



Key Figures

	2005 Amounts in CHF million	Change in %	2004 Amounts in CHF million	Change in %	2003 Amounts in CHF million
Key balance sheet figures					
Balance sheet total	108,187	2.0	106,098	3.9	102,140
Loans to clients	90,782	4.9	86,565	5.7	81,877
Client monies	83,367	3.1	80,838	7.5	75,218
Client monies in % of loans to clients	91.8%		93.4%		91.9%
Key P + L figures					
Net interest income	1,716	5.0	1,634	3.4	1,579
Income from commission business and service transactions	217	26.2	172	11.7	154
Operating income	2,058	8.7	1,894	3.4	1,831
Total operating expenditure	1,157	8.3	1,069	9.6	975
Gross profit	900	9.1	825	- 3.6	856
Group profit before tax	777	17.8	660	11.3	593
Group profit	608	20.2	506	11.6	453
Gross profit per personnel unit (in 1000 CHF)	140.0	4.9	133.5	- 7.5	144.3
Cost/income ratio	56.2%		56.4%		53.2%
Capital resources					
Total equity capital	5,976	12.0	5,335	11.0	4,805
Return on equity (ROE)	10.8%		10.0%		9.9%
Capital resource/balance sheet total (equity ratio)	5.5%		5.0%		4.7%
Tier 1 ratio	10.8%		10.0%		9.5%
Tier 2 ratio	15.5%		14.3%		14.0%
Market data					
Market share in mortgage business (2005: estimated)	13.8%		13.5%		13.2%
Market share in savings (2005: estimated)	18.0%		17.6%		17.1%
Number of members	1,309,537	4.6	1,251,730	6.0	1,180,700
Rating given to the Swiss Union of Raiffeisen Banks					
Moody's	Aa2				
Resources					
Number of employees (per capita)	7,888	2.8	7,676	4.4	7,353
of which trainees	668	2.8	650	1.2	642
Number of personnel units	6,549	3.9	6,304	4.1	6,058
Number of Raiffeisen locations	1,175	- 3.4	1,216	- 2.6	1,249
Number of ATMs	1,246	3.9	1,199	3.6	1,157
Custody account/fund business					
Number of portfolios	302,180	5.2	287,114	3.9	276,391
Total portfolio volume (excl. share of cosba private banking ag)	27,598	17.7	23,455	12.3	20,880
Volume of Raiffeisen funds	8,171	3.9	7,865	4.9	7,499
Lending business					
Losses on lending business	48	- 30.4	69	- 2.8	71
as % of loans	0.053%		0.080%		0.087%
Non-performing loans	353	- 8.8	387	3.8	373
as % of loans	0.389%		0.447%		0.456%

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“Paths are made by walking...”

Franz Kafka, writer

The history of civilization is one of paths: over time, footpaths have evolved into streets, motorways, bridges, rails, airports, tunnels, escalators, lifts, embankments and cableways. It has thus become possible to cover long distances and scale great heights ever more quickly, easily and directly. While the ways and means have changed at a breakneck pace, the ends have remained the same, namely to exchange information and goods and to meet people. The images used in the Annual Report 2005 show the wide variety of routes in Switzerland today. It is these routes that keep our successful economy and our society going; but they are nothing without the people who create and use them to reach their goals.

Technically speaking, it has never been so easy to communicate and get around. From a human perspective, however, it has never been so difficult to build personal relationships. Raiffeisen bank staff deal with this challenge on a daily basis, employing cutting-edge technology and up-to-the-minute information to help them. Their core values, though, concern personal relationships with their clients that are founded on proximity. This is how they blaze a trail to new horizons and undiscovered destinations.



The road to discovery Take a last look back, leave the past behind, accelerate calmly and discover a whole new world.



Progress to date The Raiffeisen Group has faced many changes in its long history. And the coming years will be no exception. René Lüchinger* asks Franz Marty and Pierin Vincenz how the bank intends to harmonize these changes with its growth strategy, what challenges need to be overcome, and which factors will have the greatest impact on the Group's success.

"We want to work more intensively with clients and continue to expand our banking network."

For the first time in over thirty years you have changed the traditional Raiffeisen logo and done away with the strong symbol of the honeycomb, the head of wheat and the key. What is the reason for this?

Franz Marty: The symbols no longer struck a chord with clients, employees and the general public, and the meaning of the head of wheat and the key were lost on most people. Reducing our logo to simply the strong Raiffeisen brand was the next logical step in this trend.

Pierin Vincenz: The brand's new visual identity stands for our traditional values and a modern, dynamic bank with the strong Raiffeisen name at its heart.

Reader's Digest magazine crowned the Raiffeisen brand the most trustworthy brand in Switzerland in 2006. Don't you see a danger that changing your logo might jeopardize this credibility?

Marty: I don't think so. This trust is founded on the values practised by our bank each and every day, such as our regional presence and our proximity to our clients. And these factors are the essence of the Raiffeisen brand.

Around 1,500 Raiffeisen branches are to be kitted out with the new logo by the end of May 2006. How much is all this going to cost?

Vincenz: This includes all locations with ATMs. Overall it's going to cost about 22 million Swiss francs – quite a sizeable investment. Having said that, the old logo was in



*Dr Pierin Vincenz,
Chairman of the Executive Board
of the Raiffeisen Group*

need of a facelift at many locations, so cost was not really the decisive factor.

Net profit increased by 20% over the past year, giving you the best result in the Group's history. What do you attribute this to?

Vincenz: The good result can be traced back to the growth strategy defined by Raiffeisen many years ago. Our decentralized structure – which we have made a conscious effort to preserve – and the banking competencies and responsibility we foster in local markets have also had an important role to play in this success. Our clients value these things.

Do you think you will be able to sustain this momentum?

Vincenz: We have a growth strategy for the next few years as well. We want to work more intensively with clients and continue to expand our banking network. A while ago there were parts of Switzerland that did not have a trace of Raiffeisen, and today we are still underrepresented in certain areas. Our aim is to open more branches there. We see further potential in corporate client business, and also, in the medium term, in insurance business.

The Raiffeisen Group outperformed the market in mortgage business and is number two in Switzerland after UBS. Do you think there is any more potential in this already saturated market?

Marty: Of course. We are close to the market and know the local conditions. That's where our members are, too.

What's more, the demand for new homes remains strong, while the number of homeowners in Switzerland keeps on rising and continues to be boosted by inherited wealth.

Don't you think there's a danger of a real estate bubble?

Vincenz: No. In Switzerland prices have only seen a moderate rise overall in recent years, except for high-end real estate in prime locations. All in all, the price trend is quite healthy.

You are underrepresented in the mortgage market in Zurich and in Geneva and its surrounding area. Both of these regions are characterized by high levels of competition in this line of business. How do you intend to increase market share in these areas? By competing on price?

Marty: Growth is only possible if the products you are selling offer good value for money. Our traditional strengths are a great asset in this regard, which is why in recent years the levels of growth we have seen have always been slightly above the market.

Vincenz: Price is one factor, but there's a lot more to it than that. Of course, the pressure on margins is forcing us to improve efficiency as much as possible. Our business model and cooperative structure set us apart from the competition. We need to make the most of this advantage in cities, too.

Raiffeisen has now outsourced its securities processing business to Vontobel. What is your assessment of the situation so far?

Vincenz: The project is going according to plan in terms of time and costs. However, the major challenge is still ahead of us, with the transfer of our clients' 300,000-plus custody accounts to Vontobel over the course of 2006.

Your 12.5 percent stake in the Zurich-based bank generated initial dividends to the tune of approximately 10 million Swiss francs. However, you have no plans to increase your stake. Why not?

Marty: This stake is a symbol of our mutual and consensual collaboration with the Vontobel family. It is no secret that we have a right of first refusal, and we will continue to stay in close contact with the Vontobel family to ensure that we can react flexibly to any given situation. At the end of the day, our main priority was to intensify the cooperation we have been fostering with Vontobel for many years. What originated with funds has now been extended to incorporate other Vontobel products and services. Our stake has bolstered this commitment and leaves all options open to us for the future.

Vincenz: The Vontobel family and Raiffeisen are a good match. However, if this should ever change in any way, we want to make sure that we are involved right from the outset and are not faced with any *fait accompli*.

You have been working together with Helvetia Patria in life insurance business for some time now. Last year you launched a new household insurance product and considered venturing into property insurance in connection with mortgage business. What's the latest on this?

Vincenz: It was always our intention to integrate these products into Raiffeisen's advisory experience. The closer these products are to our core mortgage business, the easier it is to sell insurance products through the bank. So far, everything is going well. However, it's still early days and we have many years of hard work ahead of us.

Marty: We want to develop a complete product portfolio in the housing sector. If a client wants to take out household or construction liability insurance in addition to a mortgage, then they should be able to get that from us as well. This requires an integrated advisory process – something that is highly valued by our clients.

The most recent survey conducted by the Swiss Bankers Association revealed that Raiffeisen has the best public image of all banks in Switzerland. The large banks fared the worst, with clients citing high services charges as one of their major gripes. Raiffeisen has now followed suit and has been charging Bancomat fees since the beginning of the year. Aren't you going to upset your clients?

Vincenz: Let's not forget that the first 24 withdrawals per year from ATMs operated by other banks are free of charge for our members and young clients. All we've done, therefore, is to limit the number of free withdrawals.



*Dr h.c. Franz Marty,
Chairman of the Board of Directors
of the Raiffeisen Group*

Two free withdrawals per month covers the needs of the average Raiffeisen client, and so the service has essentially remained free of charge. We are simply charging those who use this service the most, and only after our competitors introduced such charges first.

Marty: Introducing Bancomat fees is our way of showing that we are a cooperative and that our members should use our facilities whenever they can and that includes our dense Bancomat network. After all, membership is not a one-way street.

Has this met with a negative reaction from your clients?

Vincenz: No, not really. Clients know that they can still withdraw money from their own bank free of charge – and to a large extent also from other banks. It is perhaps one fifth of clients who will end up having to pay Bancomat fees because they exceed the maximum permitted number of external ATM withdrawals.

Your ongoing success is attracting new cooperative members – 58,000 during the last year.

Marty: We have a total of over 1.3 million cooperative members. This means that every sixth Swiss citizen is a cooperative member of Raiffeisen.

Why do you think they are coming to you in such droves?

Vincenz: The idea of community and shared advantages for cooperative members is key to our bank's image. Not

“What matters most to our clients is that at the Raiffeisen banks their needs – and not the maximizing of profits at any cost – are always at the heart of everything we do.”

only does this set us apart from every other bank in Switzerland, but it brings tangible benefits for each and every member – for example, extra interest on savings or a whole stream of promotions that are not directly connected with banking business. In 2004 we offered a trip to Zermatt for half price, while this year our destination of choice is Ticino – again, at 50% off. This is greatly appreciated by our members and helps to strengthen our clients' sense of belonging to the bank.

Marty: We invest around 190 million Swiss francs per year via the Group in offers for our members. In my view, however, this is not the most crucial point: what matters most to our clients is that at the Raiffeisen banks their needs – and not the maximizing of profits at any cost – are always at the heart of everything we do.

Let us turn now to the future: You want to reduce your dependency on mortgage business and switch your attention to pension planning and asset management. Do you have what it takes to make it in this difficult market? And aren't you afraid that this will cause a damaging shift in culture within the bank?

Vincenz: Our business philosophy has always been to manage our clients' private and commercial interests throughout every phase of their life. Nowadays retirement planning and asset management are an essential component of this philosophy. Our aim is not to have the most assets under management, but to provide our clients with the best possible advice tailored to their particular needs. In light of demographical trends, today this is an integral

part of the basic services provided by each and every bank. For this reason, I do not see any danger of a shift in culture within the bank.

Does this mean you have no intention of pushing asset management for affluent clients? Do you not harbour any aspirations of competing with the major players on the Swiss banking scene?

Vincenz: As a rule, we develop in line with the needs of our clients. So if asset management becomes an issue for them, it is our job to help them achieve their goals. If a high net worth client wants to move over to us, or if we are able to persuade them to move over to us, then they are of course more than welcome. Many people, and, in particular, wealthy people, have banking relationships with more than one institution, and more and more often one of these turns out to be Raiffeisen.

Record profits like those you posted in 2005 cannot fail to make you proud of what you have achieved. To what extent do these kinds of results provoke discussions within the cooperatives as to how much profit is justifiable from an ethical standpoint?

Marty: The important thing here is how the profits are used. We have always had two main goals: to secure the long-term success of the company and to invest our money so as to generate added benefits for our members. Whatever we do, all profits stay within the company; as we are a cooperative, we do not issue dividends, but instead we only pay up to maximum 6 percent interest on member partici-

pations. This helps to boost sustainability. Both of these approaches are cornerstones of our organization. Whether or not this is ethical does not even come into it.

Is the bank's rate of growth inherently dictated by its structure, or is there a point at which Raiffeisen will be able to finance itself without further growth?

Vincenz: As a cooperative we too have to play by the rules of commerce. One of these is to continue to develop, and for us this means to continue growing and winning new market shares. We must not rest on our laurels, as we are in direct competition with both multinational companies and banks backed by state guarantees. Nothing but our best will do.

One final question: Do you think record profits are on the cards again in 2006?

Vincenz: Let's put it this way – it's in the nature of Raiffeisen to always want to do better.

Marty: The concept behind Raiffeisen is to allow as many people as possible to participate in the advantages they create for themselves using their own assets and deposits.

* René Lüchinger has been editor-in-chief of the financial publication Bilanz since December 2003.



The road to confidence Trust as you enter that you will emerge safely on the other side, without even noticing the weight bearing down on you.



Market activities of the Raiffeisen Group The constant flux in people's personal circumstances means they are forever changing direction, so the certainty of having a reliable partner in financial matters is crucial. Raiffeisen's highly successful market activities in 2005 show that it has retained its clients' trust.

"A consumer loan must under no circumstances encourage debt; it should simply offer a genuine alternative solution to a temporary financial bottleneck."

Raiffeisen's aim is to be Switzerland's leading retail bank. This is one of the major goals set in the basic strategy approved in 2004. That Raiffeisen is on the correct path is confirmed by its most important indicator of success – its clients. The Group has been outgrowing the market for six years – and this despite strong competition and price sensitivity. These growth rates are further testimony of the high level of confidence that our clients, numbering over 2.5 million, continue to show in the Raiffeisen brand. Other factors in this success are our staff's extensive advisory expertise across all banking products, combined with fast-track decision-making, made possible by the local orientation of the Raiffeisen banks.

Client requirement: Financing

The mortgage market lost none of its appeal in 2005 – quite the opposite in fact. With interest rates at historically low levels, conditions were ideal for financing building projects or taking out a mortgage to buy a home, and this activity boosted the overall market by 1.2 to 1.4 percent per quarter. This attractiveness heightened competition between market participants, but despite these intensive market conditions, Raiffeisen achieved another excellent result, matching the performance of the overall mortgage market with growth of 5.6 percent.

Raiffeisen is confident in the ongoing appeal of the mortgage market. The improved economic environment and the continuing low level of interest rates will give a further boost to mortgage business. Another driver is the fact that in 2005 alone, more than 40,000 new homes were built in Switzerland. Based on the number of building permits



*Robert Signer,
Head of the Branches & Credits
department*

issued, this trend should continue in 2006 as well, not least because Switzerland's population has grown steadily over the last few years. For the first time since the mid-1990s, the number of births has exceeded the number of deaths. This population increase has revived demand for living space. Although it is extremely difficult to predict future demographic patterns, annual residential construction of around 36,000 units should meet demand until the end of the decade, even assuming a conservative population scenario.

Raiffeisen's sales policy in the mortgage market has been confirmed by an independent study. This concluded that besides price, key factors in selecting a mortgage provider are personal contact and good advice. With their proven extensive advisory expertise, day-to-day client-driven approach, fast-track decision-making and fair conditions, the Raiffeisen banks are ready for the challenges of the mortgage market. The Raiffeisen Group's intention is not only to maintain this strong positioning in the Swiss mortgage market, but to expand in a selective way.

Raiffeisen Finanzierungs AG ■ As part of the new strategy, the granting of personal loans – previously the preserve of the Raiffeisen banks or referred to third-party banks – has been centralized in Raiffeisen Finanzierungs AG. Its first business year – Raiffeisen Finanzierungs AG started up on 1 November 2004 – has exceeded all expectations, thanks in the main to the Raiffeisen banks, which introduced 60 percent of contracts. Despite this success, the Raiffeisen Group is acutely aware of its social responsibility and applies its traditionally prudent lending policy

to personal loans as well. This practice proved its worth in the first 14 months of business, not only for Raiffeisen – which had very few default risks – but also for clients. Raiffeisen Finanzierungs AG intends to continue this trend into the new year.

Raiffeisen Leasing ■ The Swiss leasing market remained slow in 2005. Car sales, which have a direct impact on the number of leasing contracts signed, hit their lowest level for 25 years, while equipment leasing was the focus of a fierce price war. Businesses were very cautious about investing, so there was only modest volume growth in this area too. Despite this negative operating environment, Raiffeisen recorded a 14 percent increase in both car and equipment leasing.

In 2006, Raiffeisen Leasing will be investing large amounts in automating its car leasing services. By offering a speedier service in concert with attractive prices, it aims to grow the business further.

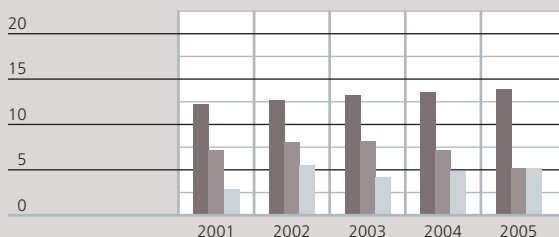
Client requirement: Savings

Whilst the equity and bond markets enjoyed an excellent year, the long-term low in the financial markets depressed both variable and fixed interest rates on savings accounts in 2005. It was no wonder, therefore, that securities investments were more popular than traditional bank savings. Under the impact of these twin factors, bank savings in the form of account products and medium-term notes lost appeal.

Raiffeisen increases share of Swiss mortgage market

(in %)

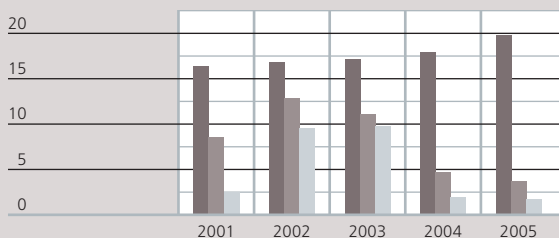
■ Raiffeisen market share
■ Raiffeisen growth
■ Market growth



Raiffeisen increases share of Swiss savings market

(in %)

■ Raiffeisen market share
■ Raiffeisen growth
■ Market growth



In the Raiffeisen Group balance sheet, however, savings deposits and medium-term notes grew by 3.9 percent. Admittedly, this was not quite as buoyant as in previous years, but was significantly better than the market as a whole. Medium-term notes, in particular, achieved strong growth of 6.4 percent. These above-average growth figures testify to the confidence of the Swiss public in Raiffeisen – one in four Swiss citizens has a savings account at a Raiffeisen bank.

Raiffeisen Group is one of the largest and most important savings providers with a share of around 20 percent of the Swiss savings market. Thanks to its attractive, transparent savings products and day-to-day client proximity, it intends to maintain and expand its leading position in this business area over the coming years.

Client requirement: Investments

In 2005, Raiffeisen Group achieved a major milestone in its aim to become its clients' partner of choice for investment as well as lending. Assets entrusted to Raiffeisen grew by around 18 percent to 27.6 billion Swiss francs, with the Raiffeisen Bonus Income Notes product line performing particularly well: by the end of 2005, approximately 1.7 billion Swiss francs had been invested in the five Raiffeisen interest-bearing securities. These capital-protected instruments are an attractive alternative to fixed-interest securities. Raiffeisen Fund of Funds Multi Asset Class, an innovative product in the Swiss market, also struck a very positive chord, attracting capital inflow of over 100 million Swiss francs. The overall inflow from product issuance came to just under 2 billion Swiss francs.

Equity investors enjoyed an outstanding year in 2005, while investments in bonds also yielded handsome returns. Raiffeisen expects 2006 to be another year of robust growth for the global economy. Although US growth should dip slightly, economic activity in continental Europe is set to accelerate. There should be virtually no rise in US interest rates, but slightly higher rates in the euro zone and Switzerland. This means that the equity markets, given the generally solid valuations on offer, harbour further upside, even if there is little likelihood of a repeat of the high yields seen in 2005.

Raiffeisen–Vontobel cooperation ■ The cooperation between the Raiffeisen and Vontobel groups in the area of investment business was extremely successful in 2005. The requirements of Raiffeisen clients for capital protection and sustainable value enhancement prompted the partners to develop innovative product solutions. As a result, last summer saw the launch of the Raiffeisen Fund of Funds Multi Asset Class, which is managed on absolute return principles. Absolute return products aim to generate positive returns regardless of how the market performs, and to preserve the capital invested. There was steady growth in business under asset management mandates, while referral business with Raiffeisen's institutional clients also yielded satisfying results.

In order to achieve its ambitious investment objectives, the Raiffeisen Group launched a seven-point sales programme to support the 421 Raiffeisen banks at local level. This modular, flexible and pragmatic programme includes modules for assessing the position of a Raiffeisen bank in the investment business, identifying attractive (new) clients

in an efficient way and communicating excellent product and market knowledge. The effectiveness of this sales support programme was already evident in the 2005 sales figures: the participating banks sold two to five times as many of the newly launched products as comparably-sized peers. The banks also achieved some 5 percent higher growth than the peer average in both the volume and number of deposits.

