamic hedging of the warrants and certificates issued by Raiffeisen Centrobank. The market risk arising from the securities trading-book of Raiffeisen Centrobank mainly refers to price risks resulting from trading book positions held in shares and derivatives.

Raiffeisen Centrobank measures, monitors and manages all market risks by setting a variety of limits which are defined by taking account of the risk capacity of the bank. Depending on the type of transaction, these limits encompass volume and position limits, sensitivity limits (delta, gamma, vega, basis point value) as well as stop-loss limits, which will be embedded in an integrated VaR bank limit system in the future. Compliance and use of limits are monitored and reported to the Executive Board on a daily basis by the Securities Controlling department, within the context of a comprehensive reporting system.

Value-at-Risk, which is calculated daily on the basis of a variance-covariance model, plays an important role. This calculation is based on a confidence interval of 99 percent and a retention period of 10 days. The market data for the calculation of volatility and correlations are based on a one-year history.

The table below shows the Value-at-Risk (in accordance with the variance-covariance model) for the market risk arising from the trading books, depending on the type of risk.

In addition to the variance-covariance method, the Value-at-Risk is also calculated using the statistically more precise Monte Carlo simulation. This practice will enable the taking into account those nonlinear risks resulting from the employment of options and impacting upon market-related risks. Monte Carlo simulations are based upon a full-scale valuation of the portfolio. This figure's future development is then simulated by subjecting the portfolio to an array of randomly-generated movements on exchanges. Whether or not random variables (risk factors) are realised is determined by applying a stochastic process (distributions and random walks) and parameters (for instance: volatility, correlations) incorporating historic data or predefined scenarios. This represents a significant increase in the flexibility of the risk measurement method, which is now able to incorporate new methods of valuation, non-normal distribution assumptions and such non-linear correlation models as copulas. Included in Raiffeisen Centrobank's portfolio are exotic options and path-dependent instruments. It is for that reason that Monte Carlo simulations represent the most effective way of measuring the risks borne by Raiffeisen Centrobank's portfolio. In a further benefit, the incorporation of stress tests enables the taking into account of extreme market variations, of catastrophic events, and of risks specific to individual countries and arising from concentration of operations. As of 31 December 2008, the Value-at-Risk for market risk calculated according to the Monte Carlo method (95 percent confidence interval, 3-month retention period) equals TEUR 7,950 (30 September 2008: TEUR 11,040).

The required trading book capital is calculated in accordance with § 22 o of the Austrian Banking Act. As of the end of 2008, the required securities trading book capital amounted to TEUR 26,700 (31 December 2007: TEUR 37,900 – calculated according to the Basel I standard procedure).

Of secondary importance are risks arising from changes in the rates of interest borne by items in the banking book. Such risks are quantified and qualified using the methods of analysis classically applied to capital and interest commitments. Interest rate risk is reported to supervisory authorities on a quarterly basis within the framework of interest rate statistics.

Amounts in thousand Euros	31/12/2008	30/09/2008	30/06/2008	31/03/2008	31/12/2007
Interest rate risk	860	920	650	530	420
Foreign exchange risk	198	85	43	121	74
Price risk	3,585	3,779	6,974	6,689	8,315
Total	**4,643**	**4,784**	**7,667**	**7,340**	**8,809**

The interest maturity gap of Raiffeisen Centrobank as at 31 December 2008 was as follows:

Amounts in thousand Euros	> 6 m – 1 y	> 1 – 2 y	> 2 – 5 y	> 5 y
EUR	45,376	0	30,598	2
USD	2,020	0	0	0
Other	0	0	0	0

The interest maturity gap of Raiffeisen Centrobank as at 31 December 2007 was as follows:

Amounts in thousand Euros	> 6 m – 1 y	> 1 – 2 y	> 2 – 5 y	> 5 y
EUR	25,146	15,134	46,418	0
USD	– 155	0	0	0
Other	0	0	0	0

A positive interest maturity gap means a net settlement amount of assets, whereas a negative interest maturity gap means a net settlement amount of liabilities.

Credit risk

The credit risk represents the default risk that arises from the inability of a customer to fulfil contractually agreed financial obligations, when services have been rendered (e.g. liquidity, securities, advisory services) or when unrealised profits from pending business transactions can no longer be recovered.

The traditional credit and loan business is of immaterial significance to Raiffeisen Centrobank due to the limited business volume and the Bank's strategic orientation. Additional credit risks primarily relate to acquired debt instruments and structured products, which serve to hedge debt instruments and structured products issued by the company.

The limitation and measurement of risks is primarily carried out by setting nominal limits as well as by the VaR figures for credit risk made available by RZB Group Risk Management. The internal system for controlling credit risk encompasses all forms of monitoring measures that are directly or indirectly integrated into the work processes that require monitoring. Against the backdrop of the capital adequacy framework for banks which is currently being developed (Basel II), the ongoing management, controlling and monitoring of credit risk at the Raiffeisen Banking Group are assured. The group-wide rating and default database registers and evaluates customers and documents default processes.

To measure risk internally, Raiffeisen Centrobank uses a modified version of the Basel II-IRB approach, which enables the determination of a VaR-consistent risk value and, unlike the original IRB formula, includes the expected loss. The credit risk of Raiffeisen Centrobank is monitored and analysed on a loan-by-loan (employing a comprehensive and well-founded analysis of potential debtor's creditworthiness and collateral) and portfolio-wide basis. The methods of calculation employed yield a comprehensive depiction of the bank's credit-incurred risks and reveal their relative (when compared to market-related risks) lack of importance.

As at 31 December 2008, Raiffeisen Centrobank had interest-bearing assets subject to credit risk as well as an off-balance-sheet volume amounting to TEUR 786,160 before deductions made for value adjustments.