The Vontobel Group incorporated all the Raiffeisen Group's securities holdings into its global custody business as planned at the end of September 2005. The value of the transferred custody assets totalled approximately 13 billion Swiss francs. The Raiffeisen Group had already handed over derivatives and securities trading in the Italian, French, German, US and Canadian markets to its cooperation partner back in the first quarter of 2005. The transfer of Raiffeisen's entire global custody business brings access to all exchanges, in particular virt-x and SWX Swiss Exchange, raising Vontobel Group's average trading volume by about a third.

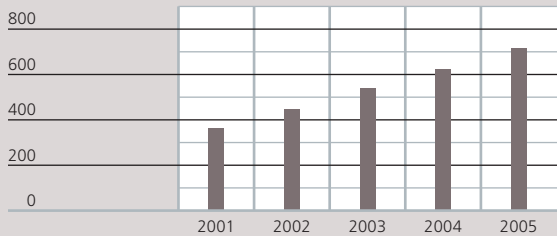
In 2006, the conditions will be created for Vontobel to assume management of the Raiffeisen Group's client custody business of around 300,000 client deposits. This will mark a further milestone in the strategic and pioneering partnership.

Client requirement: Pensions

There is a general mood of heightened uncertainty throughout the population over the long-term performance of Switzerland's pension systems. Fewer and fewer people

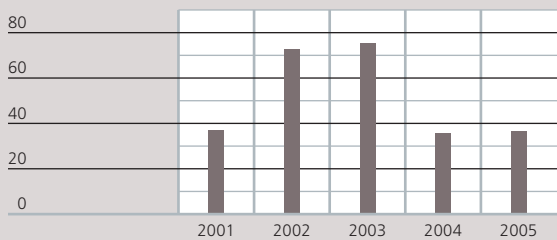
Pension and vested assets 2001–2005

(in CHF billions)



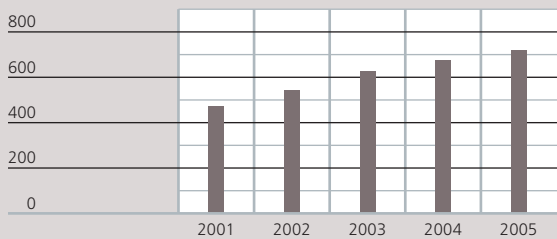
Invoiced premium volume, Helvetia Patria 2001–2005

(in CHF million)



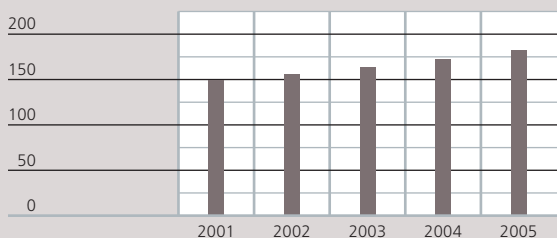
Raiffeisen Maestro Card 2001–2005

(in 1000)



Raiffeisen Credit Cards 2001–2005

(in 1000)



expect to be able to live on the income provided by their state and occupational pensions. This expectation, combined with the tax advantages, has resulted in continuing high growth in private pension assets in recent years. Vested assets recorded further substantial growth, driven by the subdued economic conditions.

Client requirement: Insurance

As a complement to its bank services, the Raiffeisen Group also offers insurance solutions – in concert with its long-time cooperation partner Helvetia Patria Insurance, a solid and established insurance carrier. The main products are those connected to home ownership, such as Raiffeisen Mortgage Protection Insurance.

In March 2006, two new products were launched – Raiffeisen Construction Insurance and Raiffeisen Buildings Insurance – which can be combined with a construction loan or home ownership mortgage.

Client requirement: Payments

Maestro Card ■ Switzerland's most important cashless payment method performed well in 2005. Thanks to the Maestro function, which allows ATM cash withdrawals and cashless payments in numerous outlets worldwide, this card product has established itself as a means of payment across the globe. The Conto Service, an add-on function available at Raiffeisen ATMs, enables cardholders to access key information on up to four accounts. The appeal of the Raiffeisen Maestro Card is further enhanced by its use as a museum entrance card, allowing holders to visit over 400 Swiss museums free of charge.



*Dr Patrik Gisel,
Head of the Market & Sales
department*

Credit cards ■ The Swiss credit card market continues to be the focus of fierce competition. To achieve successful sales from credit cards, therefore, it is all the more important to continually expand the extra services offered with the various credit card products. As with the Maestro Card, the museum entrance card has enhanced the appeal of credit cards, significantly boosting the number of cards issued. Since the middle of 2005, the Raiffeisen banks have rounded off their credit card range by offering their clients VISA Gold Cards. In addition, clients can now get the combined MasterCard and Visa Card product at a preferential price.

Market: Refinancing

The Raiffeisen Group borrowed around 2.7 billion Swiss francs of medium and long-term money on the capital markets in 2005. This was used to finance the growing volume of loans and ensure a balanced maturity structure. Of this amount, around 900 million Swiss francs related to mortgage bond loans issued by the Raiffeisen banks and the Swiss Union of Raiffeisen Banks. The Treasury of the Swiss Union of Raiffeisen banks invested the remaining 1.8 billion Swiss francs in borrower's note loans of foreign banks (1.3 billion Swiss francs) and Swiss institutional investors (500 million Swiss francs).

In 2006, the Raiffeisen Group will be striving to expand its investor base for both medium and long-term refinancing and short-term liquidity. The award of its first-ever rating by Moody's was an important milestone in this respect. The Aa2 rating will help the Group to achieve greater penetration of the Swiss investors' market and expand its circle of

"Thanks to its attractive, transparent savings products and day-to-day client proximity, Raiffeisen intends to maintain and expand its leading position in the Swiss savings market."

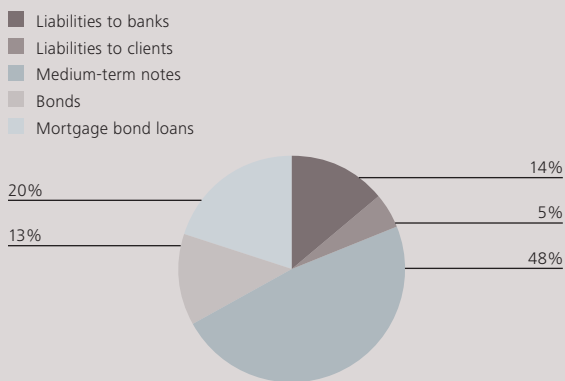
foreign lenders. The Raiffeisen Group is also seeking to cover its long-term refinancing requirements through the increased use of mortgage bond loans.

Market: Trading

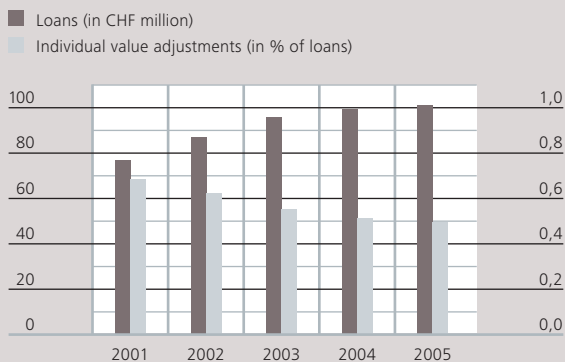
As previously mentioned, the equity and bond markets enjoyed an excellent year from a Swiss perspective – in an environment of significantly higher commodity and precious metal prices, of course. The salient trend in the foreign exchange markets was the US dollar's renewed strength, while the euro moved within a relatively narrow band against the Swiss franc. Against this background, the Swiss Union of Raiffeisen Banks grew its trading activities by 40 percent, posting exceptionally good figures for trading in banknotes, precious metals and equities. As part of the expansion of its capital market business, the Central Bank department acted as joint lead manager for a public third-party bond issue in the Swiss franc capital market for the first time.

In 2006, the Raiffeisen Group's target is to improve its trading processes in terms, for example, of straight-through processing (STP), optimizing its front-end tools and improving efficiency in risk measurement.

Long-term refinancing



Individual value adjustments, Group 2001–2005



Market: Credit risk management

Core to the Group's credit risk management are the following principles: The Raiffeisen banks are responsible for managing their own credit risk, drawing on their detailed knowledge of their regional market and clients in a closely defined locality.

Credit risk is limited by means of a proven credit policy, restrictive appraisal guidelines and industry-standard loan-to-value ratios. The Raiffeisen banks use IT-based processes to help check, approve, process and monitor credit risk. In order to provide borrowers with sustainable solutions, affordability calculations are performed on the basis of conservative, tried and tested parameters. Deviations from the rules and regulations are recorded and monitored separately.

To assess more complex credit transactions, the Raiffeisen banks can draw on the knowledge of specialists at the Swiss Union of Raiffeisen Banks. Risks that the Raiffeisen banks do not wish to take on their own books can be transferred to the Swiss Union of Raiffeisen Banks and the Raiffeisen Guarantee Cooperative. The Raiffeisen banks also have access to the Swiss Union of Raiffeisen Banks' experienced recovery team for the management of non-performing positions. The team's services range from straightforward advice to taking over positions in a fiduciary capacity.

The Group's credit portfolio is subject to regular monitoring on a centralized basis. The Swiss Union of Raiffeisen Banks' Executive Board and Board of Directors receive re-



*Paulo Brügger,
Head of the Central Bank
department*

ports on the portfolio. A further reduction in value adjustments to loans was achieved in the year under review. The Raiffeisen Group's credit portfolio continues to enjoy broad diversification in terms of borrowers, regions and sectors. The majority of loans are to borrowers in the owner-occupied residential property segment, which has a long tradition of low risk. The high proportion of private residential construction loans means that ecological risk is low. There are special procedures for identifying and managing higher default risk relating to specialist properties in risk sectors defined in the credit policy. These loans are secured by mortgages over commercial properties and account for only 2 percent of the Group's portfolio.

Implementation of the new Ordinance Concerning Capital Adequacy and Risk Diversification (Basel II) will be concluded in 2006. The credit risk management process will be further optimized and the set of risk control tools expanded to meet the growing market requirements.

*"We are especially proud of
our Aa2 rating from Moody's."*



The upwards path Tread carefully with every step, gaining impetus as you make your way to the top.



Risk management Intense competition and severe margin pressure are placing increasingly heavy demands on the quality of risk controlling and the accuracy of risk measurement. The Raiffeisen Group's risk management is adapting to this trend and meeting the competitive and regulatory challenges.

"The Raiffeisen Group's risk position is healthy and robust. Risks are low in relation to available equity capital."

Risk is an inevitable component of banking. The Raiffeisen Group takes a cautious and selective approach to risks within a framework of clearly defined guidelines. In so doing, it takes care to achieve a balance between risk and return and actively controls its risks. Effective risk control ensures that the Raiffeisen Group is able to bear the risks entered into – both in normal conditions and under stress – and maintain its good reputation.

Risk policy

The risk policy adopted by the Swiss Union of Raiffeisen Banks and the Raiffeisen Group sets the targets, principles and responsibilities for managing and controlling risk. In so doing, it applies the following principles:

- *Local responsibility and management according to clearly defined guidelines:* The Raiffeisen banks and line units are responsible both for managing risk and generating income. The central controlling units monitor adherence to the guidelines and limits, trends in overall risk and compliance with procedures.
- *Responsibility of the Executive Board:* The Executive Board of the Swiss Union of Raiffeisen Banks is responsible for implementing risk policy and for operational supervision and control of overall risk. Group Risk Controlling is responsible for supervising and reporting risks, independently of the risk-managing units.



*Barend Fruithof,
Head of the Finance &
Logistics department*

- *Conscious awareness of risks:* The Raiffeisen Group views the assumption of risk as one of its central duties. However, it only enters into risks when it understands the extent of their impact and the factors involved, and when the requirements in terms of systems and staff resources are met.
- *Risk control based on transparency:* Risk control is performed by the Executive Board and the Board of Directors on the basis of thorough, objective and transparent information on the overall risk situation and risk profile.
- *Independent risk monitoring:* Overall risk and limits are monitored independently of the risk-managing units. Independent control processes are implemented where the type and level of risk so demands. The effectiveness of the controls is monitored by means of an internal control system.
- *Comprehensive risk management process:* The Raiffeisen Group's risk management is a group-wide, uniform and binding process, which comprises identification, measurement, evaluation, management, limitation and monitoring. Risk management covers all risk categories.
- *Limiting losses:* Losses are limited by a system that ensures that the Group is able to bear the financial impact on income, equity and capital, both under normal conditions and under stress.

- *Avoidance of risk concentration:* The Raiffeisen Group avoids risk concentration. It has tools at its disposal for recognizing and proactively preventing cluster risks.
- *Protection of reputation:* The Raiffeisen Group attaches great importance to protecting its reputation. For this reason, it takes a generally cautious approach to risk and sets great store by effective control. It prefers to steer clear of positions in transactions that are deemed critical from a fiscal, legal, supervisory or accounting perspective, and adopts a cautious approach to risks that cannot be reliably assessed or quantified. It also seeks to comply with the highest ethical principles in all its business dealings.

Organization and responsibilities

The Board of Directors assumes overall responsibility for risk management and risk control within the Raiffeisen Group. It defines and monitors risk policy, sets the level of risk tolerance and approves the overall limits applied for by the Executive Board.

The Executive Board implements risk policy and monitors adherence to guidelines. It monitors overall risk, adherence to limits and the appropriateness of the organization and infrastructure of risk management. It has set up a risk committee for this purpose.

The risk committee comprises members of the extended Executive Board. It assesses all the Raiffeisen Group's risks on a monthly basis and drafts any necessary measures. It also approves the tools and processes required in risk management.

Group Risk Controlling drafts principles for the risk committee and the Executive Board and runs the monitoring and reporting systems on an independent basis. It also monitors adherence to the group-wide risk policy and risk limits on behalf of the Executive Board. Besides its duty to monitor, Group Risk Controlling is also responsible for methodology.

The Raiffeisen banks and the responsible line units manage risks on an individual basis within the framework of risk policy and authority levels. This system of individual responsibility is balanced by centralized monitoring of overall risk. This allows for the fact that the Raiffeisen Group's risks are tied closely together.

Credit risks

Credit risks are the most important risk category due to the Raiffeisen Group's extremely strong position in lending. The Group's long-term success is ensured by modern credit risk management techniques tailored to Raiffeisen-specific customers and transaction types.

Most credit transactions are carried out by the Raiffeisen banks and the branches of the Swiss Union of Raiffeisen Banks. Credit risks are also entered into by the Raiffeisen Guarantee Cooperative, Raiffeisen Leasing and Raiffeisen

Finanzierungs AG. These business units are individually responsible for managing the credit risks they enter into.

The Raiffeisen Group grants loans according to cautious guidelines, principally on a secured basis. Borrowers are predominantly individuals, but also public bodies and business clients.

Most business clients are small companies that operate within the locality of the Raiffeisen banks. Credit management is standardized, with credit granting and ongoing credit monitoring a seamless process. Provisions for anticipated losses are calculated according to a proven, standardized method and are appropriate. The Swiss Union of Raiffeisen Banks' main credit risks arise from its dealings with commercial banks, as well as corporate and public sector clients. Only the Swiss Union of Raiffeisen Banks is allowed to enter into foreign exposure, which is limited to a risk-weighted 5 percent of the Raiffeisen Group's consolidated balance sheet total. Raiffeisen's international regulations permit unsecured exposure only in countries with a Standard & Poor's rating of at least BBB or an equivalent rating from other recognized agencies.

A limit system is used to limit credit risks both for individual counterparties and at portfolio level. All counterparties are rated. The rating process helps identify, measure and monitor default risk. Collateral is assessed and measured according to a standardized process. The Raiffeisen Group applies prudent valuation rules and lending limits.

Group Risk Controlling analyses and measures the Group's credit portfolio on a periodic basis, analyses the portfolio for concentrations and uses this information to draft measures for proactive portfolio controlling.

Credit risks are monitored with the aid of an internal management process, which calculates anticipated and unanticipated losses on the basis of default probabilities and collateral values. The model developed to calculate default probabilities is regularly checked and calibrated by means of backtesting.

A receivable is considered to be impaired if it is unlikely that the debtor will fulfil its future obligations. A special process is used to check whether individual value adjustments are required for impaired receivables and receivables whose book value exceeds the debtor's debt capacity. A receivable is considered to be non-performing if the debtor fails to pay interest, capital or fees within 90 days. Group-wide guidelines have been drawn up to ensure that impaired loans are evaluated consistently and appropriately.

In order to meet the increased requirements for the identification, measurement and limitation of risks in the business clients segment, the Group will continue to refine its models and processes for credit risk management over the course of 2006.

Market risks

Interest rate risks are a major risk category due to the Raiffeisen Group's strong positioning in interest operations. The Raiffeisen Group generated a significant contribution

to income last year by controlling the interest rate risks it enters into, so it attaches great importance to this process.

The Raiffeisen Group limits interest rate risk by means of sensitivity limits. Sensitivity measures the change in present value resulting from a parallel shift in the yield curve. Besides sensitivity, other analyses and stress tests are performed on interest rate risks. Software tools are used to calculate and monitor interest rate risk. The results of these analyses and tests are taken into account in active risk controlling.

Within the Raiffeisen Group, each Raiffeisen bank is individually responsible for managing the interest rate risks in its balance sheet. Clearly defined guidelines and limits apply to this autonomous system of management, adherence to which is monitored by Group Risk Controlling. The branches of the Swiss Union of Raiffeisen Banks, the Raiffeisen Guarantee Cooperative, Raiffeisen Leasing and Raiffeisen Finanzierungs AG are individually responsible, like the Raiffeisen banks, for managing the interest rate risks in their balance sheets. They do this in accordance with the global limits prescribed by the Executive Board of the Swiss Union of Raiffeisen Banks.

The Treasury of the Central Bank department of the Swiss Union of Raiffeisen Banks is the counterparty for re-financing and hedging transactions with the Raiffeisen banks and branches and manages the interest rate risks of the Central Bank. The Central Bank department also provides the Group companies with advice on asset and liability management (ALM).

Group Risk Controlling monitors compliance by the risk-managing units with interest rate risk limits (sensitivity) and produces a risk report. For the purposes of monitoring overall risk, it also calculates the value-at-risk for interest rates at various group levels. In 2005, the Raiffeisen Group launched a project to further optimize its ALM tools.

Of the entities within the Raiffeisen Group, only the Central Bank department runs a trading book. Trading risks are kept in check by limits on volume, positions and value-at-risk.

In the year under review, the Raiffeisen Group rolled out Quantax®, a new trading and risk management system, in its Central Bank department. The newly installed system is used to manage and control risk for the entire trading area. It delivers critical ratios for monitoring all positions and market risks and produces overviews, valuations and assessments of all traded products within a single system.

Group Risk Controlling monitors trading risk on a daily basis, using market data and risk parameters that are independent of the trading area. When new products are rolled out, Group Risk Controlling performs an independent evaluation of the risks.

Liquidity and financing risk

According to a ruling by the Swiss Federal Banking Commission of 24 September 1997, the Raiffeisen banks are excused from complying on an individual basis with directives regarding capital resources, risk spread and liquidity. As the relevant legal provisions have to be ob-

served on a consolidated basis, the Treasury of the Swiss Union of Raiffeisen Banks takes care of liquidity and re-financing management at group level. It provides the Group with access to the money and capital markets and ensures appropriate diversification of liabilities.

The Group's refinancing strategy is based on legal and regulatory requirements and, in particular, ensures that the necessary liquidity is available and that the maturity structure is appropriate and diversified. The Treasury plans the Group's medium to long-term financing activities by creating a financing profile that takes into account the actual duration of assets and the sum of liabilities that are falling due and need to be replaced.

The Treasury monitors liquidity trends on operational, tactical and strategic levels on an ongoing basis, and performs regular stress tests. This has proven the Raiffeisen Group's liquidity to be robust.

Operational risks

Operational and business risks arise in two ways: directly from the banking transactions carried out by the Raiffeisen Group, and by virtue of its function as an employer and owner/occupier of buildings. Situations that could give rise to losses range from everyday events, such as problems in balancing accounts, to potentially serious events, such as fraud.

Business losses can never be entirely eliminated, which is why the management of operational risk focuses on establishing the type and amount of these risks and intro-

ducing effective risk-reducing measures. Internal control systems and processes play a key role here.

IT risks ■ The Raiffeisen Group's dependence on IT applications, IT processes and IT infrastructure is growing in tandem with the increasing automation of its business processes and networks. As part of the management of operational risk, therefore, it attaches great importance to monitoring and controlling IT threats and risks.

Knowledge of the key threats is a prerequisite to effectively controlling IT risks. With this in mind, in the year under review Raiffeisen Informatik AG conducted a systematic and comprehensive self-assessment of its threats and risks. This will be repeated on a yearly basis. The knowledge gained in this way forms the basis for targeted measures to be adopted by line management, while guidelines, standards and procedures within IT security are continuously updated. These measures are completed by contingency plans for maintaining business operations. To reinforce independence and integrate operational and IT risk management, the IT Risk Controlling unit of Raiffeisen Informatik AG was incorporated into Group Risk Controlling in 2005.

Early warning system of the Raiffeisen banks ■ The Swiss Union of Raiffeisen Banks operates an early warning system designed to identify unfavourable events and developments at Raiffeisen banks at an early stage and avert potential damage. The early warning system works with indicators for the banks' operational and business risks. Early warning events are analysed and reported to the

Executive Board of the Swiss Union of Raiffeisen Banks. If necessary, the Swiss Union of Raiffeisen Banks acts to resolve the situation. The Raiffeisen banks' early warning system is operated by Group Risk Controlling, which also monitors implementation of Internal and External Auditing measures for the Executive Board by the Swiss Union of Raiffeisen Banks and the Raiffeisen Group companies.

Compliance risks ■ The Raiffeisen Group has traditionally placed great importance on "know your customer" principles. Accordingly, it has defined and implemented internal standards that have been subsequently integrated into numerous areas of the business. Regulations to combat money laundering reinforce and add an extra dimension to these principles. The Raiffeisen Group invests substantial amounts in staff training and technology in order to keep track of developments concerning the identification of transactions or persons with a suspected link to money laundering. Processes for identifying clients and monitoring transactions are continually optimized and updated in the areas of risk assessment, industry practices, regulatory requirements and technical developments.

Project controlling ■ Due to the large number of complex projects within the Raiffeisen Group, project management has been refined, monitoring has been expanded and the analysis of risks that endanger the success of these projects has been systematized.

Outlook

Intense competition and severe margin pressure are placing increasingly heavy demands on the quality of risk control-



*Dr Beat Hodel,
Head of Group Risk Controlling*

ling and the accuracy of risk measurement. This situation is compounded by the impending switch to Basel II and the growing body of regulation, even in areas that are not subject to regulatory supervision.

The Raiffeisen Group has launched a series of risk management projects to deal with the competitive and regulatory challenges. Its main focus is to:

- optimize risk controlling in terms of the risk structure of balance sheets, while retaining the proven autonomy of the Raiffeisen banks in balance sheet management,
- optimize the calculation of credit risk and embed this more firmly within the credit process,
- systematize the management of operational risks, incorporating IT risks group-wide,
- implement the Swiss version of Basel II.

In order to ensure integration and harmonization, management of these projects has been brought under the umbrella of Group Risk Controlling. Implementation of these projects will refine the level of risk controlling within the Raiffeisen Group and enhance the efficiency and effectiveness of its risk management. The Raiffeisen Group is at an advanced stage in its implementation of Basel II. It is confident of meeting the deadlines for fulfilling the provisions throughout the Group.

“Intense competition and severe margin pressure are placing increasingly heavy demands on the quality of risk controlling and the accuracy of risk measurement.”



The route to new opportunities Feeling at home in a complex network, making connections quickly and reliably in all directions and being able to choose from numerous possibilities.



Corporate Social Responsibility All throughout its 106-year history the Raiffeisen Group has been very careful in its use of resources. It is acutely aware of its responsibility towards society, and its basic values form the basis for combining economic success with its social and ecological commitments.

Sustainable development is the key to securing prosperity while at the same time preserving the life chances of future generations. However, this kind of development is only possible if ecological, economic and social requirements are brought into harmony with one another, which in turn can only take place if managers of commercial enterprises think and act in a sustainable manner. The Raiffeisen Group, which is organized as a cooperative, has been preoccupied with the issue of sustainability since the very beginning.

Sustainable management

The Raiffeisen Group's perception of sustainable management incorporates various aspects that extend far beyond its Corporate Governance guidelines (see pages 52 to 75).

Philosophy ■ When it comes to sustainable asset management, we at Raiffeisen do not lack in experience. Rational utilization of the resources at our disposal is something we have always practised. A decentralized structure with short, local decision-making paths, a dense network of banks at 1,175 locations around Switzerland, a cautious lending policy, sensible remuneration packages for our employees and long-term relationships with our clients form the cornerstone of this philosophy. Another key factor is our culture of solidarity, which occupies a very elevated position within the Group and is expressed in our balanced system of security measures based on the principle of mutual liability (see page 58 for more details).

Today – as has always been the case – our cooperative members remain the focal point of everything Raiffeisen does. As co-owners, they help shape the affairs of the group. The *raison d'être* of the Raiffeisen Group includes the promise to help its cooperative members and clients fulfil their goals in life and provide them with client-oriented financial services tailored to their needs. In this way, they benefit from simple, easy-to-understand products and financial advice from a single source and for every situation in life.

Striking the right balance ■ The success enjoyed by the Raiffeisen Group over recent years proves that it has struck the right balance between cooperative principles and commercial spirit. It has combined its principles of solidarity, local orientation, transparency and social commitment to good effect, while at the same time adapting itself to economic and social changes. The basic strategy approved in 2004 is yet further evidence of Raiffeisen's commitment to its cooperative values, which state that "the basic values – the tradition of self-help associations, the creation of immaterial as well as material values, subsidiarity, democracy and the militia system – are interpreted and practised under current requirements."

Obligation to stakeholders ■ Raiffeisen focuses its activities on four particular groups: cooperative members, clients, employees and the general public. The interests of all these groups are taken into account as fairly as possible:

- Cooperative members are granted rights of codetermination for their contribution as capital providers, receive access to preferential services, benefit from special member promotions and enjoy contact opportunities within the wider community of members.
- The Raiffeisen banks foster long-term personal relationships with their clients built on a tradition of fairness and trust. Alongside private, business and individual clients in retail banking – the banks' core business – they also offer complementary services in the private banking and interbank sectors and to corporate and institutional clients.
- Another important stakeholder group are our employees. Their number has risen continually over recent years and now stands at 7,888. Raiffeisen is regarded as an attractive employer offering good development opportunities and career prospects.
- Our fourth stakeholder group is the general public. Few other banking groups do as much as the Raiffeisen banks to support local associations, clubs and events, while the local taxes they pay make a significant contribution to the municipalities in which they are located.

Statement of net added value: The Raiffeisen Group managed to significantly increase its added value by 170 million Swiss francs or 12.5 percent year-on-year. This result is due to the marked rise in revenues, the slight decrease in provisions for credit risks (despite the renewed increase in credit volumes) and higher extraordinary income (revalu-

ation gains from participations and proceeds from the sale of holdings in other companies). The additional funds generated were distributed among those eligible in similar measure. The rate of interest earned on cooperative shares consumed an extra 11 percent, the state benefited from a 9.7 percent rise in tax expenditure, while payments made to employees in the form of salaries, social security contributions and fringe benefits increased by 7.5 percent.

As a result of their cooperative structure, the Raiffeisen banks have clear boundaries with regard to the distribution of profits. Our cooperative spirit is highlighted by the fact that 38.5 percent (587 million Swiss francs) of the total added value generated is to be retained within the company itself. The lion's share (49.1 percent or 790 million Swiss francs) will go to employees, while 11.1 percent (169 million Swiss francs) will be reserved for the state and 1.4 percent (21 million Swiss francs) will be paid out to cooperative members. It must be borne in mind, however, that cooperative members also receive other benefits in the form of discounts such as no commission fees, higher rates of interest on savings, expenses for the Annual General Meeting and direct member benefits (free museum passes, special member promotions etc.). This amounts to a total sum of 190 million Swiss francs, which is not listed as a credit to cooperative members in the statement of net added value. Money spent on donations and sponsorship (a total of 16.2 million Swiss francs) is also not taken into account for the distribution of net added value.

Statement of net added value

	Current year in CHF million	Current year in %	Prior year ¹ in CHF million	Prior year in %
Creation of added value				
Corporate performance (= operating income)	2,058	100.0	1,894	100.0
Non-personnel expenditure	- 409	19.9	- 372	19.6
Extraordinary income	47	- 2.3	7	- 0.4
Gross added value	1,696	82.4	1,529	80.7
Depreciation	- 128	6.2	- 129	6.8
Value adjustments/provisions/losses	- 42	2.0	- 44	2.3
Net added value	1,526	74.1	1,356	71.6
Distribution of added value				
Personnel (salaries and employee benefits)	749	49.1	697	51.4
Cooperative members (paym. of interest on certif.: proposal to AGM)	21	1.4	19	1.4
Government (direct taxes)	169	11.1	154	11.4
Bolstering of reserves (self-financing)	587	38.5	486	35.8
Total	1,526	100.0	1,356	100.0
Key added value figures				
Gross added value per personnel unit in 1000 CHF ²	264		247	
Net added value per personnel unit in 1000 CHF ²	237		219	
Number of personnel units (average)	6,427		6,181	

1) prior-year figures adjusted to correspond with the new profit and loss account structure

2) calculated on the average number of personnel

Memberships – national and international

The Raiffeisen idea has spread across the globe: more than 900,000 cooperatives with more than 500 million members in over 100 countries work according to the principles laid down by Friedrich Wilhelm Raiffeisen. It is the job of the International Raiffeisen Union (IRU) to foster these groups. This worldwide, voluntary amalgamation of national cooperative organizations now includes the Swiss Raiffeisen Group alongside a further 72 members from 40 countries. As well as the IRU, the Raiffeisen Group is a founding member of the Intercooperation Foundation (a Swiss foundation for development and international cooperation) and a member of Unico (a union of six European, cooperative central banks), the CICA (International Federation for Agricultural Credit) and the EACB (European Association of Cooperative Banks). Raiffeisen is also one of the founding members of responsAbility (see also page 43). On the domestic front, the Raiffeisen Group is a member of the Swiss Bankers Association, among other organizations.

Banking at a personal level

“People are at the heart of everything we do.” These words – enshrined in our mission statement – embody the basic values on which Raiffeisen is built. This means both providing our employees with a wide variety of development opportunities and fostering close, personal relationships with our clients – manifested on the one hand by our dense network of branches and ATMs, and on the other by our round-the-clock availability (online banking and 24-hour zones at various branches).

Members and clients ■ *Client satisfaction:*

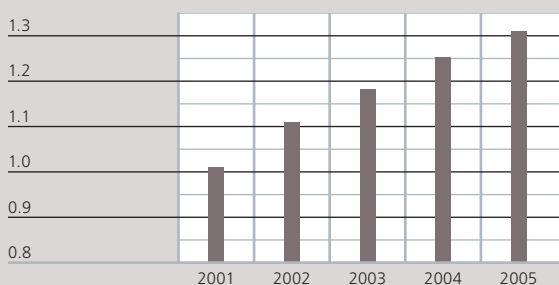
Raiffeisen achieved a number of very good survey results in terms of client satisfaction and brand loyalty in 2005.

“Size isn’t everything – The Raiffeisen banks offer the best over-the-counter service.” This was the headline blazoned across the HandelsZeitung newspaper on 27 April 2005. Consultancy firm Booz Allen Hamilton sent two employees on a mystery shopping assignment to various banking groups. In their guise as regular banking clients, they visited 33 branches in German-speaking Switzerland, availed themselves of their advisory services and graded them in terms of friendliness, privacy, opening hours and quality of advice. The Raiffeisen banks came out on top in nearly all of the areas tested, in particular with regard to the standard of consultations and the flexibility of opening hours.

The very next day the Tagesanzeiger newspaper published an article entitled “Banks: Best reputation goes to Raiffeisen”. This was the result of a survey of 810 Swiss citizens carried out on behalf of Tagesanzeiger by the Lucerne institute for market and social research. On a scale of 1 (very dissatisfied) to 10 (very satisfied), Raiffeisen achieved a rating of 8.9. The study showed that for one third of clients geographical proximity was the decisive factor when choosing their bank. With its dense network of branches, it therefore comes as no surprise that the Raiffeisen banks occupy such a high position in clients’ estimation.

Raiffeisen was crowned the most trustworthy bank brand in Switzerland in a sixth survey of Reader’s Digest readers.

Number of cooperative members
(in millions)



The results of these independent surveys tally with the findings of the market research commissioned by Raiffeisen and conducted by DemoSCOPE, which have been consistently positive for several years in a row. 87 percent of the 869 main Raiffeisen bank clients surveyed said that they were very satisfied with Raiffeisen in 2005 (2004: 89 percent; 2003: 87 percent).

Cooperative with values: The number of cooperative members has been rising continually for several years. While ten years ago there were approximately 601,000 cooperative members, by the end of 2005 this figure had already climbed to 1.3 million. Profits are distributed to cooperative members not only in the form of interest earned on share certificates, but also in the form of unique member advantages. In 2005, these advantages and benefits amounted to an average of 150 Swiss francs per cooperative member (see also statement of net added value).

Employees ■ "Raiffeisen encourages its employees to take on a high level of personal responsibility and play an active role in shaping the company." This statement – taken from the bank's basic strategy – perfectly reflects the HR policy of the Raiffeisen Group. A wide variety of measures have been launched to boost employees' sense of motivation and commitment to the company, and the average length of service for staff working at the Swiss Union of Raiffeisen Banks is seven years. While staff turnover had levelled out at 10 percent in recent years, it increased to 15 percent in 2005 as a result of reorganizations.



*Michael Auer,
Head of Human Resources
Management*

Strong identification: An independent jury nominated Raiffeisen for the Brand Excellence Swiss Trophy 2005 (B.E.S.T. 2005) in light of the commitment shown by Raiffeisen Group employees when implementing the brand idea in their everyday work. At the awards ceremony in July 2005, the trophy ultimately did not go to Raiffeisen, but to Rega. On the award certificate, Professor Christian Belz, President of the jury and the Nomination Committee, wrote: "Although Raiffeisen did not win the B.E.S.T. Behaviour category, to be one of only three brands to receive a nomination constitutes a tremendous achievement of which they can be rightly proud. My colleagues and I were faced with the difficult task of selecting from among numerous high-quality brands the ones that are the most outspoken ambassadors for Swiss values and help to strengthen Switzerland's image in a sustainable manner through their exemplary vision and values. Raiffeisen is one of these."

Further education/training and knowledge management: Strengthening our advisory and selling capabilities and preserving the employability of Raiffeisen staff on the labour market are two fundamental cornerstones of the bank's training policy. The training courses offered by Raiffeisen have now become extremely complex, and since the end of 2005 they have been available to all employees of the Raiffeisen Group online under the name Raiffeisen Academy. The training offering currently comprises 292 internal seminars and further education programmes across the whole of Switzerland. In addition to information on the courses offered, this tool can also be used to generate suitability, interim and final tests, and to create personal assessments. What is more, special training requirements can be

"One of the stated aims of the Raiffeisen Group is to help its staff strike the right balance between family and career."

met at short notice by means of e-learning programmes. The Raiffeisen Group invested 12.6 million Swiss francs in the training and further education of its staff in 2005 (compared with 13.7 million Swiss francs in the previous year), with a total of 5,318 employees taking advantage of the training options on offer over 16,885 seminar days. The training budget for 2006 is 1.18 percent of annual operating costs (2005: 1.18 percent).

The Swiss Union of Raiffeisen Banks stages roadshows to cover any shortfalls in information when introducing new products and services. The Chairman of the Board of Directors and the bank directors meet for an information and discussion forum on a regular basis (twice a year).

The intranet plays an important role as regards communication with employees. Since it was launched in 1998, it has evolved from a pure information platform to a communication and application platform for the entire Raiffeisen Group. It helps employees in their day-to-day work, gives them an overview of essential business information and provides them with access to Group media releases, presentations on banking topics and lots more besides. The intranet has grown continuously: it now includes more than 12,000 pages of information and receives over 150,000

hits per day. In addition to this electronic platform, employees also receive the annual report and the stakeholder magazine Panorama.

New assessment system: Employees who work for the Swiss Union of Raiffeisen Banks are assessed once a year via an objective agreement process. The purpose of this assessment is not just to define and measure performance objectives, but also to plan and manage employees' skills with a view to developing technical expertise and promoting social skills, which in turn ensures that employees are assessed on an individual basis. Linking this performance management process with the balanced scorecard ensures that the contribution made by each employee is directly linked to the bank's objectives.

Promoting talented young managers: As in the previous three years, approximately 100 talented young people from across the entire Raiffeisen Group were selected for the systematic manager development process in 2005. This three-year process helps to cultivate talented young people from within the company and prepare them for key positions within the Group.

Investing in talented young staff: The Raiffeisen Group is committed to a dual-track training system and promotes the professional development of suitable internal candidates. To this end, more than 10 percent of personnel units are trainees – 668 in the year under review. In 2005, as in previous years, Raiffeisen offered traineeships to around 200 young people, and offered a permanent position or a fixed-term employment contract to about 80% of the

trainees who graduated in summer 2005. One reason behind this high figure was our special "traineeship exchange", via which trainees throughout the entire organization can apply for a permanent position.

The Center for Young Professionals in Banking (CYP) association provides trainees at a number of banks with banking training that is conducted centrally for all affiliated banking institutions, yet outside the teaching company. The Raiffeisen Group is a founding member of this association and teaches all of its trainees in the CYP. The objectives set within the association have largely been met. The Raiffeisen Group will continue to teach its trainees through the CYP in future.

High-performing retirement provision: The Raiffeisen Group's pension fund converted its defined benefit scheme to a defined contribution scheme in January 2005. The vast majority of Raiffeisen Group employees approved the changeover in a secret ballot. As at the end of 2005, the coverage ratio of the pension fund stood at 106.6 percent (previous year: 95.8 percent).

Combining family and career: One of the stated aims of the Raiffeisen Group is to help its staff strike the right balance between family and career. The Swiss Union of Raiffeisen Banks provides private child daycare facilities for employees in St.Gallen, while expectant mothers who have been with the company for six years or more are given extended maternity leave of 24 weeks or enhanced time planning options (annual working hours, flexitime accounts etc.).

The Swiss Federal Department of Economic Affairs and four companies with offices throughout Switzerland (including the Raiffeisen Group) have launched a project to analyse the economic effects of a more family-oriented corporate policy. The aim of this joint venture between business and politics is to make companies aware that family-friendly measures should no longer be regarded as a social perk, but rather as an integral component of efficient HR policy. The study entitled "Business management cost/benefit analysis of family-friendly corporate policy", carried out among 20 Swiss companies in November 2005, showed that introducing family-friendly measures pays off several times over in business management terms. Raiffeisen has now charged two employees with the task of drawing up a concept under the name "PROFIL" and defining possible areas of action. The Executive Board of the Swiss Union of Raiffeisen Banks has expressed the desire to increase the percentage of women in senior management positions. Of the approximately 540 women currently employed by the Swiss Union of Raiffeisen Banks (total number of employees: 1611), just under 60 are members of senior management.

Employee satisfaction: An employee satisfaction survey was carried out in one of the six departments of the Swiss Union of Raiffeisen Banks during the year under review. Building on the experiences gained, a survey of all employees of the Swiss Union of Raiffeisen Banks is planned for 2006. The survey will subsequently be carried out on an annual basis.

Employee committee: The employee committee – which has been in existence since 1995 – acts as a link between the Executive Board of the Swiss Union of Raiffeisen Banks and employees. Consisting of seven members, the committee meets regularly with a member of the Executive Board to discuss current topics and outstanding issues and negotiate salary adjustments. According to its charter, the employee committee has a right to information and, in various situations, to be consulted (in an advisory capacity) with regard to decisions or results which affect staff on a professional, social or corporate level. The committee is also responsible for bringing the needs and views of employees to the attention of the Executive Board.

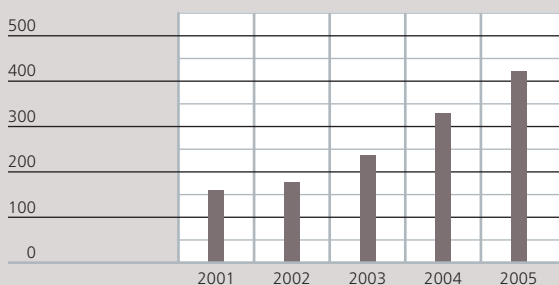
Society and environment

The Raiffeisen Group is just as concerned with paying fair and commensurate compensation as it is with creating and safeguarding local, decentralized jobs. In so doing, Raiffeisen makes an important contribution towards supporting local and regional economies, while from an ecological standpoint the short travelling distances this creates for staff and clients assists us in our environmental efforts.

Social responsibility ■ *Sponsorship/donations/foundations/taxes:* Few banking groups do as much as the Raiffeisen banks to support cultural, social and sporting activities in their respective localities, to the direct benefit of associations, organizations and events. Many of these would find it impossible to survive without the sponsorship and donations received from their local Raiffeisen bank. Raiffeisen spent 16.2 million Swiss francs on sponsorship and donations during the year under review, including

Performance of the Futura Fund 2001–2005

(in CHF million)



funds pledged by the Raiffeisen Centenary Foundation, which supports project in the areas of “ethics in business”, culture and charitable activities. In addition, at least every five years it awards the Raiffeisen prize, which brings with it a prize of 100,000 Swiss francs. In 2005 the check went to the Tischlein deck dich association, which distributes part of the 250,000 tonnes of perfectly edible food that is thrown away in Switzerland each year to people living below the poverty line.

The state also received a total of 129.2 million Swiss francs in the form of direct taxes (previous year 108.2 million Swiss francs).

Products ■ Sustainability fund: Sustainability is becoming a crucial factor for investors when choosing where to invest their money. In the same way that consumers are starting to pay more and more attention to the origin and quality of the products they buy, investors want to invest in companies that make a profit in an ethical and sustainable manner and make respectful use of resources. While sustainability funds account for only about 1 percent of all funds issued in Switzerland (total volume approximately 5 billion Swiss francs), their number is constantly on the rise. The same applies to the Raiffeisen Futura Fund. Launched in 2001, 420.9 million Swiss francs had been invested in this fund by the end of 2005, with the fund volume increasing by some 28 percent during the year under review alone. Another highlight was the Lipper Fund Award received by the Raiffeisen Futura Swiss Stock fund as the best fund over three years in the Swiss stocks category. The value of the fund increased by 36.6 per-

cent in 2005; the average performance over the last three years was 32.3 percent.