Active volume Amounts in thousand Euros	**31/12/2008**		**31/12/2007**	
Bonds and notes from public authorities	0		62,703	
Claims on credit institutions	491,968		188,919	
Claims on customers	130,380		138,701	
Bonds	161,087		21,044	
	783,435		**411,367**	
Product-weighted off-balance sheet transactions	2,725		2,144	
	786,160	**100.0%**	**413,511**	**100.0%**
Irrecoverable	628	0.1%	1,342	0.3%
Default potential	2,164	0.3%	0	
Requiring attention	0		14,000	3.4%

The following table shows the development of the individual loan loss provisions according to balance sheet items:

Amounts in thousand Euros	**Balance as at 1/1/2008**	**Allocation[1]**	**Release**	**Use**	**Transfers, currency translation differences**	**Balance as at 31/12/2008**
Specific valuation allowances	**1,342**	**83**	**0**	**– 800**	**0**	**625**
Claims on customers	1,342	83	0	– 800	0	625
thereof Austria	1,342	83	0	– 800	0	625
Total	**1,342**	**83**	**0**	**– 800**	**0**	**625**

Amounts in thousand Euros	**Balance as at 1/1/2007**	**Allocation[1]**	**Release**	**Use**	**Transfers, currency translation differences**	**Balance as at 31/12/2007**
Specific valuation allowances	**1,259**	**84**	**0**	**0**	**0**	**1,342**
Claims on customers	1,259	84	0	0	0	1,342
thereof Austria	1,259	84	0	0	0	1,342
Total	**1,259**	**84**	**0**	**0**	**0**	**1,342**

[1] Allocation includes direct write-downs and income received on written-down claims.

Claims as well as individual loan loss provisions according to asset classes similar to the RZB Group pursuant to the definitions contained in Basel II are as follows:

31/12/2008 Amounts in thousand Euros	**Carrying amount**	**Individual loan loss provisions**	**Net carrying amount**	**Impaired assets**	**Fair value**
Banks	359,384	0	359,384	0	359,384
Corporate customers–large corporates	86,461	196	86,265	196	87,221
Retail customers–private individuals	9,643	429	9,214	429	9,214
Total	**455,488**	**625**	**454,863**	**625**	**455,819**

31/12/2007 Amounts in thousand Euros	**Carrying amount**	**Individual loan loss provisions**	**Net carrying amount**	**Impaired assets**	**Fair value**
Banks	197,859	0	197,859	0	197,859
Corporate customers–large corporates	101,287	936	100,351	936	100,380
Retail customers–private individuals	17,360	406	16,954	406	16,953
Total	**316,506**	**1,342**	**315,164**	**1,342**	**315,192**

Our parent company, Raiffeisen Zentralbank Österreich Aktiengesellschaft, uses the IRB approach based on internal ratings to assess credit risk. Raiffeisen Centrobank AG uses the standard approach, for which the "permanent partial use" parameter has been approved.

Operational risks

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. As is the case with other types of risk, the principle of ensuring a strict division of responsibilities between risk management and risk controlling is also applied to operational risk.

Operational risk is analysed and managed on the basis of the group's own regular self-risk assessments, the results of evaluating risk scenarios and the group's historical loss data.

The standardised approach to operational risk within the context of Basel II is employed. Allocations are made to reserves in order to meet pending legal risks in accordance with appraisals carried out of the potential economic losses resulting from court decisions. The calculation of VaR-consistent risk values is going to be carried out using the operating amounts determined by using the standard approach stipulated by Basel II for standard business lines. The method of quantification employed is derived from a large-scale empirical study on the advanced measurement approaches used in analysing databases chronicling operating losses as they relate to Basel II's standard approach. The data presented in the study forms the basis for the employment of empirical values and a reversed engineering approach in the deriving of the parameters delineating the function distributing operational losses. The calculation of VaR-consistent risk values enables the immediate and fully-intermeshed taking into account of the operational risks and of an assessment of its role within the bank's overall exposure to risks and the limits placed upon it. This VaR-consistent risk value (95 percent confidence interval, 3-month retention period) amounted to TEUR 1,130 (31. December 2007: TEUR 1,380).

Equity participation risks

Part of the banking book also encompasses risks derived from equity participations (all of which involve unlisted companies). As at 31 December 2008, the book value of the equity participations of Raiffeisen Centrobank amounted to about TEUR 15,600. The resulting share of these equity participations in the capital requirements of Raiffeisen Centrobank is thus 2.34 percent (previous year: 2.24 percent).

The focal point of the bank's efforts to mitigate and control equity participation risks is the limits set for the trading subsidiaries of Raiffeisen Centrobank. Financial and trading limits are prescribed and approved by the internal credit committee of Raiffeisen Centrobank or, when specified limits are to be exceeded, by the Supervisory Board of Raiffeisen Centrobank. On this basis, a standardised and comprehensive spectrum of reports are put together, sometimes on a daily basis but on a monthly basis at a minimum, including risk reports for performance risk, financial risk, and position risk. The limits are monitored at various levels: by the subsidiaries themselves, through the equity participation controlling mechanisms of Raiffeisen Centrobank, and by the economic controls imposed by the bank's credit department within the context of the supervision of capital loans to subsidiaries. The information provided by all companies in which Raiffeisen Centrobank has an equity stake are merged into one single report each month and conveyed to the Executive Board of Raiffeisen Centrobank and also on a quarterly basis to the Supervisory Board.

Risk assessment operations distinguish between participatory items per se and all other exposures associated with these items ("participatory-similar items"). The items' quantification is undertaken, as a general rule, using, in line with the procedure applied to loan-related risk, a modification of the IRB approach. Direct equity participations are quantified using a procedure similar to the PD/LGD approach (§§ 72, 77 (4) of the Solvabilitätsverordnung (SolvaV – Solvability Regulation). Participatory-similar items are categorised on an item-by-item basis as either participations or loans.

Other risks

Short-term liquidity risks are not of major significance for Raiffeisen Centrobank, because a large part of the refinancing is carried out via RZB. Other subordinate types of risk (e.g. business, FX and reputation risk) will be encompassed in the risk capacity analysis in the future by means of risk buffers and risk surcharges.