The Futura Fund only deals in stocks that receive a positive rating from independent rating agency INrate according to ethical, ecological and social criteria. INrate has a specialized, interdisciplinary research team; a specially appointed external board checks each rating and takes a final decision on whether or not it should be allowed to stand. As a co-signatory of the Eurosif transparency guidelines for sustainability funds (www.eurosif.org), Raiffeisen informs its investors about the criteria and processes governing the Futura Fund as and when new details become available.

responsAbility: The responsAbility Global Microfinance Fund was authorized for distribution in Switzerland in March 2005. It is the first microfinance fund to have received approval from the Swiss Federal Banking Commission. The micro loans business harbours enormous potential, which is why the Raiffeisen Group decided to get involved in responsAbility and become one of its founding organizations. Microfinance keeps the Raiffeisen concept alive in developing countries. It should not be forgotten that the first Raiffeisen banks founded in Switzerland over 100 years ago were essentially nothing more than microfinance institutions. Acquainting clients with the topic of microfinance was also the main purpose of the 11-day microfinance exhibition held in the client foyer of Raiffeisenbank St.Gallen at the beginning of January 2006.

Sustainable retirement provision: In February 2006 Raiffeisen launched an innovative pension fund combining

retirement provision and sustainability. Until now, the sustainable investment of pension capital has largely been the exclusive domain of investment foundations. However, Raiffeisen-Vontobel Pension Invest Futura 50 now offers investors a flexible and transparent instrument to help them strike a happy balance between their financial retirement goals and their personal values and beliefs.

Minergie mortgage: By the end of 2005, 368 home owners had taken advantage of the benefits of a Raiffeisen Minergie mortgage (compared to 268 people in the previous year), amounting to a total volume of 86.5 million Swiss francs (2005: 62.8 million Swiss francs). Reduced heating energy consumption, a higher quality of living and value preservation are the criteria on which buildings constructed to Minergie standards are based. The Raiffeisen banks became the first Swiss banking group to launch a Minergie mortgage product in June 2002. The mortgage's interest rate is half a percent below the rate for first and second mortgages.

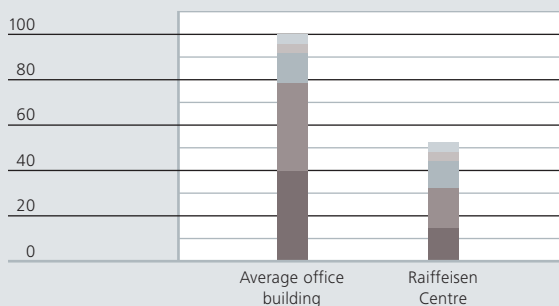
Ecology ■ In February 2006 the Swiss Union of Raiffeisen Banks published its second environmental report based on data from the four buildings that make up the Raiffeisen Centre in St.Gallen. The resources issue is a very important one for the Swiss Union of Raiffeisen Banks, and in the last 15 years it has invested several million Swiss francs in optimizing its ecology policy and energy consumption.

Ecology and energy concept: The ecology and energy concept of the Swiss Union of Raiffeisen Banks focuses on the procurement of environmentally friendly cleaning,

Relative environmental impact

(in %)

- Paper
- Waste and wastewater
- Electricity, IT
- Employee traffic
- Energy for banking operations



Reference: Carbotech AG

Consumption at the Raiffeisen Centre

Consumption	2005	2004	2003
Electricity (kWh)	4,304,509	3,204,597	2,927,135
Gas (kWh)	2,963,353	2,633,899	2,811,849
Oil (kWh)	357,590	70,473	1,872
Water (m ³)	10,846	9,900	8,757
Glass (kg)	5,000	4,500	3,500
Waste (kg)	114,000	99,700	92,400
Paper/cardboard (kg)	253,000	242,000	207,000
PET recyclable plastic (kg)	1,700	2,226	1,260
Batteries (kg)	240	225	350
Fluorescent lighting (kg)	730	600	400

maintenance and energy products, the appropriate and environmentally friendly disposal of waste in accordance with a clearly defined disposal concept, and measures for saving energy by means of direct intervention at the point of use or indirect technical methods. Greywater reuse, water-saving bathroom fittings, cellulose paper towels, low-energy lamps and other energy-saving devices and machines are just a few examples of how Raiffeisen is seeking to improve efficiency and reduce waste.

As part of the introduction of its new Corporate Design on 1 March 2006, the Raiffeisen Group collected 662 items of clothing which the Red Cross then distributed to people in need in Romania. Raiffeisen also had 3,350 plastic table coverings weighing a total of 32.2 tonnes melted down in an ecologically friendly manner for recycling.

Proven sustainability of the Raiffeisen Centre: The Swiss Union of Raiffeisen Banks commissioned Carbotech AG to investigate the sustainability of the four buildings that make up the Raiffeisen Centre. To determine this, the Basel-based environmental consultancy and analysis specialist compared the ecological and social impact of the buildings in question with those of an average office building built in accordance with modern energy standards (SIA 380/1). The comparison revealed that Raiffeisen has reduced its heating consumption three-fold by partially implementing the Minergie standard. Technical measures have also meant that we have been able to cover our remaining energy requirements with the least possible impact on the environment, for example by using the waste heat from a power substation operated by the St.Gallen

electricity plant, and by generating a significant portion of the heat required and partially covering our electricity requirements using combined heat and power plants. Our choice of locations also plays a vital role. Thanks to shorter commutes, good public transport connections and restrictions on the number of parking spaces, only 12 percent of employees come to work by car, helping to halve the Raiffeisen Group's environmental impact. Carbotech AG concluded that "the measures implemented have drastically reduced the environmental impact and the burden placed on society." The detailed report was published in November 2005 in the brochure "Vom weissen Tuch zum roten Teppich" [From white cloth to red carpet, published only in German] (www.raiffeisen.ch, Raiffeisen Gruppe/stadtlounge/Events-Press).

Consumption at the Raiffeisen Centre: The increased consumption can be attributed to various factors. The IT systems, for example, have undergone a massive equipment upgrade in recent years. The expanded office infrastructure (colour photocopiers, printers, water coolers), the extended staff canteen and the parking garages and art installations constructed as part of new building projects have also played their part in this increase. Consumption of gas and heating oil is in part dependent on meteorological conditions. Due to the cold weather experienced in the first quarter of 2005, the Swiss Union of Raiffeisen Banks was asked by the St.Gallen municipal plants to switch from gas to heating oil for the first time in many years. 15 percent of the total heating requirements were covered by heating oil. At the same time, the area that needs to be heated has increased on an ongoing basis over recent years due to

the construction of new office premises. Heating costs were previously included in the ancillary costs for the rented offices and were therefore not taken into account for energy billing; this was also the case for water consumption.

Two information events are held each year to familiarize interested employees with an aspect of building technology. The topic in the year under review was "Measuring and control systems". In 2006, "Ventilation systems" will take centre stage.

Construction consultation: With a view to improving efficiency and ecology, the Raiffeisen banks are able to rely on the advice and support of the Swiss Union of Raiffeisen Banks when constructing new premises or renovating existing buildings according to sustainable methods. In addition to adopting sound architectural solutions, Raiffeisen also places particular emphasis on the use of environmentally friendly materials, on premises free of electrosmog and air pollution, and on ergonomics in the workplace. During the year under review, the construction consultation department supported building projects at some 60 Raiffeisen banks. The department is currently drawing up architectural guidelines that – among other things – also address ecological aspects.

Strategy of the Raiffeisen Group The Raiffeisen Group will continue to pursue the successful growth strategy it has embarked on. Its close relationship with clients, awareness of the risks in its business, and cooperative model will enable it to continue outperforming the market and expanding market share in its core business.

Competitive environment and success factors in Retail Banking

Over the last few years, the assets of higher-worth retail clients have grown substantially. Since 2001, booming stock exchanges and falling inflation, coupled with low interest rates, have helped investors to exceptional gains. Furthermore, with liberal regulation fostering consolidation in the banking sector and bringing total market penetration, the environment has become increasingly competitive. Thanks to new technologies, the banks have achieved noticeable efficiency gains and cost reductions.

Trends in the Swiss banking sector will set retail banks new challenges in the near future.

With new competitors fighting for clients and market share, interest margins in balance sheet business are likely to face constant erosion. Promising avenues are opening up in the capital and financial markets, but regulation (Basel II, Sarbanes-Oxley Act), economic crime, terrorism financing and money laundering are all increasing.

Given the increasing complexity of products and processes, further stages in the value creation chain will be outsourced. Banks will increasingly need to focus on core competences and outsource support operations, for example in processing and information technology. And we are likely to see the emergence of new business models, such as transaction banks and product factories.

Over the coming years, the successful retail banks will be those that manage to overcome the challenges thrown up by efficiency improvements, risk management, multi-channel offering, client orientation and cooperations.

- Potential for efficiency improvements can be exploited by maintaining a sharp focus on processes in core operations. This can be achieved in part by centralizing administrative tasks and exploiting economies of scale in the provision of bank products and services. Programmes to improve quality and efficiency will ensure quality standards and sector-specific minimum standards are met.
- Our risk management activities will centre on implementing the Basel II standards. In order to optimize the risk portfolio, the banks will be given access to alternative financial instruments. Our expertise in asset and liability management is likely to be decisive in optimizing, covering and transforming risk.
- Offering financial services via an electronic platform has now become the norm. Only by achieving an optimum mix of the various sales channels will the retail banks truly stand out from their peers and fully satisfy the changing needs and behaviour of their clients.

- To be successful and raise their profile, retail banks will keep clients at the centre of their focus and offer individualized advisory services. Client relationships will offer up further business due to the high quality standards and emotional connection of clients with the Group and its brands and values.
- Finally, cooperations in processing and product design will redefine the value creation chain. Banks will become product service providers, creating network-based platforms for providing comprehensive and customized advice to the clients of marketing and sales-oriented banks.

Competitive position of the Raiffeisen Group

The Raiffeisen Group is committed to its proven success model, which has brought it above-average growth over recent years and made it Switzerland's third-largest retail bank. Various independent surveys have shown that our clients have above-average confidence in the Raiffeisen brand.

The culture that is lived within the Group and deeply embedded in Raiffeisen staff is reflected in our business activities, which are conducted on a solid and risk-aware basis.

The relationship of trust between members, clients and the Raiffeisen organization is supported by the values inherent in this unique cooperative model. Raiffeisen's recipe for success is based on its membership, which is an inimitable asset.

The Raiffeisen banks, which are largely independent entities in terms of legal structure and decision-making, have a social responsibility towards the regions. They are individually responsible for setting prices and interest rates, but take into account the recommendations of the Swiss Union of Raiffeisen Banks.

With 1,175 branches, the Raiffeisen Group has the most developed banking network in Switzerland. Anchored by this network of local banking authorities, staff and market knowledge, clients are assured a relationship based on personal contact and fast-track decision-making. These factors all add up to a competitive edge over our peers.

Strategy of the Raiffeisen Group

The Executive Board and Board of Directors of the Swiss Union of Raiffeisen Banks will continue to pursue the successful growth strategy already embarked on, while slightly adapting it to market and competitive conditions. The ultimate goal remains the same, however: for Raiffeisen to be the leading retail bank in Switzerland. Raiffeisen's successful recipe will also enable it to continue outperforming the market and expanding market share in its core business.

The expansion of the cooperation with Bank Vontobel in the area of investment business since 2004 yielded good results in the year under review. Growth substantially in excess of the 15–20 percent strategic target was achieved in fee and commission business. One of the Raiffeisen Group's stated aims is to balance out the income from balance sheet and off-balance sheet business. As regards technical and advisory-specific tools, the focus will be on providing staff with intensive training and introducing targeted refinements.

The aim of the marketing strategy is to continually foster and expand the relationships with the 2.5 million clients we now have, and to exploit their potential. Raiffeisen is also targeting the potential in relatively under-developed markets. As such, the Raiffeisen Group will be leveraging its comprehensive, customized client advice – in tandem with the competitive advantages of its decentralized structures and extensive sales network – to significantly boost earnings over the coming years.

The Raiffeisen Group views productivity and efficiency increases as one of its most challenging tasks. The cost and efficiency programme carried out in spring 2005 was a first step in the battle to contain costs. Securities processing will be outsourced to Bank Vontobel in mid-2006, while projects have been set in motion to bring the Group noticeable cost savings in the area of payments.

The Aa2 rating from Moody's supports our efforts to strengthen and improve our refinancing options in the capital and money markets, to strengthen and stabilize interest margins and to secure balance sheet margins. Growth is to be underpinned by our proven policy of low risk.

The Raiffeisen Group's long-term financial plans provide for an ongoing improvement in profitability. This will ensure that we can channel investment into IT replacement, back-office processes, risk management, the expansion of corporate client business and untapped markets.



The effortless way Walking, dancing, leaping; let freedom transport you and propel you onwards.



Corporate Governance For the Raiffeisen Group, the term “corporate governance” encompasses all the principles of corporate organization and the principles behind management systems and controls. This structure is intended to provide transparency for the stakeholders and other interested internal and external groups, in turn fostering security and stability.

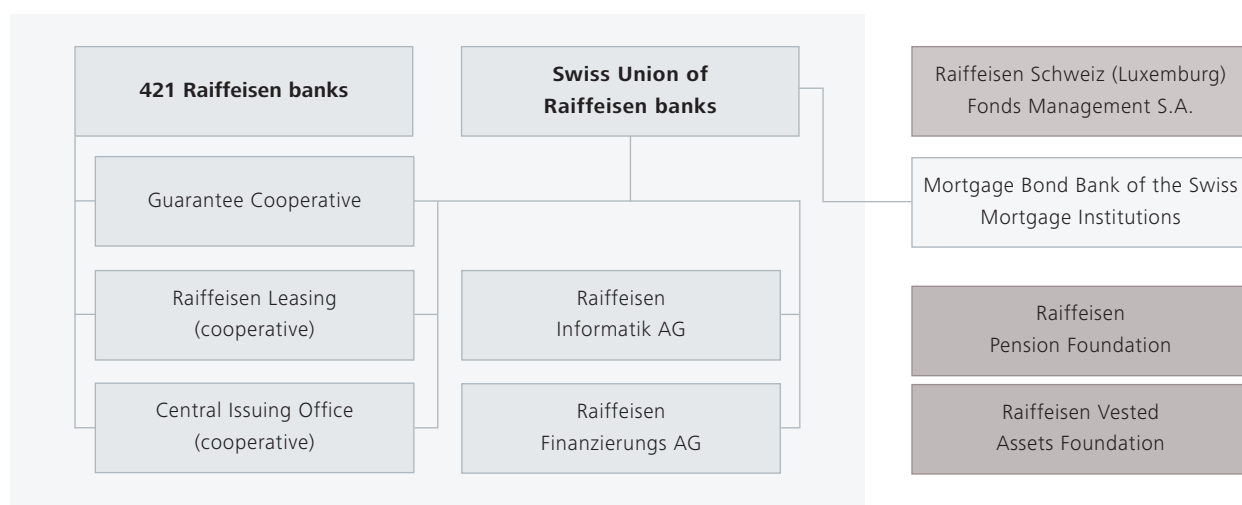
The Raiffeisen Group has traditionally conducted its business policy in a trustworthy and fair manner. For a cooperative bank, many issues relating to corporate governance take a different form from those applicable for a listed company. The democratic values which the Raiffeisen cooperative espouses are not concerned with satisfying the isolated interests of individual parties and management responsibilities are distributed on a federal basis. Today – as has always been the case – people remain at the focal point of all Raiffeisen’s activities.

The following report has been largely drawn up according to the SWX Swiss Exchange Corporate Governance Directive (DCG) – which is not binding on Raiffeisen – to the extent that it is applicable or relevant. Particular emphasis is paid to the special cooperative organizational structure

of the Raiffeisen Group, and the various levels of decision-making authority and responsibility. Except where stated otherwise, all data are accurate as at 31 December 2005.

Raiffeisen Group structure ■ The Raiffeisen banks and the Swiss Union of Raiffeisen Banks together hold the cooperative shares in the Guarantee Cooperative, Raiffeisen Leasing and the Central Issuing Office. Raiffeisen Finanzierungs AG, Raiffeisen Informatik AG and Raiffeisen Schweiz (Luxemburg) Fonds Management S.A. are subsidiaries wholly owned by the Swiss Union of Raiffeisen Banks. The Swiss Union of Raiffeisen Banks also has a 20.81 percent stake in the Mortgage Bond Bank of the Swiss Mortgage Institutions. The Group has access to two independent foundations for the investment of pillar 2 and 3 pension contributions.

- consolidated
- not consolidated
- participations valued by the equity method



Changes in current financial year ■ On 9 March 2006 the Board of Directors of the Swiss Union of Raiffeisen Banks approved a new organizational structure with a view to strengthening the focus of the organization more firmly on market and Group needs. An integral component of this structure is an integrated, high-performance IT platform

that is to be linked closely to operating business. As part of this development, Raiffeisen Informatik AG will be fully integrated into the Swiss Union of Raiffeisen Banks retroactively to 1 January 2006 and will no longer exist as an independent subsidiary company.

Group companies

Company	Activity	Owner(s)
Raiffeisen banks	Banking business	Cooperative members
Swiss Union of Raiffeisen Banks (SURB)	<ul style="list-style-type: none"> ■ Business policy and strategy as well as a centre of competence for the Raiffeisen Group ■ Central bank function (monetary settlement, liquidity maintenance and refinancing) ■ Banking business (mainly inter-bank transactions and securities trading) ■ Running branches 	Raiffeisen banks
Guarantee Cooperative	Acceptance of guarantees to facilitate the Raiffeisen banks' credit and lending activities	SURB and Raiffeisen banks
Raiffeisen Leasing (cooperative)	Leasing finance	SURB and Raiffeisen banks
Central Issuing Office of the Swiss Raiffeisen Banks (cooperative)	Issuing bonds on commission and for the account of the Raiffeisen banks	SURB and Raiffeisen banks
Raiffeisen Finanzierungs AG	Cash advance financing	SURB
Raiffeisen Informatik AG	IT services for the Raiffeisen Group	SURB
Raiffeisen Schweiz (Luxemburg) Fonds Management S.A.	Offering different money market, bond and equity funds	SURB
Raiffeisen Vested Assets Foundation	Vested assets accounts to safeguard occupational pension assets (pillar 2)	
Raiffeisen Pension Foundation	Personal tax-incentivized pension savings (pillar 3)	



Raiffeisen Group organizational structure

There are four levels of decision-making authority and responsibility:

The 421 Raiffeisen banks, with a total of 1,166 branches, are legally and organizationally independent cooperatives with boards of directors and supervisory boards that they elect themselves. The Raiffeisen banks are owned by the cooperative members, with candidates for the board of directors and supervisory board being voted in at the local general or delegate meetings. This guarantees a fair balance between the interests of the bank in question and those of the cooperative members. The Raiffeisen banks own 100 percent of the Swiss Union of Raiffeisen Banks.

The Raiffeisen banks are grouped into *22 regional unions* (see page 57), which take the form of associations. These act as links between the Swiss Union of Raiffeisen Banks and the individual Raiffeisen banks. The duties of the regional unions include coordinating regional advertising activities, holding training events for the Raiffeisen banks, and safeguarding and representing the interests of the Raiffeisen banks in dealings with the cantonal business associations and authorities.

The *Swiss Union of Raiffeisen Banks* is a cooperative. Any bank with a cooperative structure that recognizes the model Articles of Association of the Raiffeisen banks and the Articles of Association and Regulations of the Swiss Union of Raiffeisen Banks can join. The Swiss Union of



Kurt Zobrist,
Head of the Internal Auditing
department

Raiffeisen Banks bears responsibility for the Raiffeisen Group's business policy and strategy, and acts as a centre of competence for the entire Group. It also represents the national and international interests of the Raiffeisen Group and operates six branches which are involved in client business.

Additional committee (not shown in chart): Each regional union has one seat and the Swiss Union of Raiffeisen Banks one seat per department on the *Raiffeisen Banks Steering Committee*. The Steering Committee reviews strategic matters, objectives and plans from the Raiffeisen banks' viewpoint and prioritizes them according to the terms of reference laid down by the Executive Board of the Swiss Union of Raiffeisen Banks. It also appoints the representatives who sit on the individual steering committees of the Swiss Union of Raiffeisen Banks and ensures the Raiffeisen banks have a sufficient say in group-wide plans and projects.

Major participations ■ Note 3 "Details of major participations" (see page 104) lists all major participations of the Raiffeisen Group, including name, domicile, capital and share of voting rights.

Major cooperative members ■ Under the Swiss Code of Obligations, the voting rights of any one cooperative member are limited to one vote, irrespective of the number of share certificates acquired. Furthermore, the Articles of Association stipulate that no member may own more than 20,000 Swiss francs of the cooperative capital of a

"The Raiffeisen Group guarantees its financial obligations through a balanced system of security measures based on the principle of mutual liability, which it has anchored in its Articles of Association, thereby ensuring a high level of security for Raiffeisen clients."

Raiffeisen bank. This means that the Raiffeisen Group has no major cooperative shareholders with more than 5% of the capital or voting rights.

Cross-shareholdings ■ The Raiffeisen Group companies have no cross-shareholdings.

The Raiffeisen banks by canton¹

Canton	Number of banks	Number of bank branches	Number of members	Loans ² in CHF million	Client monies ³ in CHF million	Bal. sheet total in CHF million
Aargau	36	104	144,172	10,549	9,219	11,734
Appenzell Ausserrhoden	3	10	13,411	751	777	865
Appenzell Innerrhoden	2	5	6,190	297	350	380
Basle	10	21	32,346	2,264	2,049	2,568
Berne	27	110	130,227	6,878	6,263	7,683
Fribourg	22	64	62,643	4,486	3,478	4,923
Geneva	7	22	24,167	1,684	1,956	2,085
Glarus	1	2	4,276	234	206	254
Grisons	17	85	46,736	3,062	2,620	3,396
Jura	13	46	22,406	1,613	1,239	1,768
Lucerne	25	51	90,321	5,053	4,192	5,649
Neuchâtel	7	25	16,889	955	859	1,068
Nidwalden	2	9	14,757	958	929	1,146
Obwalden	2	6	9,239	552	473	622
St.Gallen	50	94	148,026	11,028	9,180	12,321
Schaffhausen	1	3	4,981	309	286	341
Schwyz	9	13	27,484	1,598	1,574	1,844
Solothurn	34	73	102,769	6,846	6,137	7,675
Ticino	44	112	83,658	6,096	5,972	7,218
Thurgau	25	51	77,668	5,825	4,652	6,444
Uri	4	16	13,214	666	644	760
Vaud	24	74	68,610	3,885	3,713	4,532
Valais	40	137	97,104	6,247	6,563	7,615
Zug	9	13	30,344	2,361	2,002	2,673
Zurich	7	20	37,899	2,001	2,149	2,409
Total 2005	421	1,166	1,309,537	86,198	77,482	97,973
Total 2004	450	1,207	1,251,730	81,856	74,391	93,277
Increase/decrease	- 29	- 41	57,807	4,342	3,091	4,696
Increase/decrease in %	- 6.4	- 3.4	4.6	5.3	4.2	5.0

1) Excluding Swiss Union of Raiffeisen Banks and its branches

2) Receivables from clients and mortgage receivables

3) Liabilities to clients in the form of savings and investment deposits, other liabilities to clients and medium-term notes

The regional unions

Regional union	Chair	Member banks
15 in German-speaking Switzerland		
Aargauer Verband der Raiffeisenbanken	Daniel M. Lüscher, Herznach	36
Baselbieter Verband der Raiffeisenbanken	Peter Thüring, Aesch	10
Berner Verband der Raiffeisenbanken	Walter Studer, Biglen	25
Bündner Verband der Raiffeisenbanken	Tino Zanetti, Igis	16
Deutschfreiburger Verband der Raiffeisenbanken	Pius Lehmann, Fribourg	10
Luzerner Verband der Raiffeisenbanken	Kurt Sidler, Ebikon	25
St.Galler Verband der Raiffeisenbanken	Peter Zürcher, Goldach	58
Raiffeisenverband Zürich und Schaffhausen	Elisabeth Pflugshaupt, Bertschikon	10
Raiffeisenverband Ob- und Nidwalden	Theddy Frener, Sachseln	4
Schwyzner Verband der Raiffeisenbanken	Christian Schnetzler, Schwyz	9
Solothurner Verband der Raiffeisenbanken	André Bourquin, Aetigkofen	35
Thurgauer Verband der Raiffeisenbanken	Richard Peter, Balterswil	25
Urner Verband der Raiffeisenbanken	Hans Zraggen, Erstfeld	4
Oberwalliser Verband der Raiffeisenbanken	Claudio Cina, Salgesch	16
Zuger Verband der Raiffeisenbanken	Cuno Senn, Cham	9
6 in French-speaking Switzerland		
Fédération des Banques Raiffeisen du Fribourg romand	Michel Pauchard, Domdidier	12
Fédération genevoise des Banques Raiffeisen	Pierre Guignard, Cartigny	7
Fédération jurassienne des Banques Raiffeisen	Philippe Plumey, Fahy	16
Fédération neuchâtoise des Banques Raiffeisen	Claude Ribaux, Bevaix	7
Fédération des Banques Raiffeisen du Valais romand	Jean-Michel Revaz, St-Léonard	24
Fédération vaudoise des Banques Raiffeisen	Alexandre Bula, Thierrens	24
1 in Italian-speaking Switzerland		
Federazione Raiffeisen del Ticino e Moesano	Mario Verga, Vacallo	45

The member banks are the Raiffeisen banks and the branches of the Swiss Union of Raiffeisen Banks.

Changes in equity capital

(in CHF million)

	2005	2004	2003	2002
Cooperative capital	396	362	320	287
Retained earnings	4,972	4,468	4,032	3,618
Group profit	608	506	453	429
Total	5,976	5,336	4,805	4,334

Capital structure and liability

Capital structure ■ The Raiffeisen Group's cooperative capital is 396 million francs. The precise composition and changes in the year under review can be found in Note 10 "Evidence of equity capital" (see page 110).

Changes in equity capital ■ (see table on the left) Each cooperative member is entitled to interest on their share certificates, capped at 6 percent gross.

Membership of a Raiffeisen bank and the associated rights and obligations are tied closely to the individual/entity in question. This means that individual shares cannot normally be sold on or transferred. Departing members have the right to redeem their share certificates at their intrinsic value, up to a maximum of their par value. They may only be redeemed once the annual accounts of the fourth year following the termination of membership have been approved, unless they are replaced with new share certificates in the same amount.

Liability ■ The Raiffeisen Group guarantees its financial obligations through a balanced system of security measures based on the principle of mutual liability, which it has anchored in its Articles of Association. Raiffeisen clients benefit from a high level of security as a result of the mutual liability accepted throughout the Group. Working together in a tight-knit regional union is also a form of solidarity, as the Raiffeisen banks' fates and risks are tied closely together. With the solidarity fund, the Swiss Union of Raiffeisen Banks is also able to cover claims

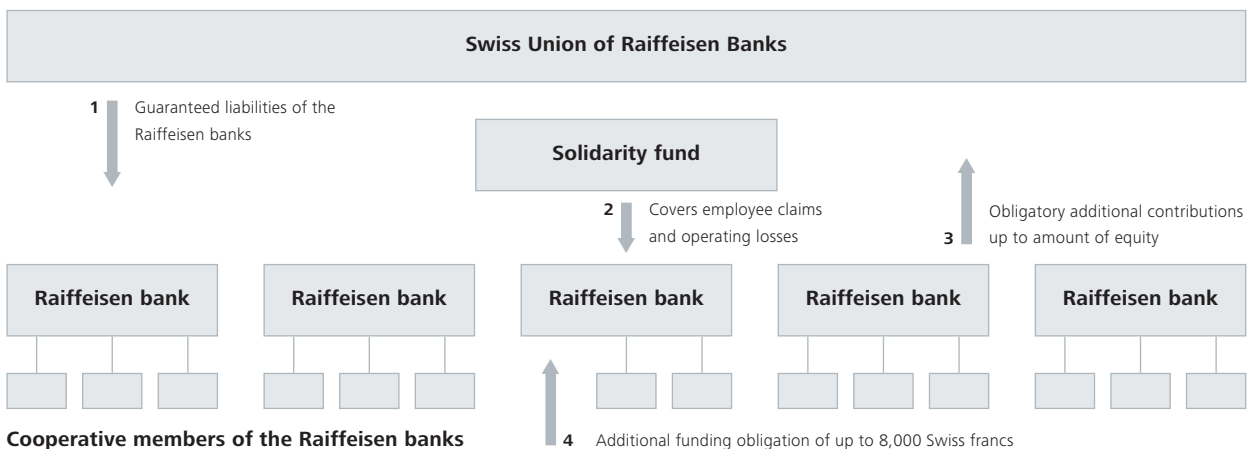
and operating losses beyond what the individual members could afford.

1) *Liability of the Swiss Union of Raiffeisen Banks towards the Raiffeisen Banks:* In its capacity as principal party, the Swiss Union of Raiffeisen Banks guarantees the liabilities of all Raiffeisen banks and therefore of the entire Raiffeisen Group. A total of 861.6 million Swiss francs in equity capital is available for this purpose. Under the Articles of Association of the Swiss Union of Raiffeisen Banks, the Raiffeisen banks must acquire a share certificate for 1,000 Swiss francs for each 100,000 Swiss francs of their balance sheet totals. This results in a call-in obligation towards the Swiss Union of Raiffeisen Banks of 979.8 million Swiss francs, of which 320 million Swiss francs have been paid in. The Swiss Union of Raiffeisen Banks has the right to call in the

outstanding 659.8 million Swiss francs from the Raiffeisen banks at any time.

2) *Solidarity fund:* The solidarity fund safeguards the overall interests of the Raiffeisen Group and the principle of solidarity is underlined by the creation of an organization-wide reserve to cover risk. It covers employee claims and operating losses of the Raiffeisen banks and is fed through annual contributions from the Raiffeisen banks and the branches of the Swiss Union of Raiffeisen Banks. The disposable fund assets are 255.0 million Swiss francs.

3) *Additional funding obligation of the Raiffeisen banks towards the Swiss Union of Raiffeisen Banks:* The Raiffeisen banks are bound by an additional funding obligation in accordance with Art. 871 Swiss Code of Obligations up to



the amount of their own funds, defined as the disclosed equity capital plus hidden reserves, not including the additional funding obligations of their cooperative members. The Raiffeisen banks' additional funding obligation towards the Swiss Union of Raiffeisen Banks is 5.4 billion Swiss francs.

4) Additional funding obligation of the cooperative members towards the Raiffeisen banks: Should it emerge from the annual balance sheet that the cooperative capital is no longer covered, the cooperative members are bound by an additional funding obligation of up to 8,000 Swiss francs each in accordance with Art. 871 Swiss Code of Obligations. The additional funding obligation of the cooperative members is 10.5 billion Swiss francs (see Note 10 "Evidence of equity capital", page 110).

Directive authority of the Swiss Union of Raiffeisen Banks vis-à-vis the Raiffeisen banks ■ According to a ruling by the Swiss Federal Banking Commission (SFBC) of 24 September 1997, the Raiffeisen Group need only comply with the statutory provisions on capital adequacy, risk diversification and liquidity on a consolidated basis. However, to enjoy this dispensation, the Raiffeisen banks have to have a central organization that guarantees all the Raiffeisen banks' obligations and must also maintain the regulation giving the Swiss Union of Raiffeisen Banks power to exercise directive authority vis-à-vis the Raiffeisen banks. The Swiss Union of Raiffeisen Banks monitors the Raiffeisen banks' overall position on an ongoing basis, especially as regards capital, earnings, liquidity and risk diversification. If an unfavourable development occurs

or is expected at a Raiffeisen bank, the Swiss Union of Raiffeisen Banks assists in drawing up and implementing appropriate measures. In serious cases it has a right of application and directive authority in respect of organizational, operational and HR-related steps.

Executive Bodies of the Swiss Union of Raiffeisen Banks

Delegate Meeting ■ The Delegate Meeting is the highest executive body of the Swiss Union of Raiffeisen Banks. Each regional union appoints two delegates. In addition, further delegate places are allocated depending on the number of Raiffeisen banks in each regional union and the number of cooperative members and balance sheet total of all the Raiffeisen banks in each regional union. There are currently 165 members of the Delegate Meeting. It is responsible in particular for:

- Amendments to the Articles of Association of the Swiss Union of Raiffeisen Banks and drawing up model Articles of Association for the Raiffeisen banks
- Defining the Swiss Union of Raiffeisen Banks' mission statement and its long-term policy principles
- Issuing the principles for financing the Swiss Union of Raiffeisen Banks' services
- Approving the annual report, profit and loss account, balance sheet and the appropriation of net profit
- Appointing and dismissing the members of the Board of Directors and the Supervisory Board and their respective chairs

Members of the Board of Directors

Name, year of birth, place of residence, occupation	Function	On Board of Directors since	Elected until
Dr h.c. Franz Marty*, 1947, Goldau SZ, former member of cantonal government and financial director	Chairman	2002	2006
Josef Ingold*, 1946, Subingen SO, certified auditor, BDO Visura	Vice-Chairman	1988	2006
Gabriele Burn*, 1966, Krattigen BE, CEO Raiffeisenbank Thunersee-Süd	Member	2000	2006
Hubert Fähndrich, 1945, Littau LU, bank officer	Member	1990	2006
Pierre Guignard, 1946, Cartigny GE, Director Cercle des Agriculteurs de Genève	Member	1996	2006
Prof. René Kästli, 1942, Jona SG, independent consultant, proprietor Kästli Consulting Jona	Member	2000	2006
Urs W. Keller, 1953, Döttingen AG, Head of HR Verkehrsbetriebe Zürich	Member	1996	2006
Joos Mathis, 1945, Schiers GR, mayor	Member	1992	2006
Marie-Françoise Perruchoud-Massy, 1955, Vercorin VS, Director Institut Economie & Tourisme de la Haute Ecole Valaisanne	Member	1998	2006
Richard Peter, 1943, Balterswil TG, mayor	Member	1992	2006
Marcel Sandoz, 1943, Morges VD, Ing. agr. E.P.F.L. - ETH ZH, administrator	Member	1996	2006
Christian Spring, 1960, Vicques JU, CEO Banque Raiffeisen du Val-Terbi	Member	2002	2006
Mario Verga, 1949, Vacallo TI, lawyer/notary Vassalli-Verga	Member	2000	2006

* Member of the Committee

Board of Directors of the Swiss Union of Raiffeisen Banks

■ The Board of Directors has overall responsibility, determines the strategic focus and supervises and monitors the management and the Executive Board. It currently consists of 13 members, the majority of whom carry out their principal remunerated activity outside the Raiffeisen Group. This ensures that the Board is represented by a broad mix of people from the world of business and politics who reflect various interest groups.

Other Group directorships: The following members of the Board of Directors of the Swiss Union of Raiffeisen Banks also serve on another Board of Directors within the Raiffeisen Group:

Pierre Guignard	Member of the Board of Directors of Banque Raiffeisen Genève-Ouest	Term of off. 2002–2006
Josef Ingold	Chairman of the Board of Directors of the Raiffeisen Guarantee Cooperative	Term of off. 2004–2006
Urs W. Keller	Member of the Board of Directors of Raiffeisenbank Böttstein	Term of off. 2004–2008
Mario Verga	Member of the Board of Directors of Banca Raiffeisen Morbio Inferiore	Term of off. 2005–2009

The chairs of the regional unions are listed on page 57.

Composition, election and term of office: The Delegate Meeting of 12 June 2004 resolved to reduce the size of the Board of Directors of the Swiss Union of Raiffeisen Banks to between nine and twelve members. It should be ensured that the language regions and the banking authorities of the Raiffeisen banks are adequately represented. In principle, about half the members should be representatives of the Raiffeisen banks.

Members of the Board of Directors are elected for a term of two years and can serve a maximum of twelve years. Members of the Board of Directors must stand down at the end of the term of office in which they reach their 65th birthday.

Transitional arrangements: The Board of Directors was elected for a two-year term for the first time at the 2004 Ordinary Delegate Meeting. The twelve-year limit on the term of office applies from the 2006 Ordinary Delegate Meeting onwards, and the Board may consist of no more than twelve members.

Internal organization: The Board of Directors meets as often as business dictates, but at least four times a year. It met seven times in 2005. Resolutions are passed on the basis of the absolute majority of members present, or the absolute majority of all members for circular resolutions. In the event of a tie, the chairman's vote counts twice. Resolutions are minuted. The Board of Directors meets once a year for a closed planning session to assess its own activities.

The members of the Executive Board generally attend the meetings of the Board of Directors and the Committee of the Board of Directors. They can advise and have the right to put forward motions.

Duties of the Board of Directors: Under the Swiss Code of Obligations, the Articles of Association and the Terms and Conditions of Business of the Swiss Union of Raiffeisen Banks, the main duties of the Board of Directors are as follows:

- To resolve whether to accept or exclude Raiffeisen banks
- To establish the union and business policy, the risk policy and the regulations and authorities required for the running of the Swiss Union of Raiffeisen Banks

- To appoint and dismiss members of the Executive Board and the extended Executive Board, and the Head of Internal Auditing, and to appoint full signatories
- To appoint and dismiss the statutory auditor
- To pass the regulations necessary for the running of the Raiffeisen banks
- To prepare for the Delegate Meeting and execute its resolutions

The Board of Directors also approves the duties, strategies, budgets and accounting practices of the Swiss Union of Raiffeisen Banks and of Group companies.

Board of Directors committees

Committee	Duties and competencies
Committee of the Board of Directors	The Board of Directors appoints the Committee of the Board of Directors, which consists of the chairman, vice-chairman and at least one other member of the Board of Directors. Its duties are as follows: <ul style="list-style-type: none"> ■ To prepare the business of the Board of Directors ■ To establish the general conditions of employment, employee benefits and expenses regulations and to pass directives regarding the qualities required of members of the Executive Board and employees of the Swiss Union of Raiffeisen Banks ■ To set the remuneration of the members of the Executive Board ■ To determine whether to accept mandates on behalf of the Swiss Union of Raiffeisen Banks and approve the acceptance of such mandates by executive bodies and employees ■ To pass resolutions on major investments and the corresponding contractual obligations
Audit Committee	The Committee of the Board of Directors also forms the Audit Committee. The Committee supports the Board of Directors on risk policy, in its monitoring of the Executive Board as regards the effectiveness of internal control systems and on finance and accounting. It ensures the quality of Internal and External Auditing and the cooperation between the two.

The Board of Directors can appoint further committees with responsibilities conferred for a fixed period or without limit. The duties and powers of the permanent committees are laid down in a directive.

Delimitation of powers: The powers exercised by the Board of Directors, its committees, the Chairman of the Executive Board and the Executive Board are laid down in detail in the Articles of Association, Terms and Conditions of Business and authority levels of the Swiss Union of Raiffeisen Banks.

Information and controlling tools: The Board of Directors is kept abreast of the activities of the Executive Board of Swiss Union of Raiffeisen Banks in a number of ways. The Chairman of the Board of Directors and Head of the Internal Auditing department generally attend Executive Board meetings in an advisory capacity. The Executive Board is also required to regularly update the Board of Directors on the financial, earnings and risk situation and on the latest developments and any unusual events at the Raiffeisen Group.

Risk Management and Compliance: Risk Management and the Compliance Office are described in detail in the risk policy discussion on pages 24 to 31.

Internal Auditing: Internal Auditing reports to the Board of Directors and supports it, the Audit Committee and the Executive Board in the performance of their tasks by providing objective and independent assessments of the effectiveness of control and risk management processes. It verifies

compliance with legal, statutory and regulatory requirements and the proper functioning of the operational structure, the information flow, accounting and IT.

Supervisory Board of the Swiss Union of Raiffeisen

Banks ■ The role of the Raiffeisen Group Supervisory Board is to monitor the activities of the Board of Directors, the Executive Board and Internal Auditing, and to provide controls.

Executive Board of the Swiss Union of Raiffeisen

Banks ■ The Executive Board is responsible for the operational management of the Raiffeisen Group. In particular, this involves identifying influences and changes that have a bearing on the Raiffeisen Group's environment, developing relevant strategies and ensuring that subsequent implementation measures are taken. In accordance with the legal and regulatory framework, it is also responsible for the competent, secure, forward-looking and successful management of the Group, the financial and human resources organization and the implementation of the risk policy. The Executive Board comprises the chairman and four further members. Meetings are normally held once a week, led by the chairman. The Executive Board has the power to pass resolutions if a majority of its members are present. It generally reaches decisions by consensus, but if no agreement can be reached, resolutions are passed by a simple majority, with the chairman having the casting vote. Resolutions are minuted.

The extended Executive Board consists of the Executive Board plus four other members. It meets monthly and

Members of the Supervisory Board

Name, year of birth, place of residence, occupation	Function	On Supervisory Board since	Elected until
Erhard Büchi, 1951, Embrach ZH, Management Consulting SG, Büchi & Schild GmbH	Chairman	1984	2006
Charles Tissier, 1956, Riehen BS, certified auditor, business administrator (HWV), Streicher & Brotschin Treuhand AG	Vice-Chairman	1998	2006
Josef Fux, 1948, St. Niklaus VS, CEO Raiffeisenbank Mischabel-Matterhorn	Member	1996	2006
Gabriel Musy, 1952, Marly FR, CEO/proprietor Fiduciaire Musy SA	Member	1996	2006
Willi Ulrich, 1943, Taverne TI, CEO/proprietor Studio Fiduciario Ulrich	Member	2000	2006
Edgar Wohlhauser, 1961, Schmitten FR, Acting Director Ernst & Young AG	Member	2002	2006

Members of the Executive Board

Name, year of birth, place of residence	Function	Function began
Dr Pierin Vincenz, 1956, St. Gallen SG	Chairman of the Executive Board (CEO)	1999
Dr Patrik Gisel, 1962, Erlenbach ZH	Head of Market & Sales and Deputy Chairman	2000
René Bentele**, 1953, St. Gallen SG	Head of Corporate Development	1996
Barend Fruithof, 1967, Küsnacht ZH	Head of Finance & Logistics (CFO)	2004
Robert Signer, 1948, Wil SG	Head of Branches & Credits	1999
Michael Auer*, 1964, Speicher AR	Head of Human Resources Management	2005
Paulo Brügger*, 1966, Forch ZH	Head of Central Bank	2005
Andreas Buff**, 1960, Winterthur ZH	CEO of Raiffeisen Informatik AG	2005
Dr Beat Hodel*, 1959, Bäch SZ	Head of Group Risk Controlling	2005

* Member of the extended Executive Board

** until 31 March 2006

is responsible in particular for implementing strategy, acting as a risk committee, budgeting and budget control, and project management.

The business processes of the Swiss Union of Raiffeisen Banks are spread across six departments (see organizational chart on pages 70–71).

The members of the Executive Board and the extended Executive Board of the Swiss Union of Raiffeisen Banks are elected by the Board of Directors of the Swiss Union of Raiffeisen Banks.

Qualifications, occupational background and significant directorships: We have not listed internal mandates.