Overdue financial instruments

The definition of default and the assessment of the expected recovery value are heavily influenced by the number of days in which payment is late. Overdue receivables not subject to impairment losses were existent neither as at 31 December 2008, nor at 31 December 2007. As at 31 December 2008, the total amount of receivables not assessed for impairment was TEUR 454,863 (31 December 2007: TEUR 315,164).

Impaired financial instruments

The following table shows the carrying amount of the impaired assets, specifically allocated provisions, and the corresponding net value of the available collateral:

Impairment and collateral 31/12/2008 Amounts in thousand Euros	**Impaired assets**	**Specific valuation allowances**	**Impaired assets after deduction of allowances for impairment losses**	**Collateral for impaired assets**	**Interest in impaired assets**
Corporate customers–large corporates	196	196	0	0	45
Retail customers–private individuals	429	429	0	0	23
Total	**625**	**625**	**0**	**0**	**68**

Impairment and collateral 31/12/2007 Amounts in thousand Euros	**Impaired assets**	**Specific valuation allowances**	**Impaired assets after deduction of allowances for impairment losses**	**Collateral for impaired assets**	**Interest in impaired assets**
Corporate customers–large corporates	936	936	0	0	51
Retail customers–private individuals	406	406	0	0	21
Total	**1,342**	**1,342**	**0**	**0**	**72**

The maximum credit risk exposure (including revocable and irrevocable credit obligations) and the fair values of the 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 values of collateral**
Amounts in thousand Euros	**Net exposure**	**Contingent liabilities/ guarantees issued**	**Reselling/ repledging allowed**
Credit institutions	359,384	145	3,039
Corporate customers–large corporates	86,265	1,078	86,585
Retail customers–private individuals	9,214	475	31,349
Total	**454,863**	**1,697**	**120,973**

31/12/2007	**Maximum credit exposure**		**Fair values of collateral**
Amounts in thousand Euros	**Net exposure**	**Contingent liabilities/ guarantees issued**	**Reselling/ repledging allowed**
Credit institutions	197,859	0	0
Corporate customers–large corporates	100,351	1,126	128,352
Retail customers–private individuals	16,954	455	28,370
Total	**315,164**	**1,581**	**156,722**

(40) Derivative financial instruments

The total volume of unsettled derivative financial instruments as at 31 December 2008 is composed of the following:

	Nominal amount by maturity				Fair values	
Amounts in thousand Euros	Up to 1 year	1 – 5 years	over 5 years	Total	Positive	Negative
Total	**998,223**	**1,643,945**	**1,522,337**	**4,164,507**	**951,787**	**– 1,055,057**
Interest rate contracts	**44,371**	**183,323**	**320,200**	**547,895**	**21,020**	**– 64**
OTC products						
Interest rate swaps	19,750	183,323	320,200	523,274	20,588	– 49
Interest rate futures	0	0	0	0	0	0
Products traded on stock exchange						
Interest rate futures	24,621	0	0	24,621	432	– 15
Foreign exchange and gold contracts	**77,496**	**5,668**	**6,801**	**89,965**	**2,140**	**– 9,358**
OTC products						
Forward foreign exchange contracts	32,515	0	0	32,515	212	– 92
Currency options – purchased	15,865	0	0	15,865	1,056	
Currency options – sold	15,865	0	0	15,865	0	– 1,056
Other currency contracts	0	5,668	6,801	12,469	0	– 8,210
Products traded on stock exchange						
Currency contracts (futures)	13,251	0	0	13,251	872	0
Equity/index contracts	**861,560**	**1,428,305**	**1,190,552**	**3,480,417**	**924,684**	**– 1,016,076**
OTC products						
Equity-/index-based options – purchased	111,953	244,317	315,255	671,526	119,988	0
Equity-/index-based options – sold	107,557	78,970	216,269	402,796	0	– 83,750
Other equity/index contracts	293,438	1,091,815	659,028	2,044,281	748,331	– 888,245
Products traded on stock exchange						
Equity/index futures	93,169	1,753	0	94,922	11,814	– 1,558
Equity-/index-based options	255,443	11,450	0	266,893	44,551	– 42,523
Commodities transactions	**5,387**	**19,549**	**1,141**	**26,077**	**3,232**	**– 19,835**
Precious metals transactions	**9,409**	**7,100**	**3,643**	**20,152**	**711**	**– 9,724**

For hedging purposes, the net settlement amount of negative market values for other equity and index contracts is offset against acquired shares listed under trading assets, which are not encompassed in the chart above.

The total volume of the unsettled derivative financial instruments as at 31 December 2007 comprises the following:

	Nominal amount by maturity				Fair values	
Amounts in thousand Euros	Up to 1 year	1 – 5 years	over 5 years	Total	Positive	Negative
Total	**1,644,763**	**1,502,554**	**1,184,850**	**4,332,167**	**1,059,145**	**– 1,565,186**
Interest rate contracts	**82,599**	**64,750**	**163,795**	**311,144**	**5,693**	**– 1,466**
OTC products						
Interest rate swaps	0	64,750	163,795	228,545	5,693	0
Interest rate futures	14,000	0	0	14,000	0	– 16
Products traded on stock exchange						
Interest rate futures	68,599	0	0	68,599	0	– 1,450
Foreign exchange and gold contracts	**328,420**	**3,812**	**18,342**	**350,574**	**1,497**	**– 11,832**
OTC products						
Forward foreign exchange contracts	63,053	0	0	63,053	17	– 19
Currency options – purchased	120,000	0	0	120,000	481	0
Currency options – sold	120,000	0	0	120,000	0	– 481
Other currency contracts	0	3,812	18,342	22,154	0	– 11,332
Products traded on stock exchange						
Currency contracts (futures)	25,367	0	0	25,367	999	0
Equity/index contracts	**1,209,692**	**1,422,727**	**988,904**	**3,621,323**	**1,051,221**	**– 1,535,002**
OTC products						
Equity-/index-based options – purchased	177,275	102,172	221,509	500,956	207,212	0
Equity-/index-based options – sold	128,913	69,268	18,634	216,815	0	– 17,404
Products traded on stock exchange						
Equity/index futures	97,029	2,469	0	99,498	604	– 3,255
Equity-/index-based options	156,728	15,478	0	172,206	33,951	– 33,171
Other equity/index contracts	649,747	1,233,340	748,761	2,631,848	809,454	– 1,481,172
Commodities transactions	**1,848**	**1,128**	**1,078**	**4,054**	**106**	**– 2,337**
Precious metals transactions	**22,204**	**10,137**	**12,731**	**45,072**	**627**	**– 14,549**

(41) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing and completely independent business partners. As far as market prices are available (mainly securities and derivatives quoted on stock exchange or active markets), this quotation represents the fair value.