Dr Pierin Vincenz

Dr Pierin Vincenz has worked at the Raiffeisen Group since 1996. On joining, he held the posts of Member of the Executive Board and Head of Finance, before being appointed Chairman of the Executive Board of the Raiffeisen Group in 1999. He was previously employed at Hunter Douglas in Lucerne as Vice President and Treasurer between 1991 and 1996. In 1989, he published his PhD on the use and development of expert systems in bank operations. While studying for his doctorate he worked at Swiss Bank Corporation (1986–1990), first in the general management of Global Treasury in Zurich and then as a Director in Chicago. Vincenz graduated from the business department of the University of St.Gallen in 1986. Prior to that, he worked for Schweizerische Treuhandgesellschaft in St.Gallen between 1979 and 1982.

Significant directorships

- Chairman of the Board of Directors at Viseca Card Services AG
- Member of the Committee of the Board of Directors of the Swiss Bankers Association
- Member of the Board of Directors at Helvetia Patria
- Member of the Board of Directors at Bank Vontobel
- Member of the Board of Directors at the Mortgage Bond Bank of the Swiss Mortgage Institutions
- Member of the Board of Directors at Plozza AG
- Member of the Board of Directors at Telekurs Holding AG
- Member of the Foundation Board of the Swiss Finance Institute
- Member of the Board of Management at Pflegekinder-Aktion Schweiz

Dr Patrik Gisel

Dr Patrik Gisel has been a Member of the Executive Board of the Raiffeisen Group and Head of Market & Sales since 2000. From 1994 to 1999 he was an IT department and section head at Union Bank of Switzerland/UBS. He worked as a banking and insurance consultant for Boston Consulting Group in Zurich between 1993 and 1994. He obtained a degree in business in 1988 and then a doctorate (Dr. oec.) in 1992, both from the University of St.Gallen.

Significant directorships

- Member of the Advisory Board of the Swiss Finance Forum
- Member of the Management Board of the Swiss IT Leadership Forum

- Member of the Advisory Board at Swiss ICT
- Member of the Advisory Board at Schweizerisches Bankenseminar

René Bentele

René Bentele has been a Member of the Executive Board and Head of Corporate Development since 1996. Previously he was Deputy Head of Finance and headed up the Raiffeisen Group's Legal Services department. Before joining Raiffeisen, René Bentele performed various functions for the Canton of St.Gallen between 1979 and 1987. He became licensed to practise law in St.Gallen in 1983 and had previously studied at the University of St.Gallen (1974–1978) and at the law faculty of the University of Berne (1978–1979).

Significant directorships

- Member of the Foundation Board of the AHV Administration Office for Banking

Barend Fruithof

Barend Fruithof has been a Member of the Executive Board of the Raiffeisen Group and Head of Finance & Logistics since 2004. He started out in agriculture, before retraining and graduating in business from the Kaufmännisches Lehrinstitut Zürich. Fruithof is also a certified marketing manager and holds an executive MBA from the University of St.Gallen. After performing various management functions in agricultural organizations, from 1992 he took over various retail banking roles at Zürcher Kantonalbank, most recently as the head of product and distribution channel management, with the rank of director. From 2001

to 2003 he was Chairman of the Executive Board of Viseca Card Services SA, where he had overall responsibility for managing sales of about 4 billion Swiss francs and a workforce of 200.

Significant directorships

- Member of the Board of Directors at MasterCard Europe

Robert Signer

Robert Signer has worked for the Raiffeisen Group since 1965, apart from a two-year interlude with Neuenburger Kantonalbank. In 1970 he returned to Eastern Switzerland where he performed a variety of roles for the Swiss Union of Raiffeisen Banks. From 1976 until 1999 he was in charge of Raiffeisenbank Wil und Umgebung and from 1990 to 1999 he chaired the St.Galler Verband der Raiffeisenbanken. In 1995 he was elected to the Board of Directors of the Raiffeisen Group. He has been a Member of the Executive Board of the Raiffeisen Group and Head of Branches and Credits since 1999.

Significant directorships

- Member of the Board of Directors at realis ag
- Member of the Advisory Board of Olma Messen St.Gallen
- Member of the Management Board at Landwirtschaftliche Kreditkasse und Bürgschaftsgenossenschaft of the Canton of St.Gallen

Michael Auer

Michael Auer has headed up Human Resources Management since September 2001 and was appointed to the extended Executive Board of the Raiffeisen Group effective

1 January 2005. Auer graduated from the St.Gallen School of Economics and Business Administration and then became a regional head of training at the former Swiss Bank Corporation, moving on to take charge of the Logistics business area at the old St.Gallen location. Following the merger between Swiss Bank Corporation and UBS, he was made responsible for HR within the Corporate Clients business area. He set up on his own in 1999, developing an internet portal for human resources management issues with a group of other experts.

Significant directorships

- Member of the University Board of the Canton of St.Gallen
- Teaching mandates at the Universities of Applied Sciences of Zurich-Winterthur und St.Gallen
- Chairman of the Swiss Bankers Association's commission on human resources issues

Paulo Brügger

Paulo Brügger became Head of Central Bank and a Member of the extended Executive Board in January 2005. He was previously (from November 2003) Head of Trading at the Swiss Union of Raiffeisen Banks. Paulo Brügger has a banking degree and also qualified as a business administrator at the Kaderschule Zurich. He gathered his professional experience in various treasury roles at UBS and Bank Julius Baer.

Directorships

- No significant directorships

Andreas Buff

Andreas Buff joined the extended Executive Board of the Raiffeisen Group in February 2005. Two years previously he had taken charge of the Raiffeisen subsidiary Raiffeisen Informatik AG. He studied at the University of St.Gallen before going on to accumulate experience as a consultant with Winter Partners AG, then as a project manager and finally head of decentralized systems with Bank Julius Baer. Andreas Buff became a Member of the Executive Board of Systor AG in 1994, with responsibility for the realignment and development of the technology, infrastructure and service areas.

Directorships

- No significant directorships

Dr Beat Hodel

In June 2005 Dr Beat Hodel took over as Head of Group Risk Controlling at the Raiffeisen Group and at the same time was elected to the extended Executive Board. Before joining the Raiffeisen Group he was a partner in and Member of the extended Executive Board of COMIT Group. There he had integrated ABOVO Consulting, founded by him, into the COMIT Group at the start of 2004. He was previously a senior partner at Ernst & Young, initially as Head of Banking Advisory Switzerland and a Member of the ATAG Ernst & Young Consulting AG Management Committee, and then, from 1999, as Head of Special Assurance & Advisory Services for financial services providers. After obtaining his doctorate in economics at the University of Fribourg, Beat Hodel began his career at Schweizerische Volksbank, where he performed various roles as a line manager in commercial banking.

Directorships

- No significant directorships

Changes on the Executive Board since 31 December

2005 ■ On 1 April 2006 René Bentele took over as Head of the Winterthur Branch of the Swiss Union of Raiffeisen Banks and stepped down from the Executive Board of the Swiss Union of Raiffeisen Banks. Michael Auer is currently Head of Corporate Development on an interim basis. Paulo Brügger will become a Member of the Executive Board on 1 May 2006. Due to the integration of Raiffeisen Informatik AG into the Swiss Union of Raiffeisen Banks on 1 May 2006, Andreas Buff will be leaving the company on 31 March 2006.

Organizational Chart of the Swiss Union of Raiffeisen Banks



Central Bank
Paulo Brügger**

Trading & Sales
Christoph Rutz

Treasury
Thomas Brunhart

Business Engineering & Support
Marco Tagliaferro

Branches & Credits
Robert Signer*

St.Gallen Branch
Hansruedi Laich

Grabs-Werdenberg Branch
Daniel Meier

Winterthur Branch
Markus Thoma

Basle Branch
Bruno Stiegeler

Zurich Branch
Andreas Breitenmoser

Berne Branch
Daniel Schmid

Credits & Guarantee Cooperative
Bruno Brugger

Raiffeisen Leasing & Finanzierungs AG
Theodor Näscher

Internal Auditing
Kurt Zobrist

Internal Auditing RB St.Gallen
Roland Meier

Internal Auditing RB Lausanne
Jean-Daniel Rossier

Internal Auditing RB Olten
Räto Willi

Internal Auditing RB Bellinzona
Katia Carobbio

Internal Auditing ICT
Oscar Albin

Internal Auditing SURB
Sergio Pesenti

A new organizational structure will be implemented as of 1 May 2006.

The corresponding organizational chart is available at www.raiffeisen.ch, under Raiffeisen Gruppe, Portrait, Geschichte, Leitung Raiffeisen Gruppe, Organigramm SVRB.

As at 31 December 2005

Rights of codetermination

Cooperative members have rights of codetermination at both Raiffeisen bank and Swiss Union of Raiffeisen Banks level.

Raiffeisen banks ■ Article 7 of the Articles of Association provides that cooperative members may be individuals or legal entities.

Limit on voting rights and powers of representation: Each cooperative member has one vote, irrespective of the number of share certificates they hold. A member can nominate another member, their spouse or a descendant to represent them. No proxy may represent more than one member, and they require written authorization. Representatives from limited partnerships, collective associations or legal entities also require written authorization.

Voting regulations: The General Meetings pass their resolutions and conduct their elections on the basis of the absolute majority of the votes cast, except where the law or Articles of Association provide otherwise. In the event of a tied vote, the matter will be debated further and a second vote held. If this too is tied, the motion will be rejected.

Calls for General Meetings, agenda: The Raiffeisen bank Board of Directors, or if necessary the Supervisory Board, calls the General Meeting a minimum of five days in advance. The invitation must be personally addressed in writing to members and include the agenda. The annual accounts and balance sheet must be made available in client areas at the same time.

Delegate Meeting and secret ballot: If the bank has more than 500 members, the General Meeting may decide by three-quarters majority to transfer its powers to a Delegate Meeting or to move to paper voting (secret ballot).

Swiss Union of Raiffeisen Banks ■ The cooperative members of the Swiss Union of Raiffeisen Banks are the legally independent Raiffeisen banks. They choose the delegates who form the highest executive body of the Swiss Union of Raiffeisen Banks (for its composition, see under "Delegate Meeting" on page 60).

Limit on voting rights and powers of representation: Under Article 26 of the Articles of Association of the Swiss Union of Raiffeisen Banks, each delegate to the Delegate Meeting has one vote. Delegates may only be represented by an elected substitute delegate.

Voting regulations: The Delegate Meeting passes its resolutions and conducts its elections on the basis of the absolute majority of the votes cast, except where the law or Articles of Association provide otherwise. In the event of a tied vote, the matter will be debated further and a second vote held. If not enough candidates gain an absolute majority in an election, posts will be decided in a second round of voting, in which a relative majority will suffice. A resolution to amend the Articles of Association requires a two-thirds majority of the votes cast.

Calls for Delegate Meeting, agenda: The following must be observed when calling an Ordinary Delegate Meeting:

- a) The date, location and time of the meeting and the dates of all stages in the procedure must be announced five months in advance of the meeting
- b) Applications to add items to the agenda must be submitted 12 weeks in advance of the meeting
- c) The agenda agreed by the Board of Directors, the documents supporting resolutions and any nominations must be sent out four weeks in advance of the meeting

Shorter deadlines are permissible when calling an Extraordinary General Meeting.

Change of control and defensive measures

Through their share certificates, the cooperative members are also the co-owners in equal shares of their Raiffeisen bank. Members can subscribe for more than one share certificate, but only up to a maximum of 10 percent of the cooperative capital or 20,000 Swiss francs per Raiffeisen bank. This limit means that statutory regulations on obligatory offers for sale and change of control clauses are not relevant to the Raiffeisen Group.

Auditors

Raiffeisen banks ■ Previously, based on Art. 35 of the Implementing Ordinance on Banks and Savings Banks, the Inspectorate of the Swiss Union of Raiffeisen Banks was responsible for acting as an independent external auditor for the individual Raiffeisen banks pursuant to the Swiss Federal Banking Act. As part of a reform of bank auditing, the Swiss Federal Banking Commission has issued new

regulatory conditions for auditing companies for financial year 2006. In the light of these changes and in accordance with banking law, the Board of Directors of the Swiss Union of Raiffeisen Banks appointed PricewaterhouseCoopers AG as auditors in June 2005. The Inspectorate of the Swiss Union of Raiffeisen Banks has expanded its role as internal auditor and also assists the external auditors in their function as responsible auditor vis-à-vis the Swiss Federal Banking Commission.

Swiss Union of Raiffeisen Banks and Group companies

■ The external auditor of the Swiss Union of Raiffeisen Banks, the Guarantee Cooperative, Raiffeisen Finanzierungs AG, Raiffeisen Leasing and Raiffeisen Informatik AG is PricewaterhouseCoopers AG, St.Gallen.

Raiffeisen Group ■ PricewaterhouseCoopers AG, St.Gallen, is also responsible for auditing the consolidated accounts. Peter Ochsner has been the lead auditor since 2005 and is responsible for the mandate.

Audit fee ■ The Raiffeisen banks paid the Inspectorate of the Swiss Union of Raiffeisen Banks fees totalling 21.6 million Swiss francs for audits under Swiss banking law and internal audits in the year under review.

In financial year 2005, PricewaterhouseCoopers AG charged the Raiffeisen Group a total of 4.4 million Swiss francs for services connected to the full audit of the individual annual accounts, the Group accounts and the audits under Swiss law.

The Raiffeisen Group was charged a further 3.0 million Swiss francs by PricewaterhouseCoopers AG, Ernst & Young AG and KPMG Fides for other advisory and special auditing services.

Supervision and control of the external auditor ■ The auditor PricewaterhouseCoopers AG fulfils the requirements of the Swiss Federal Banking Act and is approved by the Swiss Federal Banking Commission to audit banking institutions. Each year, the Audit Committee assesses the performance, remuneration and independence of the external auditing bodies and oversees their relationship with the internal auditors.

Information policy

An open, active and transparent information policy is one of the guidelines within Raiffeisen Group's corporate philosophy. Communication with stakeholders – cooperative members, clients, employees and the general public – extends beyond the legal requirements and adheres to the principles of truthfulness, consistency and matching words with deeds. The Raiffeisen Group publishes an annual report and half-yearly report and holds at least one press conference a year. The latest changes, developments and special events are publicized through a range of communication channels, in good time and in a manner that suits the target groups in question. All publications and press releases are available online.

Cooperative members also receive appropriate, direct and comprehensive information from their Raiffeisen bank at the General Meeting, at client events and through the

client magazine PANORAMA, which is published at regular intervals throughout the year.

Press releases in 2005

5 January	Raiffeisen Group donates 1.3 million Swiss francs towards tsunami relief
29 January	Raiffeisen prize goes to Tischlein deck dich
19 March	Raiffeisen and Swiss-Ski join forces
20 April	Business performance 2004: Raiffeisen outperforms the market
26 May	RAIFFEISENdirect: 250,000 contracts in four years
7 June	Beat Hodel joins extended Executive Board
19 August	Half-yearly report 2005: Raiffeisen Group on top form
24 August	Raiffeisen launches innovative umbrella fund: Fund of Funds Multi Asset Class
5 October	Vontobel and Raiffeisen reach milestone in their cooperation
3 November	Inauguration of "stadtlounge" in St.Gallen

Timetable for 2006

Annual results presented at balance sheet press conference	1 March 2006
Annual Report 2005 published	End-April 2006
Delegate Meeting in Martigny VS	10 June 2006
Half-yearly report published	August 2006

Publications

Fondsguide	Raiffeisen fund performance reports	monthly
Perspektiven	Economic and financial information for investors	monthly
PANORAMA	Client magazine	eight times a year
Raiffeisen Aktuell	Brochure highlighting Raiffeisen services	three times a year
Annual Report	Financial report/ corporate governance/ sustainability report	annually
Press releases	Latest information	as required

Contact

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Website www.raiffeisen.ch ■ The Raiffeisen website includes the following information and reports:

- Annual and half-yearly reports
- Press releases
- Information on the structure, executive bodies and business policy
- Details of Group companies and cooperations
- Information on products and services
- Links to the individual Raiffeisen banks
- Raiffeisen membership information



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Business Trend The Raiffeisen Group achieved the best results in its 106-year history in 2005. It once again won additional market share with large volume increases in the mortgage business, in bank savings and in the investment business, thus posting high earnings in a number of areas.

The result from interest business rose due to the stable interest margins and the increase of 82.3 million Swiss francs (+5.0 percent) in client business. Income from commission business and service transactions (+26.2 percent) as well as commercial business (+34.0 percent) was also pleasing. Combined with the other ordinary result (+55.2 percent), this pushed operating income up by 8.7 percent to breach 2 billion Swiss francs for the first time. Total operating expenditure grew more slowly in the year under review than in the previous year. It rose by 8.3 percent, below earnings growth, leading to a 9.1 percent increase in gross profit to 900.4 million Swiss francs (previous year 825.3 million Swiss francs). The pronounced rise of 102.4 million Swiss francs in Group profit (previous year +52.6 million Swiss francs) was boosted by higher valuations of participations in cooperation partners.

The Raiffeisen Group's balance sheet total amounts to 108.2 billion Swiss francs, 2.1 billion Swiss francs (+2.0 percent) higher than the prior-year figure. With mortgages up 5.6 percent to a total of 83.9 billion Swiss francs, Raiffeisen occupies second position in the Swiss mortgage market. Client assets managed by Raiffeisen increased by 6.2 percent or 6.0 billion Swiss francs, reaching more than 100 billion Swiss francs for the first time.

Membership numbers increased by 57,807 persons or 4.6 percent last year to more than 1.3 million cooperative members. The rise of over 40 percent in membership numbers in the last five years reflects the trust in the cooperative business model and the Raiffeisen brand.

No post-balance-sheet events occurred which would have a significant impact on the operating result.

Information on the principles and scope of consolidation can be found in the Notes.

Profit and loss account

Income from ordinary banking business ■ With a share of 83.4 percent (previous year 86.3 percent), interest business was once again the main pillar of income for the Raiffeisen Group in the year under review. Although competition is still very fierce in the mortgage business, the Group lifted its result from interest business to 1.7 billion Swiss francs, up 5.0 percent on the previous year. The increase in this income position is the result of a rise in both assets and liabilities, with the interest margin remaining practically the same as in the previous year.

Income from commission business and service transactions (note 19) stood at 217.0 million Swiss francs, up 26.2 percent or 45.0 million Swiss francs from the previous year. Securities and investment business made the largest contribution to this increase, with growth of 34.1 million Swiss francs. Additional income came from the sharp rise in security transactions and custody holdings, as well as from the large amount of newly issued Raiffeisen interest-bearing securities. The successful collaboration with Vontobel proved worthwhile. For the first time, income from fee and commission business contributed more than 10 percent to operating income. The reduction in Bancomat location charges levied between the banks led to lower commission income from

other service transactions as well as a decrease in commission expenditure.

Net trading income (note 20) was up 34.0 percent on the previous year to 75.5 million Swiss francs. Foreign exchange and banknotes made a substantial contribution to this increase, posting growth of 17.9 million Swiss francs. By contrast, there was a loss of 6.5 million Swiss francs on interest trading due to incorrect predictions of market trends.

The position "Other ordinary result" also rose sharply (up 55.2 percent or 17.6 million Swiss francs), primarily because dividend income from the participation in Vontobel Holding AG was booked for the first time in the year under review.

Operating expenditure • Operating expenditure increased more slowly than in the previous year (up 8.3 percent or 88.9 million Swiss francs). Persistently high increases in the volume of client business and the continuation of strategic projects relating to securities business, IT infrastructure and Basel II resulted in greater costs. Despite this essential ongoing investment to secure an optimum market position, the Group managed to keep the increase in expenditure below earnings growth.

Personnel expenditure: Personnel expenditure (note 22) increased by 7.4 percent (previous year 9.0 percent) to 748.5 million Swiss francs, mainly due to the creation of 245 additional full-time positions (+3.9 percent) in the year under review. Raiffeisen needed additional resources

to develop client advisory services and strategic projects. In view of its healthy financial state, Raiffeisen adjusted salaries by 1.75 percent and paid out higher bonuses. Additional costs were also generated by one-off payments to finance a change in the pension fund from a defined benefit to a defined contribution scheme, primarily to cover the costs of pensions for older insured persons.

Non-personnel expenditure: Non-personnel expenditure (note 23) was up 10.1 percent or 37.4 million Swiss francs. This rise was caused by additional investment in client-related infrastructure (Bancomats, client zones) and security equipment as well as increased expenditure on strategic projects. The increase of 18.6 million Swiss francs (+9.7 percent) in other operating expenditure was due to higher spending on advertising, sponsorship, client events and donations.

Depreciation on fixed assets: Depreciation on fixed assets amounted to 127.8 million Swiss francs compared with 129.4 million Swiss francs in the previous year (note 4). As a result of the greater investment in bank premises and tangible fixed assets, depreciation in these categories rose by 14.5 million Swiss francs. At the same time, this position still contained participation value adjustments of 13.8 million Swiss francs in the previous year.

Value adjustments, provisions and losses: Expenditure in connection with value adjustments, provisions and losses remained at 42.5 million Swiss francs, unchanged from the previous year. Despite a further increase in credit volume, provisions for credit risks declined again in relation to loans.

Value adjustments for default risks fell to 31.4 million Swiss francs, down 7.5 percent on the previous year. Actual losses totalled 50.1 million Swiss francs (previous year 70.3 million Swiss francs). Provisions as a percentage of loans have fallen from 0.73 to 0.55 since 2001. The Raiffeisen Group maintained its low-risk, first-class quality and its broad diversification of the credit portfolio in spite of above-average growth.