All other financial instruments are valued using internally accepted calculation models, especially discounted cash flow analysis and option pricing models. 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 effect of discounting by using a computational interest rate that reflects the market rates is only material in those cases.

Amounts in thousand Euros	Fair Value	Carrying amount	2008 Difference	Fair Value	Carrying amount	2007 Difference
Assets						
Cash reserve	16,327	16,327	0	9,940	9,940	0
Claims on credit institutions	359,384	359,384	0	197,859	197,859	0
Claims on customers	96,435	96,104	331	119,258	118,647	611
Equity participations	6,933	6,933	0	6,597	6,597	0
Intangible and tangible fixed assets	15,085	15,085	0	15,589	15,589	0
Other assets	67,378	67,378	0	61,473	61,473	0
Equity and liabilities						
Liabilities to credit institutions	234,531	235,303	– 772	122,793	122,907	– 113
Liabilities to customers	215,589	215,589	0	218,779	218,779	0
Subordinated capital	20,985	20,985	0	0	0	0
Other liabilities	35,028	35,028	0	37,677	37,677	0

(42) Fair values of financial instruments recognised at fair value

Amounts in thousand Euros	2008 Published price quotations (Level I)	2008 Valuation techniques based on market data (Level II)	2008 Valuation techniques not based on market data (Level III)	2007 Published price quotations (Level I)	2007 Valuation techniques based on market data (Level II)	2007 Valuation techniques not based on market data (Level III)
Trading assets	**564,483**	**603,547**	**0**	**759,866**	**925,016**	**0**
Positive fair values of derivative financial instruments	229,359	462,381	0	120,275	925,016	0
Shares and other variable-yield securities	214,667	0	0	621,372	0	0
Bonds, notes, and other fixed-income securities	120,457	141,166	0	18,219	0	0
Financial assets held at fair value through profit or loss	**40,680**	**0**	**0**	**65,652**	**0**	**0**
Shares and other variable-yield income securities	50	0	0	124	0	0
Bonds, notes, and other fixed-income securities	40,630	0	0	65,528	0	0
Financial assets available-for-sale	**0**	**0**	**5,168**	**0**	**0**	**5,168**
Other interests	0	0	5,168	0	0	5,168
Shares and other variable-yield securities	0	0	0	0	0	0
Derivatives – hedge accounting	**0**	**0**	**0**	**653**	**0**	**0**
Positive fair values of derivative instruments	0	0	0	653	0	0

Amounts in thousand Euros	2008 Published price quotations (Level I)	2008 Valuation techniques based on market data (Level II)	2008 Valuation techniques not based on market data (Level III)	2007 Published price quotations (Level I)	2007 Valuation techniques based on market data (Level II)	2007 Valuation techniques not based on market data (Level III)
Trading liabilities	**809,829**	**320,831**	**0**	**1,368,890**	**249,219**	**0**
Negative fair values of other derivative financial instruments	734,226	320,831	0	1,315,967	249,219	0
Shortselling of trading assets	75,602	0	0	52,923	0	0

Other Disclosures

(43) Contingent liabilities and other off-balance-sheet obligations

Amounts in thousand Euros	2008	2007
Contingent liabilities	**812**	**716**
Other guarantees	670	522
Letters of credit	142	194
Credit risks	**886**	**865**
Irrevocable credit obligations and stand-by facilities	886	865
Up to 1 year	886	433
More than 1 year	0	432

Credit risks encompass only irrevocable credit obligations.

(44) Fiduciary business

Fiduciary business not recognised in the balance sheet was concluded with the following volumes as at the balance sheet date:

Amounts in thousand Euros	2008	2007
Securities and financial investments	7,091	7,091
Other fiduciary assets	2,000	2,018
Fiduciary assets	**9,091**	**9,109**
Other fiduciary liabilities	9,091	9,109
Fiduciary liabilities	**9,091**	**9,109**

Disclosures based on Austrian regulations

(45) Securities admitted for trading on a stock exchange pursuant to § 64 Austrian Banking Act

Amounts in thousand Euros	2008 Listed	2008 Unlisted	2007 Listed	2007 Unlisted
Bonds, notes, and other fixed-interest securities	161,087	0	83,747	0
Shares and other variable-yield securities	384,084	322,073	697,901	664,698

(46) Volume of securities trading book pursuant to § 22b Austrian Banking Act

Amounts in thousand Euros	2008	2007
Securities	967,782	1,380,198
Other financial instruments	190,842	304,524
Total	**1,158,624**	**1,684,722**

(47) Management of capital and own funds pursuant to Austrian Banking Act

Capital is a key dimension of bank management. The Austrian Banking Act prescribes regulatory values for Raiffeisen Centrobank based on relevant EU requirements. The internal control function of Raiffeisen Centrobank uses targets which comprise all risk categories (including trading book risk, foreign currency risk and operational risk). Control is focused on capital and on the Tier 1 ratio. Additionally, a risk capacity based on the Value-at-Risk ratio is calculated – both for a going-concern scenario, using aggregate risk cover defined on the basis of the risk strategy, and for a liquidation scenario. In the 2008 financial year, Raiffeisen Centrobank issued a subordinated bond eligible for inclusion in Tier 2 capital with a nominal amount of TEUR 20,000. For further information, please see the risk report.

The regulatory own funds of Raiffeisen Centrobank, in accordance with the stipulations contained in the Austrian Banking Act, are as follows:

Amounts in thousand Euros	2008	2007
Paid-in capital	47,599	47,599
Earned capital	30,721	30,721
Intangible fixed assets	– 208	– 374
Tier 1 capital	**78,112**	**77,946**
Deductions from Tier 1 capital (advance delivery)	– 49	0
Eligible Tier 1 capital (after deductions)	**78,063**	**77,946**
Long-term subordinated capital	20,000	0
Additional capital (Tier 2 capital)	**20,000**	**0**
Deductions from additional capital	– 49	0
Eligible supplementary capital (after deductions)	**19,951**	**0**
Total capital	**98,014**	**77,946**
Total required capital	**53,061**	**55,470**
Excess capital	44,952	22,476
Excess cover ratio in percent	184.7%	140.5%
Core capital ratio (Tier 1), credit risk	39.0%	37.2%
Total Tier 1 ratio (incl. market and operational risk)	11.8%	11.2%
Own funds ratio in percent	14.8%	11.2%

The core capital ratio is based on the risk-weighted basis of assessment pursuant to § 22 of the Austrian Banking Act. The values of 31 December 2007 are based on Basel I and were adapted to the new presentation scheme.

The total own funds requirement is as follows:

Amounts in thousand Euros	2008	2007
Risk-weighted assessment base pursuant to § 22 Austrian Banking Act	200,313	209,350
of which 8% of the required minimum for credit risk pursuant to §§ 22a to 22h of the Austrian Banking Act	16,025	16,748
Settlement risk	33	0
Required capital for position risk in debt instruments, asset values and commodities	26,635	37,890
Required capital for position risk in foreign currencies	286	832
Required capital for operational risk	10,082	0
Total required capital	**53,061**	**55,470**

(48) Average number of staff

The average number of people employed during the financial year (full-time equivalents) is as follows:

Full-time equivalents	2008	2007
Salaried employees	298	252
Wage earners	8	7
Total	**306**	**259**

(49) Expenses on severance payments and retirement benefits

Amounts in thousand Euros	2008	2007
Members of the Executive Board and senior staff	– 203	– 401
Other employees	– 963	– 736
Total	**– 1,166**	**– 1,137**

(50) Relations with key management

Remuneration of the Executive Board

The following remuneration was paid to the members of the Executive Board of Raiffeisen Centrobank AG:

Amounts in thousand Euros	2008	2007
Fixed and performance-based remuneration	2,722	2,278
Payments to pension funds and business insurances	0	0
Total	**2,722**	**2,278**

The table includes fixed and performance-based salary components, including bonuses and payment in kind. It does not include remuneration for membership on the Executive or Supervisory Boards of subsidiaries. There are no contractual obligations regarding remuneration to the members of the Supervisory Board and previous members of the Executive Board.

The relations of the members of the Executive Board of Raiffeisen Centrobank AG to the Raiffeisen Centrobank Group are as follows:

Amounts in thousand Euros	2008	2007
Loans	0	0
Sight deposits	336	449

The following table shows the relations of close family members of the Executive Board to Raiffeisen Centrobank Group:

Amounts in thousand Euros	2008	2007
Loans	0	0
Sight deposits	622	787

(51) Corporate Bodies

Executive Board

Chairman
Eva Marchart
Deputy Chairman of the Executive Board
Alfred Michael Spiss
Member of the Executive Board
Gerhard Grund

Supervisory Board

Chairman
Walter Rothensteiner
General Director Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna, Austria
First Deputy Chairman
Patrick Butler
Member of the Executive Board of Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna, Austria
Second Deputy Chairman
Herbert Stepic
General Director of Raiffeisen International Aktiengesellschaft, Vienna, Austria
Members
Helfried Marek
to 23 April 2008
Karl Sevelda
Member of the Executive Board of Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna, Austria
Johann Strobl
from 23 April 2008
Member of the Executive Board of Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna, Austria
Christian Teufl
Director of Raiffeisen Zentralbank Österreich Aktiengesellschaft, Vienna, Austria

State Commissioners

Peter Braumüller
Divisional Director
Tamara Els
Deputy Assistant

Vienna, 3 April 2009
The Executive Board

Eva Marchart
Chairman

Alfred Michael Spiss
Deputy Chairman of the Executive Board

Gerhard Grund
Member of the Executive Board

Auditor's Report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Raiffeisen Centrobank, Vienna, for the financial year from 1 January 2008 to 31 December 2008. These consolidated 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 ending 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The legal representatives of the Company are responsible for the preparation of the consolidated financial statements, which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. This responsibility includes designing, implementing and maintaining an internal control system, to the extent that this is significant for the preparation of the consolidated financial statements and the presentation of a true and fair view of the assets, liabilities, financial position and profit or loss of the Group such that they are free of material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies and undertaking accounting estimates which are reasonable under the present circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based in our audit. We conducted our audit in accordance with binding legal regulations in Austria and with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). These 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 misstatements.

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 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the 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 aspects, the financial position of the Group as at 31 December 2008, and of its financial performance and its cash flows for the financial year from 1 January 2008 to 31 December 2008, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Report on the group management report

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, 6 April 2009
KPMG Austria GmbH Wirtschaftsprüfungs-
und Steuerberatungsgesellschaft

Wilhelm Kovsca
Certified public accountant

Josef Kirchknopf
Tax consultant

Basis of Consolidation

List of fully-consolidated companies

Company, domicile (country)	Subscribed capital in local currency		Share in %	of which indirectly[1]	Type[2]
Centrotrade Chemicals AG, Zug (CH)	5,000,000	CHF	100.0		SU
Centrotrade Deutschland GmbH, Eschborn (DE)	410,000	EUR	100.0		SU
Centrotrade Holding AG, Vienna (AT)	3,000,000	EUR	100.0		SU
Centrotrade Investment AG, Zug (CH)	5,900,000	CHF	100.0		SU
Centrotrade Minerals & Metals Inc., Chesapeake (US)	2,000	USD	100.0		SU
Raiffeisen Centrobank AG, Vienna (AT)	47,598,850	EUR	100.0		KI
Raiffeisen Investment Aktiengesellschaft, Vienna (AT)	730,000	EUR	100.0		FI