Extraordinary result: Special factors made a strong contribution to the extraordinary result. An increase of 40.5 million Swiss francs was achieved, in particular due to the higher valuation (35.6 million Swiss francs) of participations in the cooperation partners Helvetia Patria and Vontobel and the income from the sale of shares in cosba private banking ag (11.7 million Swiss francs). In addition to these amounts, this position also includes gains and losses from the sale of tangible fixed assets.

Taxes: Tax expenditure (note 25) amounted to 169.0 million Swiss francs, up 10.0 percent on the previous year. This represents a slight decline in relation to the reported annual profit, as fewer provisions had to be created for deferred tax than in the previous year.

Balance sheet

The Raiffeisen Group's balance sheet total increased by 2.0 percent in comparison with the previous year. Growth has been weakening for two years, due chiefly to the decrease in interbank repo transactions.

Receivables from or liabilities to banks ■ At the balance sheet date, the volume of interbank business was down 2.1 billion Swiss francs on the assets side and down 1.3 billion Swiss francs on the liabilities side compared with the previous year. The decline on both sides is due to a reference day-related reduction in repo positions. However, the Raiffeisen Group continues to make extensive use of repo transactions for short-term liquidity management purposes. As well as offering more economical refinancing, this also permits investment in third-party banks on a covered basis, therefore putting less pressure on capital resources.

Receivables from clients ■ Receivables from clients fell by 205.4 million Swiss francs to 6.9 billion Swiss francs due solely to the reduction in loans to public bodies. Overall, however, these loans still account for nearly half of this position.

Mortgage receivables ■ Business volume in the Raiffeisen Group's core business once again grew faster than the overall market in 2005. Mortgage receivables rose by 5.6 percent or 4.4 billion Swiss francs (previous year +5.3 billion Swiss francs) to reach 83.9 billion Swiss francs, 77.5 percent of the balance sheet total. Thanks to the ongoing low level of interest rates, demand for fixed-rate mortgages continued to grow. The proportion of fixed-rate mortgages climbed from 60.4 percent to 66.4 percent.

Financial assets ■ Financial assets (note 2) consist primarily of first-class bonds held for the purpose of maintaining the liquidity of the Raiffeisen Group as required by

law. In the year under review, holdings dropped by 45.7 million Swiss francs to 2.7 billion Swiss francs. Real estate from non-performing positions designated for resale fell by 31.8 percent to 38.3 million Swiss francs.

Non-consolidated participations ■ The principal non-consolidated participations are reported as per note 3.2 and 3.3. For operational and business reasons, the Raiffeisen Group owns additional holdings with a low capital component and minimal voting rights. Its holding in the Mortgage Bond Bank of the Swiss Mortgage Institutions amounted to 20.8 percent in the year under review and was valued for the first time using the equity method in line with reporting and valuation principles.

Tangible fixed assets/intangibles ■ The book value of tangible fixed assets and intangibles rose by 2.2 percent due to higher investment volumes (note 4). The Raiffeisen Group's investments amounted to a total of 211.6 million Swiss francs (previous year 197.3 million Swiss francs). Its largest positions were in bank premises, client-related installations and IT hardware.

Liabilities to clients in the form of savings and investment deposits ■ The position "Liabilities to clients in the form of savings and investment deposits" grew by 3.5 percent year-on-year to 62.0 billion Swiss francs. Despite a clear rise in investor interest in securities, Raiffeisen once again won additional market share in traditional bank savings business.

Other liabilities to clients ■ Following last year's above-average rise in other liabilities to clients, the year under review saw a slight drop of 1.7 percent or 186.4 million Swiss francs. These fluctuations are due to the volatility of short-term money-market investments. While repo transactions with large institutional clients fell by 1.7 billion Swiss francs, fixed-income investments for public bodies grew considerably. Refinancing of lending with client monies amounted to 91.8 percent.

Medium-term notes/bonds and mortgage bond loans ■ In addition to the uptrend in savings and investment deposits, holdings of medium-term notes also increased (up 6.4 percent or 643.5 million Swiss francs). Refinancing using mortgage bond loans picked up again slightly after dropping in the previous year. Bonds and mortgage bond loans (note 8) rose by 2.6 percent to 7.1 billion Swiss francs.

Value adjustments and provisions ■ Value adjustments and provisions (note 9) rose by 3.8 percent or 39.9 million Swiss francs. Provisions for deferred taxes were increased by 45.0 million Swiss francs and now amount to 573.3 million Swiss francs; this includes deferred taxes from the first-time equity valuation of the Mortgage Bond Bank of the Swiss Mortgage Institutions. Value adjustments and provisions for default risks, meanwhile, were reduced by 1.5 percent to 498.0 million Swiss francs. As in previous years, appropriate application and dissolution of provisions exceeded the amount of new provisions needed.

Capital resources ■ The level of paid-up cooperative capital increased by 9.4 percent or 33.9 million Swiss francs (previous year +13.0 percent) due to the continuing strong growth in membership numbers. With retained earnings of 5.0 billion Swiss francs and a Group profit of 608.3 million Swiss francs, the Group's total equity capital amounts to 6.0 billion Swiss francs (note 10). The solid capitalization ensures that Raiffeisen's equity capital is in a healthy state. The regulatory capital adequacy requirement (note 26) was clearly exceeded, with surplus cover of 94.3 percent (previous year 79.1 percent).

Off-balance-sheet business ■ The volume of contingent liabilities did not change significantly from the previous year (+2.6 percent). However, irrevocable undertakings in connection with new mortgage business shot up by nearly a fifth to 719.6 million Swiss francs, suggesting that mortgage volumes will continue to rise.

The contract volume for derivative financial instruments (note 17) fell markedly to 23.9 billion Swiss francs, a drop of 29.8 percent. The positive and negative replacement values amount to 113.3 million and 135.6 million Swiss francs respectively. While the contract volume for interest rate instruments fell by 30.5 percent to 23.1 billion Swiss francs, the contract volume for foreign exchange and precious metals remained the same as in the previous year at 0.8 billion Swiss francs.

Fiduciary transactions rose slightly for the first time in four years (up 11.5 percent to 163.5 million Swiss francs).

Safe custody volumes ■ Safe custody volumes managed by Raiffeisen rose by 17.7 percent or 4.1 billion Swiss francs to 27.6 billion Swiss francs (previous year +12.3 percent). The new investment volume amounts to some 3 billion Swiss francs and stems largely from innovative investment products launched jointly with Vontobel, such as Raiffeisen interest-bearing securities. The volume of assets in Raiffeisen funds grew by 3.9 percent to exceed 8 billion Swiss francs for the first time.



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Consolidated Balance Sheet at 31 December 2005

	Current year in 1000 CHF	Prior year in 1000 CHF	Change in 1000 CHF	Change in %	Note
Assets					
Liquid funds	1,139,567	1,258,678	- 119,111	- 9.5	11
Receivables from money market securities	10,846	13,235	- 2,389	- 18.1	11
Receivables from banks	10,129,717	12,251,020	- 2,121,303	- 17.3	6, 11
Receivables from clients	6,888,421	7,093,771	- 205,350	- 2.9	1, 11
Mortgage receivables	83,893,269	79,471,579	4,421,690	5.6	1, 6, 11
Loans to clients	90,781,690	86,565,350	4,216,340	4.9	
Trading portfolios in securities and precious metals	56,197	19,651	36,546	186.0	2, 11
Financial assets	2,854,680	2,895,772	- 41,092	- 1.4	2, 6, 11
Non-consolidated participations	358,131	348,105	10,026	2.9	2, 3, 4
Tangible fixed assets	1,631,071	1,597,893	33,178	2.1	4, 6
Intangibles	11,565	9,791	1,774	18.1	4
Accrued income and prepaid expenses	207,983	204,226	3,757	1.8	
Other assets	1,005,153	933,817	71,336	7.6	5
Total assets	108,186,600	106,097,538	2,089,062	2.0	13, 14, 15
Total subordinated receivables	-	-	-	-	
Total receivables from non-consolidated participations	503,551	1,838,907	- 1,335,356	- 72.6	
Liabilities					
Liabilities to banks	9,740,624	11,002,367	- 1,261,743	- 11.5	6, 11
Liabilities to clients in the form of savings and investment deposits	61,984,063	59,912,523	2,071,540	3.5	7, 11
Other liabilities to clients	10,625,246	10,811,602	- 186,356	- 1.7	7, 11
Medium-term notes	10,757,501	10,114,018	643,483	6.4	11
Client monies	83,366,810	80,838,143	2,528,667	3.1	
Bonds and mortgage bond loans	7,074,350	6,892,000	182,350	2.6	8, 11
Accrued expenses and deferred income	494,420	471,280	23,140	4.9	
Other liabilities	437,385	500,912	- 63,527	- 12.7	5
Value adjustments and provisions	1,097,369	1,057,455	39,914	3.8	9
Cooperative capital	395,662	361,753	33,909	9.4	
Retained earnings	4,971,729	4,467,766	503,963	11.3	
Group profit	608,251	505,862	102,389	20.2	
Total equity capital	5,975,642	5,335,381	640,261	12.0	10
Total liabilities	108,186,600	106,097,538	2,089,062	2.0	13, 15
Total subordinated commitments	-	-	-	-	
Total commitments towards non-consolidated participations	4,967,302	4,443,265	524,037	11.8	
- of which mortgage bond loans	4,304,350	3,922,000	382,350	9.7	
Off-balance-sheet business					
Contingent liabilities	316,348	308,217	8,131	2.6	1, 16
Irrevocable undertakings	719,576	601,330	118,246	19.7	1
Obligations to make payments and additional contributions	39,345	37,104	2,241	6.0	1
Derivative financial instruments					
Positive replacement values	113,291	96,987	16,304	16.8	17
Negative replacement values	135,597	187,992	- 52,395	- 27.9	17
Contract volume	23,863,768	33,991,276	- 10,127,508	- 29.8	17
Fiduciary business	163,470	146,550	16,920	11.5	18

Consolidated Profit and Loss Account at 31 December 2005

	Current year in 1000 CHF	Prior year in 1000 CHF	Change in 1000 CHF	Change in %	Note
Interest and discount income	2,860,629	2,756,869	103,760	3.8	
Interest and dividend income from financial assets	82,078	87,975	- 5,897	- 6.7	
Interest expenditure	- 1,226,843	- 1,211,255	- 15,588	1.3	
Net interest income	1,715,864	1,633,589	82,275	5.0	
Commission income lending business	5,643	5,262	381	7.2	
Commission income securities and investment business	157,548	123,408	34,140	27.7	
Commission income other service transactions	121,640	124,550 ^{1,3}	- 2,910	- 2.3	
Commission expenditure	- 67,825	- 81,239 ^{2,3}	13,414	- 16.5	
Net income from commission business and service transactions	217,006	171,981	45,025	26.2	19
Net trading income	75,509	56,358	19,151	34.0	20
Income from sale of financial assets	1,727	1,538	189	12.3	
Income from participating interests	24,100	8,352	15,748	188.6	21
Income from real estate	17,365	17,363	2	0.0	
Other ordinary income	7,051	5,447 ¹	1,604	29.4	
Other ordinary expenditure	- 858	- 871	13	- 1.5	
Other ordinary result	49,385	31,829	17,556	55.2	
Operating income	2,057,764	1,893,757	164,007	8.7	
Personnel expenditure	- 748,525	- 696,989	- 51,536	7.4	22
Operating expenditure	- 408,876	- 371,514 ^{2,3}	- 37,362	10.1	23
Total operating expenditure	- 1,157,401	- 1,068,503	- 88,898	8.3	
Gross profit	900,363	825,254	75,109	9.1	
Depreciation on fixed assets	- 127,770	- 129,449	1,679	- 1.3	4
Value adjustments, provisions and losses	- 42,467	- 42,820	353	- 0.8	
Operating profit (interim result)	730,126	652,985	77,141	11.8	
Extraordinary income	53,852	11,753	42,099	358.2	24
Extraordinary expenditure	- 6,693	- 5,140	- 1,553	30.2	24
Taxes	- 169,034	- 153,736	- 15,298	10.0	25
Group profit	608,251	505,862	102,389	20.2	

The prior-year figures for the following items were reclassified in the profit and loss account:

- 1) Reimbursed expenses and income from ATM fees that were previously listed under "Other ordinary income" are now included in "Commission income other service transactions".
- 2) Fees for payment services, production costs for Maestro cards and account cards, post office account charges and charges for processing ATM fees that were previously listed under "Operating expenditure" are now included in "Commission expenditure".
- 3) The fees and postal charges passed on to clients for payments made by post that were previously listed under "Commission income other service transactions" are now booked as expense reductions in "Commission expenditure" or "Operating expenditure".

Cash Flow Statement 2005

	Current year origin of funds in 1000 CHF	Current year use of funds in 1000 CHF	Prior year origin of funds in 1000 CHF	Prior year use of funds in 1000 CHF
Cash flow from operating results (internal financing)				
Group profit	608,251	–	505,862	–
Depreciation of fixed assets	127,770	–	129,449	–
Value adjustments and provisions	198,982	159,068	215,522	188,714
Prepaid expenses	–	3,757	70,600	–
Deferred income	23,140	–	–	85,241
Interest paid on share certificates for prior year	–	19,306	–	17,440
Balance	776,012	–	630,038	–
Cash flow from equity capital transactions				
Net change in equity capital	33,909	–	41,500	–
Participations valued by the equity method	17,407	–	–	–
Balance	51,316	–	41,500	–
Cash flow from investment activities				
Participations	54,166	64,765	17	242,121
Real estate	45,446	116,530	30,083	110,713
Other tangible fixed assets/objects in finance leasing	3,998	87,113	2,009	77,624
Intangibles	13	7,963	57	8,984
Balance	–	172,748	–	407,276
Cash flow from banking activities				
Liabilities to banks	–	1,261,743	–	1,537,654
Liabilities to clients in the form of savings and investment deposits	2,071,540	–	2,684,371	–
Other liabilities to clients	–	186,356	2,144,530	–
Medium-term notes	643,483	–	791,294	–
Bonds	–	200,000	470,000	605,000
Mortgage bond loans	925,200	542,850	565,300	1,044,050
Other liabilities	–	63,527	17,569	–
Receivables from money market securities	2,389	–	1,926	–
Receivables from banks	2,121,303	–	1,536,855	–
Receivables from clients	205,350	–	628,546	–
Mortgage receivables	–	4,421,690	–	5,317,312
Trading portfolio in securities and precious metals	–	36,546	5,187	–
Financial assets	41,092	–	153,694	–
Other receivables	–	71,336	–	734,906
Liquid funds	119,111	–	–	24,612
Balance	–	654,580	–	264,262
Total origin of funds	827,328	–	671,538	–
Total use of funds	–	827,328	–	671,538

Notes to the Consolidated Annual Accounts

Business activities

The 421 Raiffeisen banks in Switzerland, organized as cooperatives, are mainly active in the retail business. The services provided to private and commercial clients encompass the classical savings and mortgage business. In addition, the product range includes comprehensive payment transaction services, investment fund and securities business, leasing and consumer credit. These services are provided by the Swiss Union of Raiffeisen Banks, specialized companies within the Group or cooperation partners.

The Raiffeisen banks are active in precisely defined, manageable business areas. Loans are predominantly made to cooperative members, against collateral, and to public bodies. The major part of loaned funds is invested in residential property. The Raiffeisen banks are prohibited by their statutes from operating abroad.

The amalgamation into the Swiss Union of Raiffeisen Banks has given the individual member banks access to wide-ranging services, for example in the areas of management, marketing, business, information technology, building systems (including security), training and legal services. The Swiss Union of Raiffeisen Banks is responsible for strategic management and risk controlling for the entire Raiffeisen Group, as well as ensuring monetary settlement and liquidity maintenance. The Swiss Union of Raiffeisen Banks also coordinates the Group's activities and creates the framework conditions for the business activities of the local Raiffeisen banks (e.g. IT, infrastructure, refinancing), pro-

viding them with advice and support in all issues so that they can focus on their core competence – providing advice and selling banking services. The Swiss Union of Raiffeisen Banks can enter into commitments abroad up to a risk-weighted maximum 5 percent of the Raiffeisen Group's consolidated net assets, according to the risk-weighting factors stipulated by banking law.

As of 31 December 2005, the number of people employed by the Raiffeisen Group – on an FTE basis – was 6,549 (previous year 6,304).

Concerning risk management

Our risk management systems are based on the regulations entitled "Risk policy for the Swiss Union of Raiffeisen Banks and the Raiffeisen Group" (short name: "Risk policy"). The goal of risk policy is to limit negative impacts on earnings and protect the Raiffeisen Group from high exceptional losses while safeguarding and strengthening its good reputation. The Raiffeisen Group views entering into risks as one of its core competences, but only with full knowledge of their extent and dynamics and only when the requirements in terms of systems, staff resources and expertise are met.

Risk management process ■ The risk management process, based on the risk categories credit risks, market risks and operational risks, incorporates the following components:

- Risk identification
- Risk measurement and assessment

- Risk management, for which the designated risk managers are themselves responsible within the defined limits
- Risk limitation, by setting upper limits.

Group Risk Controlling is responsible for ensuring that risk policy is observed and implemented; Compliance ensures that regulatory provisions are observed.

Credit risks: The business units of the Raiffeisen Group – Raiffeisen banks, Guarantee Cooperative, Raiffeisen Finanzierungs AG, Raiffeisen Leasing and the Swiss Union of Raiffeisen Banks – manage their credit risk autonomously, though still in accordance with group-wide standards.

Credit risks are incurred chiefly at the Raiffeisen banks. The majority of these risks derive from loans granted to one or more individuals or business clients. The term “business clients” refers to small companies that operate within the locality of the Raiffeisen banks. Credit risks are limited primarily by securing the underlying claims.

Group-wide standards based on credit risk policy are applied in the assessment of creditworthiness and credit capacity. Sufficient creditworthiness and the ability to keep up payments must be proven before approval for any loan is granted. Loans to private individuals and legal entities are classified according to internal client rating procedures and monitored from a risk-oriented perspective. Creditworthiness is defined according to four risk categories, which are further refined using a points system. This system is flexible and has proved its worth over a number

of years as a means of dealing with the key elements of credit risk management, i.e. risk-adjusted pricing, portfolio management, identification and individual value adjustments.

Collateral is valued according to uniform criteria. In the case of mortgages and building loans in particular, a comprehensive set of guidelines specify how collateral is to be calculated, depending on the type of property in question. For owner-occupied residential property, a realistic, carefully determined actual value is specified, while calculations for multi-family units are based on the capitalized value and, where applicable, on the weighted market value. The capitalized value is used as the benchmark for commercial property. With commercial property for own use, this is based on the borrower’s earnings power, taking into account any third-party utility value that could be obtained on the market. Different repayment obligations apply to second mortgages. Specialist teams at the Swiss Union of Raiffeisen Banks are also on hand to provide assistance to all business units with questions related to complex financing arrangements and the management of recovery positions.

Thanks to our decentralized credit decision-making process and the extensive real estate expertise of the Raiffeisen banks in the context of their specific localities, the approval procedure based on risk-oriented authority levels is of a relatively short duration. A prudent lending limit policy and an approval procedure geared to levels of responsibility are additional features of our credit risk management process.

Throughout the entire duration of the credit facility, receivables are monitored continuously and ratings are updated on a periodic basis in line with the relevant client type and collateral type. In the case of unsecured receivables, a re-rating is performed within 12 months at the latest; the frequency for re-rating secured receivables depends on the type of collateral. The value of collateral is reviewed at varying intervals, according to its volatility on the market, and the overall facility is re-approved.

The standardized, group-wide guidelines concerning the establishment and release of individual value adjustments for default risks are set out in an internal directive. This stipulates how, whenever there are indications that certain positions are impaired, non-performing or display a high number of rating points, the liquidity value and individual value adjustments for any collateral that may exist should be calculated. Value adjustments and provisions are reviewed on a quarterly basis.

Credit risks arise at the Central Bank and Branches & Credits departments of the Swiss Union of Raiffeisen Banks in the form of counterparty risks from dealings with commercial banks as well as institutional, corporate and private clients. External ratings are used as a basis for approving and monitoring business with other banks. Off-balance-sheet items such as derivative financial instruments are converted by means of internal factors to their respective credit equivalent.

The Swiss Union of Raiffeisen Banks employs centralized credit portfolio management processes that enable it to monitor all possible default risks according to a range of

**Capital resources for market risks
of the trading book**

	31.12.2005 in 1000 CHF	Ø 2005 in 1000 CHF	31.12.2004 in 1000 CHF
Foreign exch./prec. metals	4,633	6,447	3,798
Interest rate instruments	31,544	38,968	40,215
Equities and indices	2,536	1,638	543
Total	38,713	47,053	44,556

criteria – e.g. category of borrower or loan, size of loan, ratings points, sector, collateral type, loan products, country, region, value adjustments – and therefore be in a position to manage the various sub-portfolios. The Raiffeisen Group's credit portfolio enjoys broad diversification in terms of borrowers, regions and sectors.

Market risks: As the Raiffeisen Group is heavily involved in balance sheet business, interest rate fluctuations can have a considerable influence on interest income. Controlling maturity transformation and the resulting interest rate risk is therefore very important. Interest rate risk is managed by the Raiffeisen banks themselves, within set guidelines (sensitivity limits), and by the Swiss Union of Raiffeisen Banks. Both have up-to-date tools at their disposal to perform the necessary sensitivity analyses. In addition, the banks can request specialist support from the Treasury of the Swiss Union of Raiffeisen Banks. The potential impact of interest rate risk on the market value and the Raiffeisen Group's income is regularly assessed by means of sensitivity analyses and is included in risk reporting.