Other companies not included in consolidation

Company, domicile (country)	Subscribed capital in local currency		Share in %	of which indirectly[1]	Type[2]
A.X. Finance Limited, St. Helier (JE)	2,500	GBP	100.0		FI
Centro Asset Management Limited, St. Helier (JE)	10,000	GBP	100.0		FI
Centrotrade Singapore Pte. Ltd., Singapore (SG)	500,000	SGD	100.0		SU
MENARAI Holding GmbH, Vienna (AT)	35,000	EUR	100.0		SU
MIRA Beteiligungsholding GmbH, Vienna (AT)	35,000	EUR	100.0		SU
Raiffeisen Energy & Metals Beteiligungsverwaltungs GesmbH, Vienna (AT)	35,000	EUR	100.0		SU
Raiffeisen Investment (Bulgaria) EOOD, Sofia (BG)	60,050	BGN	100.0		FI
Raiffeisen Investment (Malta) Limited, Sliema (MT)	5,000	EUR	99.8		FI
OOO Raiffeisen Investment, Moscow (RU)	24,000,000	RUB	100.0		FI
Raiffeisen Investment Polska sp.z.o.o., Warsaw (PL)	360,000	PLN	100.0		FI
Raiffeisen Investment Romania SRL, Bucharest (RO)	159,130	RON	100.0		FI
Raiffeisen Investment s.r.o., Prague (CZ)	200,000	CZK	100.0		FI
Raiffeisen Investment Ukraine TOV, Kiev (UA)	3,733,213	UAH	100.0		FI
RAISHOP Holding GmbH, Vienna (AT)	35,000	EUR	100.0		FH
SORANIS Raiffeisen Portfolio Management GmbH, Vienna (AT)	35,000	EUR	100.0		SU
Sophia Plaza Holding GmbH, Vienna (AT)	35,000	EUR	100.0		SU

Other interests

Company, domicile (country)	Subscribed capital in local currency		Share in %	of which indirectly[1]	Type[2]
Alpenbank Aktiengesellschaft, Innsbruck (AT)	10,220,000	EUR	0.0		FI
Centrotrade (Malaysia) Sdn. Berhad in Liquidation, Kuala Lumpur (MY)	100,000	MYR	40.0		SU
Österreichische Raiffeisen Einlagensicherung reg. Gen.m.b.H., Vienna (AT)	2,900	EUR	3.6		SU
Scanviwood Co. Ltd., Ho Chi Minh City (VN)	2,500,000	USD	6.0		SU
Society for Worldwide Interbank Financial Telecommunication s.c., La Hulpe (BE)	14,009,000	EUR	0.1		SU
Syrena Immobilien Holding AG, Spittal an der Drau (AT)	22,600,370	EUR	21.0		SU
AGC Bor Glasworks, Bor City (RU)	418,956,270	RUB	7.4	7.4	SU

1 Equity participations held via companies that are not included in the consolidated financial statements (pro-rata share).
2 Company type:
BA = Bank
FH = Financial Holding
FI = Financial Institutions
BH = Providers of ancillary services
OT = Other companies

Service & Information

Glossary: Certificates

B

Base value
Also referred to as the underlying, this comprises the stock, basket of stocks, index, commodity or other item from which a certificate is derived.

Basket
The word basket refers to an underlying consisting of two or more stocks, indices or commodities. The individual items of a basket do not have to be equally weighted.

Benchmark
Serves as a measure for determining how well an individual investment has performed in comparison with the market as a whole. An appropriate index is generally chosen as the benchmark.

C

Cap
Refers to the maximum payout of a certificate at the maturity date.

Certificate
Certificates are securitized financial instruments listed on the stock exchange that are issued as bonds by banks and other issuers. They consist of derivatives and are therefore completely dependent on the performance of their underlyings at all times.

Closing price
Refers to the closing price of a security at the end of a trading day.

D

Direct investment
Refers to a situation where an investor directly purchases the underlying in place of a certificate.

Dividend
The dividend is the portion of unappropriated profits paid out by a joint stock company and accruing to each of its shares.

E

EUWAX (European Warrant Exchange)
This is a segment of the Stuttgart Securities Exchange where certificates and warrants are traded. EUWAX is the world's largest certificates trading exchange.

I

Index
Price indicator calculated on an ongoing basis that reflects the performance of a large number of individual securities (stocks, bonds) with a single value. Generally regrouped at regular intervals on the basis of transparent criteria (stock market turnover, market capitalisation).

ISIN (International Securities Identification Number)
This twelve-digit combination of letters and numbers ensures the unique global identification of a security.

Issue
Circulation of a new certificate.

Issue surcharge
A one-time fee generally levied for the purchase of certificates within the subscription period and serving to defray commissions paid for distribution.

Issuer
An issuer is the party issuing securities. Issuers of stocks are companies; bonds can be issued by companies, public corporations, the government and other institutions while certificates are primarily issued by banks.

Issue price
Also referred to as the subscription price, this is the price at which new certificates are issued..

M

Market maker
Market makers are official members of a stock exchange that continuously set bid and offer prices for specific securities. In the case of certificates, the market maker is generally the issuer itself and accordingly guarantees supply and demand on an ongoing basis.

Maturity
Refers to the expiry date of a certificate. Most index certificates are "open ended" and therefore do not have a fixed maturity date.

O

Open-end
Indicates that a certificate has no preset time of maturity.

Outperformance
Refers to the situation where one investment achieves a higher rate of return than another one. Outperformance certificates can be used to engineer this market-neutral return.

Over-the-counter trading
Also referred to as OTC trading, this comprises financial transactions not carried out via a stock exchange.

P

Participation
Indicates the extent to which a certificate engages an investor in price movements of the underlying.

Performance
Growth or return of an investment. Performance is normally indicated as a percentage.

Premium
Reflects the purchase price difference between the underlying when acquired directly and a warrant for the underlying.

Q

Quanto
Quanto is added to certificates to indicate that they contain currency hedging to prevent rates of exchanges from influencing the price of the certificate.

R

Risk buffer
This is the maximum amount by which a certificate's underlying can fall without the investor incurring a loss.

S

Spread
The spread is used in securities trading to denote the margin between the bid and offer prices. Certificate spreads are primarily determined by the liquidity of the underlying.

Subscription ratio
Indicates how many units of the underlying the certificate encompasses.

T

Time to maturity
This refers to the period between the issue and maturity date of a certificate.

V

Volatility
Volatility refers to the intensity of price and return fluctuations and is generally calculated as a percentage on the basis of standard deviations from norms. The high degree of volatility evinced by discount and other certificates makes them particularly attractive for investors wishing to gain a foothold in the market.

Bonus Certificates
At the issue date the bonus certificate is assigned a bonus level, barrier and possibly a cap (= maximum payout at the maturity date). The parameters are set in accordance with maturity, volatility and anticipated dividends and remain unchanged throughout the entire maturity. If the predefined barrier is not touched or undercut during the maturity, the investor receives this bonus level or the corresponding higher amount paid out at the maturity date. Any cap represents the maximum payout at the maturity date. The price of the bonus certificate at the issue date is roughly equivalent to the price of the underlying. However, the detachment from the barrier only offers partial hedging for price falls down to the barrier. In the event of a major price slump and if the barrier is touched or undercut, the bonus mechanism is deactivated and the certificate performs in line with the underlying (e.g. the stock or the index). So-called plus bonus certificates are a special form of bonus certificates for which the barrier is only observed at the maturity date.

Discount Certificates
Discount certificates are an attractive form of investment for investors also wishing to make a profit in the event of sideward-pointing markets. Discount certificates enable investors to invest in a given underlying (stock or index) at an attractive discount since instead of paying the countervalue of the current price of the underlying they pay the lower discount price. This discount poses a risk buffer to cushion potential price setbacks and at the same time ensures a profit in a flat market with an unchanged underlying price that would not have been possible in the case of a direct investment in the underlying. In return for this price discount, participation in the positive price performance of the underlying is limited by an upper threshold (cap). The investor no longer benefits from further price increases beyond this cap.

Guarantee Certificates
Guarantee certificates are extremely popular among investors and serve to protect the capital invested. The capital guarantee generally applies to 100% of the nominal amount that is in all events paid back at the maturity date. The combination of security and return is achieved by combining two conventional components. The basis of each guarantee certificate comprises bonds that are drawn on for capital protection at the maturity date. At the same time, the deployment of options enables the achievement of above-average returns or participation in the underlying index or stocks basket subject to corresponding performance. Guarantee certificates can there-fore be either coupon or growth-oriented and are ideal instruments for the conservative share of a portfolio.

Index and Basket Certificates
Index and basket certificates are an attractive investment instrument for investors who wish to determine both the beginning and end dates of their investment themselves and appreciate transparent 1:1 participation without price thresholds or structured payout profiles. The underlying instrument can be a traditional equity index such as the Austrian leading index ATX, an individual commodity such as gold or oil or a basket comprising several shares and commodities that has been compiled by the issuer. The structure of index and basket certificates is simple and transparent to the extent that if the underlying increases by 5% then the value of the certificate likewise goes up by 5%. Investors therefore bear the market risk. A potential exchange rate risk must additionally be taken into account if the currency of the certificate is not equivalent to that of the underlying.

Reverse Convertibles
Reverse convertibles are generally based on shares and are therefore linked to the performance of the underlying. Like bonds they are provided with a coupon that guarantees interest payments. However, the return on a reverse convertible is normally greater than that of a traditional bond. At the maturity date the investor is either paid back the issue price in cash or receives a predetermined number of shares or their countervalue. The interest is always paid out by the issuer. If at the maturity date the share is trading at or above the so-called strike price (threshold limit for the price of the underlying share agreed at the time of issue), the bank will pay back the nominal amount of the bond in cash. However, if the price of the underlying share falls below the strike price, the issuer will supply a predetermined quantity of the share in question or its countervalue. The cash value of these shares is calculated by multiplying the agreed number of shares by the share price. The price of a reverse convertible is quoted as a percentage of the nominal amount so that 100% is equivalent to the nominal amount of EUR 1.000, 90% is equivalent to EUR 900 and 110% is equivalent to EUR 1,100.

Turbo Certificates
Turbo certificates provide the opportunity for above average returns due to their leverage effect. A turbo certificate is constructed in a similar way to a future. As with futures the investor has the option of focusing on rising prices with turbo long certificates and falling prices with turbo short certificates. The investor only has to pay for part of the underlying (intrinsic value) while the rest is financed by the issuer. The strike price of a turbo certificate determines the financing level.
The closer the strike price is to the price of the underlying, the greater the leverage effect of the certificate.
In order to relieve the investor from the reserve liability that is customary for futures transactions, a stop-loss limit (the so-called barrier) is drawn just above the strike price for long certificates and just below the strike price for short certificates. If the price of the underlying touches or falls below the barrier during maturity, the certificate is stopped-out and the investor is paid out the residual value.
If the price of the underlying develops in the 'right' direction then turbo certificates provide the opportunity for achieving above-average returns while at the same time the participation of the investor in the losses is also disproportionately high due to the leverage effect.

Glossary: General financial terms

A

Associated companies
Entities over which the investor has significant influence in terms of financial and operating policies.

B

Back testing
The backward comparison of VaR figures with actual results in order to test the quality of a model.

Banking book
All positions that are not assigned to the trading book.

Basel II
Refers to the complete set of equity regulations published by the Basel Committee on Banking Supervision to ensure financial market stability. The Basel II Accord of 26 June, 2004 represents an enhancement to the Basel I framework.

Basis of assessment (incl. market risk)
Comprises the basis of assessment in accordance with 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.

Basis point
Measure to rate interest and yield differences. One basis point corresponds to 1/100th of a percentage point (1 bp = 0.01%).

BWG
Austrian Banking Act.

C

Cash flow
Inflows and outflows of cash and cash equivalents.

Cash flow statement
Statement of cash flow during the financial year arising from operating, investment and financing activities and reconciliation of cash and cash equivalents held at the beginning and end of the financial year.

CEE
Central and Eastern Europe.

CIS
Commonwealth of Independent States, consisting predominantly of territories of the former Soviet Union.

Clean price
Price of a financial instrument without accrued interest.

Core capital
Paid-in capital and reserves less intangible fixed assets and balance sheet and material losses during the current financial year.

Core capital ratio
This ratio's numerator comprises core capital (tier 1) and its denominator forms the basis of assessment (incl. market 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 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).

Country risk
This comprises the transfer and convertibility risk and the political risk.

Credit derivatives
Instruments used to transfer the credit risk arising from loans, bonds and other risk assets or market risk items to another party.

Credit spread
The risk premium on the risk-free interest rate that is designed to take account of default risks and is determined by the credit rating of a company/an issuer.

D

DBO
Defined benefit obligation = the present value, without deducting any plan assets, of expected future payments required to settle the obligations arising from employee service in the current or prior periods.

Default risk/credit risk
Risk that counterparties in a financial transaction will not be able to fulfil an obligation, thereby causing the other party a financial loss.

Deferred tax assets
The amount of income tax 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 amount of income tax payable in future periods in respect of taxable temporary differences.

Derivatives
Financial instruments whose value changes in response to a change in a given interest rate, securities price, commodity price, exchange rate, index of prices or interest rates, credit rating or credit index or other similar variable and that require no or very little initial net investment and are settled at a future date.

Dirty price
Price of a financial instrument including accrued interest.

E

Earnings per share (EPS)
Profit divided by the average number of ordinary shares outstanding.

Excess cover ratio
Relation of excess own funds to total own funds requirement.

F

Fair Value
The amount for which an asset could be exchanged or a liability settled between competent, willing and independent business partners.

Fiduciary business
Transactions which are carried out by a trustee, often a bank, in its own name but on account of and at the risk of the beneficiary.

FRA
Forward contract traded over the counter between two partners to hedge against interest rate risks.

Futures
Standardised 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 on a specific date at a price fixed in advance in accordance with the stock exchange.

G

Goodwill
Surplus resulting from the difference between the purchase price and fair value of assets and debts incurred during a corporate acquisition.

Guarantee bond
Bond that guarantees investors a specific minimum return on the capital invested.

H

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 price 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

I

ICAAP – Internal Capital Adequacy Assessment Process.
Internal Capital Adequacy Assessment Process. Methods and processes of an integrated total bank risk management system to enable banks to ensure that enough own funds are always available to cover all significant risks.

IFRIC, SIC – International Financial Reporting Interpretation 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 aim of achieving transparent and comparable accounting on an international basis.

Impairment test
Test for indicators of an impairment. According to the IFRS this is compulsory for certain assets such as goodwill or intangible fixed assets without a specific life

Interest margin
Net interest income in relation to the average balance sheet total.

IRB approach
Method based on the internal rating to calculate the own funds required to cover the credit risk in accordance with Basel II.

IPO
Initial public offering, going public.

L

Liquidity risk
Risk that a bank might be unable to meet its current and future payment obligations in full or on time. This arises for instance from the danger that refinancing can only be obtained at very disadvantageous terms or is completely impossible.

M

Market capitalisation
The number of issued shares multiplied by the share price.

Market risk
The risk that the value of a financial instrument will change due to fluctuations in market prices, whether such fluctuations are caused by factors specific to the individual security or its issuer or those affecting all securities traded in the market.

O

Operational risk
Risk of unexpected losses resulting from the inadequacy or failure of internal procedures, people and systems or from external events including legal risks.

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 standardised nor traded on a stock exchange but instead traded directly between market participants 'over the counter'.

Own funds ratio
The ratio's numerator comprises own funds in accordance with the Austrian Banking Act (BWG) and its denominator forms the basis of assessment including market risk plus 12,5 times the own funds required as cover for the trading book and open currency positions.

P

Partial use
Partial use of the IRB approach in combination with the standard approach. Partial use enables the standard approach to be retained alongside the IRB approach for certain types and classes of liability.

Plan assets
Assets held by a long-term employment benefit fund.

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 calculate the final obligation. This method takes into account salary increases and the calculatory interest rate is geared towards the long-term capital market.

R

Regulatory own funds pursuant to Austrian Banking Act
Consist of core capital (tier 1), additional and subordinated capital (tier 2), short-term subordinated capital and rededicated tier 2 capital (tier 3).

Risk assets of the banking book
According to the Austrian Banking Act (BWG) these are on-balance-sheet assets, off-balance-sheet assets and special off-balance-sheet banking book asset positions weighted by business and counterparty risk respectively.

ROE (return on equity)
Return on total equity including minority interest, i.e. profit before or after tax in relation to the weighted average balance sheet equity.

RZB
Raiffeisen Zentralbank
Österreich AG Group.

RZB Group
Pursuant to section 30 of the Austrian Banking Act (BWG), RZB Group consists of all banks, financial institutions, securities companies and companies rendering bank-related services in which Raiffeisen Zentralbank holds direct or indirect majority interests or on which it exerts a major influence as the overriding institution.

S

Segment reporting
Disclosure of earnings and asset data for business segments (primary) and geographical areas (secondary).

SEPA
Single European Payments Area.
This is a project to create a standardised payment area across Europe. In this payment area there is no longer any distinction for customers between national and cross-border payments.

Short selling
Sale of securities not owned by the seller and which must be bought back and returned at a later date.

SPO
Secondary public offering,
capital increase.

Standard approach
Procedure for calculating the own funds requirement of a bank to cover the credit or operational risk.

Stress test
Stress tests endeavour 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).

Swap
Exchange of interest obligations (interest swap) and/or currency positions (currency swap).

T

Tax rate
Ratio of income taxes to profit before tax.

Trading book
Bank regulator's term for assets held by a bank for short-term resale to exploit fluctuations in prices and interest rates.

V

VaR
Value-at-risk expresses the potential loss that with a 99 percent probability will not be exceeded within the period for which an asset is held in a given portfolio.

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