Liquidity risks are controlled using commercial criteria and monitored by Treasury, on the basis of banking law.

Only the Swiss Union of Raiffeisen Banks keeps a trading book; the Raiffeisen banks do not. Consequently, market risks, such as equity price, interest rate and currency risks, as well as precious metals risks in trading portfolios, only arise at the Swiss Union of Raiffeisen Banks. Group Risk Controlling monitors the risks in the trading book on a daily basis.

Derivative financial instruments are traded only by experienced dealers at the Swiss Union of Raiffeisen Banks. The Trading & Sales department works with both standardized and OTC derivatives for its own and its clients' account. Its own positions in derivative financial instruments are held mainly for hedging purposes.

The capital resources for market risks of the trading book are shown in the table on page 92.

Operational risks: At Raiffeisen, operational risk means the danger of financial or reputational loss arising from a deficiency or breakdown in internal processes, people or systems, or due to external events. Operational risks are managed via the respective line functions and monitored by Group Risk Controlling. Operational risks are limited by means of internal regulations, directives and work instructions, and are regularly checked by Internal Auditing. In some cases, external legal advisors are brought in to limit and manage legal risks.

Compliance with capital resources, risk spread and liquidity directives: According to a ruling by the Swiss Federal Banking Commission (SFBC) of 24 September 1997, the Raiffeisen banks are excused from complying on an individual basis with directives regarding capital resources, risk spread and liquidity. The relevant legal provisions must be observed on a consolidated basis.

Outsourcing: The operation of the data communication network has been outsourced to TDC Switzerland AG (sunrise). This service is provided in accordance with the provisions of SFBC Circular 99/2.

Consolidation, balance sheet and valuation principles

General principles ■ Accounting, valuation and reporting conform to the requirements of the Swiss Code of Obligations (OR), the Swiss Federal Law on Banks and Savings Banks (plus related ordinance), and the guidelines and directives of the SFBC. The detailed positions shown for a balance sheet item are valued individually. The consolidated annual accounts represent a true and fair view of the assets and financial and earnings positions of the Raiffeisen Group.

Principles of consolidation ■ *General:* The consolidation of the banking institutions that make up the Raiffeisen Group, the Swiss Union of Raiffeisen Banks and the Group companies associated with it differs fundamentally from normal consolidation based on a holding company structure. The individual Raiffeisen banks, as owners of the Union headquarters and the major Group companies, function as the parent company. Although it has a group-wide coordinating and controlling function and is responsible for both the liquidity pool and safety net, from a legal point of view the Swiss Union of Raiffeisen Banks is simply a subsidiary. The management and regulatory powers of the Swiss Union of Raiffeisen Banks are governed by the Articles of Association of the Union and the regulations based on them.

Consolidation is not based on the Swiss Union of Raiffeisen Banks as a parent company, but represents an aggregation of the annual accounts of the 421 Raiffeisen banks and the joint participations held in the Raiffeisen Group. The cooperative capital in the consolidated annual accounts is thus the total of the cooperative capital of the individual Raiffeisen banks.

Consolidation scope and method: The consolidated accounts of the Raiffeisen Group comprise the annual accounts of all the individual Raiffeisen banks, the Swiss Union of Raiffeisen Banks, the Raiffeisen Guarantee Cooperative, the Central Issuing Office of the Swiss Raiffeisen Banks, Raiffeisen Finanzierungs AG, Raiffeisen Leasing and Raiffeisen Informatik AG.

Under the full consolidation method, the assets and liabilities, off-balance-sheet transactions and income and expenses are all recorded in full. Capital is consolidated according to the purchase method. All material amounts receivable and payable, off-balance-sheet transactions and income and expenses between consolidated companies are offset. Material intercompany profits are not made and are therefore ignored in the consolidation.

Minority interests in the range of 20 to 50 percent are consolidated by the equity method. Holdings of less than 20 percent, those with little materiality in terms of capital or income, and those of a non-strategic nature are not consolidated but are instead accounted for at acquisition cost, less any commercially required depreciation.

Consolidation date: All fully consolidated companies close their annual accounts on 31 December.

Balance sheet and valuation principles ■ *Recording of business events:* All business transactions that have been concluded by the balance sheet date are recorded on a same-day basis in the balance sheet and the profit and loss account in accordance with the relevant principles of valuation. Spot transactions that have been concluded but not yet settled are posted to the balance sheet on the trade date.

Foreign currencies: Assets, liabilities and cash positions in foreign currency are converted at the exchange rate prevailing on the balance sheet date. Price gains and price losses arising from the valuation appear in the table entitled "Profit from trading activities". Foreign currency transactions during the course of the year are converted at the rate prevailing at the time the transaction was carried out.

Liquid funds, amounts due from money market securities and borrowed funds: These are reported at the nominal value or acquisition cost. Discounts not yet earned on money market securities and discounts and premiums on the Group's own bond and mortgage issues are accrued over the period to maturity.

Receivables from banks and clients, mortgage receivables: These are reported at the nominal value. Interest income is reported on an accruals basis.

Receivables are deemed to be impaired where the Group believes it improbable that the borrower will be able to completely fulfil his/her contractual obligations. Impaired receivables – and any collateral that may exist – are valued on the basis of the liquidation value. Impaired receivables are subject to individual value adjustments based on regular analyses of individual loan commitments, while taking into account the creditworthiness of the borrower, the counterparty risk and the estimated net realizable sales value of the collateral. If repayment of the receivable depends solely on the collateral being realized, full provision is made for the unsecured portion.

Interest and related commission that have been due for more than 90 days and have still not been paid are deemed to be non-performing. Interest and commission relating to current account loans are deemed to be non-performing if the specified credit limit is exceeded for more than 90 days. Non-performing and impaired interest (including accrued interest) and commission are no longer recognized as income but reported directly under “Value adjustments and provisions”. A receivable is written off at the latest when completion of the realization process has been confirmed by legal title. However, impaired receivables are reinstated as fully performing (i.e. the value adjustment is reversed), provided the outstanding principal amounts and interest are paid in time in accordance with the contractual obligations, and additional creditworthiness criteria are fulfilled.

All value adjustments are reported under “Value adjustments and provisions”.

All leased properties are reported under "Receivables from clients" in the balance sheet and at their present net value. Amortization contained in leasing fees is set off directly against the book value of the relevant leased property.

Loan operations with securities (securities lending and borrowing): Securities lending transactions are reported at the value of the cash collateral received or issued, including accrued interest. Securities which are borrowed or received as collateral are only reported in the balance sheet if the Swiss Union of Raiffeisen Banks demands control of the contractual rights contained in these securities. Securities which are loaned or issued as collateral are only removed from the balance sheet if the Swiss Union of Raiffeisen Banks forfeits the contractual rights associated with these securities. The market values of the borrowed and loaned securities are monitored daily so that any additional securities can be provided or requested as necessary.

Fees received or paid under loan and pension operations with securities are booked to commission income or commission expenditure on an accruals basis.

Pension operations with securities (repurchase and reverse repurchase transactions): Securities purchased with an agreement to resell (reverse repurchase transactions) and securities sold with an agreement to buy back (repurchase transactions) are regarded as secured financing transactions and are recorded at the value of the cash collateral received or issued, including accrued interest. Securities received and delivered are only recorded in/removed from

the balance sheet if control of the contractual rights contained in the securities is relinquished. The market values of the received or delivered securities are monitored daily so that any additional securities can be provided or requested as necessary.

The interest income from reverse repurchase transactions and the interest expenditure from repurchase transactions are accrued over the term of the underlying transaction.

Trading portfolios in securities and precious metals: Trading portfolios are valued on a fair value basis. Positions for which there is no representative market are valued at the lower of cost or market. Both the gains and losses arising from this valuation and the gains and losses realized during the period in question are reported under "Profit from trading activities". This also applies to interest and dividends on trading portfolios. The funding costs for holding trading positions are charged to trading profits and credited to interest income.

Financial assets: Fixed-interest securities and bonds with warrants are valued at the lower of cost or market if there is no intention to hold them to maturity. Securities acquired with the intention of holding them to maturity are valued according to the accrual method, with the discount or premium accrued over the remaining life. Holdings are valued at the lower of cost or market.

Real estate and holdings acquired through the loans business that are intended for disposal are reported under "Financial assets" and valued at the lower of cost or market.

The value that is the lowest (out of the acquisition value and the liquidation value) is deemed to be the lower of cost or market.

Precious metals held to cover liabilities under precious metal accounts are valued at market value on the balance sheet date. If a fair value is unavailable, they are valued at the lower of cost or market.

Non-consolidated participations: Non-consolidated participations include minority holdings from 20 to 50 percent, which are valued according to the equity method. The balance sheet item also includes holdings of less than 20 percent and all holdings of an infrastructural nature. These are valued in accordance with the principle of acquisition cost, i.e. acquisition cost less operationally required depreciation.

Tangible fixed assets: Tangible fixed assets are reported at acquisition cost plus value-enhancing investments and depreciated on a straight-line basis over their estimated useful life, as follows:

Real estate	maximum 66 years
Alterations and fixtures in rented premises	maximum 15 years
IT hardware	maximum 3 years
Furniture and fixtures	maximum 8 years
Other fixed assets	maximum 5 years

Immaterial investments are booked directly to the profit and loss account.

Large-scale, value-enhancing renovations are capitalized, while repairs and maintenance are booked directly to the profit and loss account.

The value of tangible fixed assets is reviewed whenever events or circumstances give reason to suspect that book value is impaired. Any reduction in the value is booked under "Depreciation on fixed assets". If the useful life of a tangible asset changes as a result of the review, the residual book value is depreciated over the new duration.

Intangible assets: Goodwill: If the cost of acquiring a company is higher than the net assets acquired, based on standard Group accounting guidelines, the difference is reported as goodwill. Goodwill is depreciated on a straight-line basis over its estimated useful life. The depreciation period is usually five years. In justifiable cases, it may be as high as 20 years.

Other intangible assets: Intangible assets are reported where they provide the Group with a measurable benefit over several years. Intangible assets created by the Group itself are not reported. Intangible assets are reported at acquisition cost and depreciated on a straight-line basis over their estimated useful life, as follows:

Software	maximum 3 years
Other intangible assets	maximum 3 years

The value of intangible assets is reviewed whenever events or circumstances give reason to suspect that book value is impaired. Any reduction in the value is booked under "Depreciation on fixed assets". If the useful life of an intangible asset changes as a result of the review, the residual book value is depreciated over the new duration.

Value adjustments and provisions: Individual value adjustments and provisions are created on a prudential basis for all risks identified at the balance sheet date.

Taxes: Taxes are calculated and booked on the basis of the profit for the financial year. Deferred tax of 23.0 percent (previous year 22.9 percent) was calculated on untaxed reserves and reported as a provision for deferred taxation.

Contingent liabilities, irrevocable commitments, liabilities for calls on shares and other equities: These are reported at their nominal value under the item "Off-balance-sheet transactions". Provisions are created for identifiable risks.

Derivative financial instruments: Reporting of off-balance-sheet transactions: The replacement values of individual contracts for derivative financial instruments are reported gross, together with the contract volume, under the item "Off-balance-sheet transactions" and in the notes.

Reporting: The replacement values of all contracts concluded on the Group's own account are reported, regardless of their profit and loss account treatment. Replacement values of quoted contracts concluded on a commission basis are reported only to the extent that they are not covered by margin deposits. Replacement values of unquoted contracts concluded on a commission basis are always reported.

All Treasury hedging transactions are concluded via the trading book; as such, Treasury does not itself participate in the market. Only the replacement values of contracts with external counterparties are reported (see "Derivative financial instruments by external counterparty" table in the notes under "Open derivative financial instruments" on pages 116/117).

Treatment in the profit and loss account: The derivative financial instruments recorded in the trading book are valued on a fair value basis if they are quoted or a representative market exists. If this requirement is not met, the principle of the lower of cost or market is applied.

Derivative financial instruments used for balance sheet structural management to hedge against interest rate risk are valued in accordance with the accrual method. Interest-related gains and losses arising from early realization of contracts are accrued over their remaining lives.

Changes from prior year: The provisions governing the valuation of precious metal assets under financial assets and of intangible assets have now been incorporated in the reporting and valuation principles.

The standard depreciation period for goodwill has been brought into line with Swiss GAAP FER and increased from three to five years. This change has no material impact as no goodwill is currently reported in the balance sheet.

Events after the balance sheet date: Between the balance sheet date at 31 December 2005 and the drawing up of the consolidated annual accounts of the Raiffeisen Group, there have arisen no events that require disclosure in the balance sheet and/or in the notes.



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Information on the Balance Sheet

1 Overview of collateral for loans and off-balance-sheet business

	Mortgage cover in 1000 CHF	Other cover in 1000 CHF	Without cover* in 1000 CHF	Total in 1000 CHF
Loans				
Loans to clients	2,103,089	487,120	4,298,212	6,888,421
Mortgage loans				
Residential property	77,376,608	–	167,261	77,543,869
Office and business premises	5,891,463	–	208,030	6,099,493
Trade and industry	215,765	–	4,697	220,462
Other	9,629	–	19,816	29,445
Total loans				
Current year	85,596,554	487,120	4,698,016	90,781,690
Prior year	81,209,982	473,126	4,882,242	86,565,350
Off-balance-sheet business				
Contingent liabilities	60,737	77,861	177,750	316,348
Irrevocable commitments	613,764	38,587	67,225	719,576
Call commitments and additional funding obligations	–	–	39,345	39,345
Total off-balance-sheet business				
Current year	674,501	116,448	284,320	1,075,269
Prior year	572,167	195,870	178,614	946,651

* incl. value-adjusted loans

	Gross amount borrowed in 1000 CHF	Estimated proceeds from realization of collateral in 1000 CHF	Net amount borrowed in 1000 CHF	Specific value adjustments in 1000 CHF
Impaired loans				
Current year	1,554,681	1,048,688	505,993	497,959
Prior year	1,603,487	1,081,102	522,385	505,397

2 Breakdown of trading portfolios in securities and precious metals, financial assets and non-consolidated participations

	Current year in 1000 CHF	Prior year in 1000 CHF
Trading portfolio in securities and precious metals		
Debt instruments		
stock exchange listed*	19,877	9,155
non-stock exchange listed	–	–
Shares	12,241	6,493
Precious metals	24,079	4,003
Total trading portfolio in securities and precious metals	56,197	19,651

* stock exchange listed = traded on a recognized stock exchange

	Book value current year in 1000 CHF	Book value prior year in 1000 CHF	Fair value current year in 1000 CHF	Fair value prior year in 1000 CHF
Financial assets				
Debt instruments	2,741,634	2,787,307	2,800,629	2,888,004
of which intended to be held until maturity	2,741,634	2,787,307	2,800,629	2,888,004
of which valued at the lower of cost or market	–	–	–	–
Shares	31,537	16,804	32,883	16,804
Precious metals (positions to cover commitments from precious metal accounts)	43,195	35,510	43,305	35,517
Real estate	38,314	56,151	40,407	58,812
Total financial assets	2,854,680	2,895,772	2,917,224	2,999,137

	Current year in 1000 CHF	Prior year in 1000 CHF
Non-consolidated participations		
with a market value	290,435	254,808
without a market value	67,696	93,297
Total non-consolidated participations	358,131	348,105

3 Details of major participations

Company name/holding	Registered office	Business activity	Capital in 1000 CHF	Current year voting share and equity interest in %	Prior year voting share and equity interest in %
3.1 Group companies					
Swiss Union of Raiffeisen Banks	St.Gallen	Central bank, association services	320,000	100	100
Raiffeisen Guarantee Cooperative	St.Gallen	Cooperative	37,696	100	100
Central Issuing Office of the Swiss Raiffeisen Banks	St.Gallen	Issuer	20,434	100	100
of which not paid up			20,434		
Raiffeisen Finanzierungs AG	St.Gallen	Finance company	5,000	100	100
Raiffeisen Leasing	St.Gallen	Leasing company	2,526	100	100
Raiffeisen Information AG	Dietikon	IT services	8,300	100	100
3.2 Holdings valued according to the equity method					
cosba private banking ag	Zurich	Bank	100,000	–	25.0
Mortgage Bond Bank of the Swiss Mortgage Institutions	Zurich	Mortgage bond bank	300,000	20.8	19.7
of which not paid up			189,000		
3.3 Other non-consolidated participations					
Viseca Card Services AG	Zurich	Financial services	20,000	19.0	19.0
Vontobel Holding AG	Zurich	Financial services	65,000	12.5	12.5
Telekurs Holding AG	Zurich	Financial services	45,000	4.0	4.0
Helvetia Patria Holding	St.Gallen	Financial services	86,529	2.7	2.7

4 Fixed assets register

	Purchase price in 1000 CHF	Cumulative depreciation/amor- tization in 1000 CHF	Book value at end of prior year in 1000 CHF	Current year transfers/ reclassifi- cations in 1000 CHF	Current year investment in 1000 CHF	Current year disinvestment in 1000 CHF	Current year depreci- ation/amor- tization in 1000 CHF	Book value at end of current year in 1000 CHF
Non-consolidated participations								
Holdings valued according to the equity method	55,126	- 960	54,166	22,653	28,733 ¹	- 54,166	-	51,386
Other holdings	342,668	- 48,729	293,939	- 22,653	36,032 ²	-	- 573	306,745
Total non-consolidated participations	397,794	- 49,689	348,105	-	64,765	- 54,166	- 573	358,131
Tangible fixed assets								
Real estate								
Bank buildings	1,341,628	- 243,477	1,098,151	339	98,603	- 29,691	- 28,852	1,138,550
Other real estate	311,607	- 70,823	240,784	- 14,160	17,927	- 15,755	- 5,435	223,361
Other tangible fixed assets	709,567	- 472,214	237,353	14,013	87,113	- 3,998	- 86,350	248,131
Objects in finance leasing	24,498	- 2,893	21,605	- 210	-	-	- 366	21,029
Total tangibles	2,387,300	- 789,407	1,597,893	- 18	203,643	- 49,444	- 121,003	1,631,071
Intangibles								
Other intangibles	39,620	- 29,829	9,791	18	7,963	- 13	- 6,194	11,565
Total intangibles	39,620	- 29,829	9,791	18	7,963	- 13	- 6,194	11,565

1) The effect of the initial equity valuation by the Mortgage Bond Bank of the Swiss Mortgage Institutions of 25.5 million Swiss francs is included in the investments.

2) The price gain from participations of 35.6 million Swiss francs is included in the investments; this was booked via the extraordinary result.

	in 1000 CHF
Value of real estate for fire insurance purposes	1,648,759
Value of other tangible fixed assets for fire insurance purposes	666,033
Liabilities: future leasing instalments from operational leasing	23

5 Other assets and liabilities

	Current year in 1000 CHF	Prior year in 1000 CHF
Other assets		
Total replacement value	113,291	96,987
Equalization account	–	5,123
Due, unredeemed coupons and debt instruments	734	3
Clearing accounts for social security and staff pension fund contributions	40,755	36,302
Clearing accounts for indirect taxes	834,203	782,930
Miscellaneous other assets	16,170	12,472
Total other assets	1,005,153	933,817
Other liabilities		
Total replacement value	135,597	187,992
Equalization account	34,494	–
Due, unredeemed coupons and debt instruments	32,763	40,875
Levies, indirect taxes	167,360	169,111
Clearing accounts for social security and staff pension fund contributions	54,035	50,330
Clearing accounts	5,813	44,835
Miscellaneous other liabilities	7,323	7,769
Total other liabilities	437,385	500,912

6.1 Assets pledged or assigned as security for own commitments and assets subject to reservation of title

	Current year amount due or book value in 1000 CHF	Current year of which made use of in 1000 CHF	Prior year amount due or book value in 1000 CHF	Prior year of which made use of in 1000 CHF
Mortgage receivables	5,904,406	4,433,481	5,896,708	4,039,660
Financial assets	1,298,024	903,498	1,829,454	1,461,482
Tangible fixed assets	24,856	13,141	31,275	19,625
Total pledged assets	7,227,286	5,350,120	7,757,437	5,520,767

6.2 Securities lending and repurchase operations

	Current year in 1000 CHF	Prior year in 1000 CHF
Claims resulting from cash collateral in connection with securities borrowing and reverse repurchase operations	6,737,225	8,076,821
Liabilities resulting from cash collateral in connection with securities lending and repurchase operations	4,373,523	7,782,953
Securities owned by the bank lent under securities lending agreements, delivered as collateral for securities borrowing or transferred from repurchase transactions	903,498	1,461,482
for which the right to resell or pledge without restriction was granted	903,498	1,461,482
Securities received as collateral under securities lending agreements, borrowed under securities borrowing agreements or received from reverse repo transactions and which can be repledged or resold without restriction	6,833,076	8,218,435
of which repledged or resold securities	3,472,003	6,353,975

7 Liabilities to own social insurance institutions

	Current year in 1000 CHF	Prior year in 1000 CHF
Liabilities to clients in the form of savings and investment deposits	55,271	66,919
Other commitments to clients	66,680	83,729
Total liabilities to own social insurance institutions	121,951	150,648

The retirement benefit schemes of the Raiffeisen Group

Practically all employees of the Raiffeisen Group are covered by the pension fund and pension plan of the Swiss Union of Raiffeisen Banks (SURB). The normal retirement age is set at 65. Members have the option of taking early retirement from the age of 60 with a corresponding reduction in benefits. The pension fund of the SURB covers at least the mandatory benefits under the Swiss occupational pension law. The pension plan exclusively covers supplementary benefits.

The pension fund of the SURB converted its defined benefit scheme to a defined contribution scheme on 1 January 2005. The one-off transfer costs, which primarily cover the costs of pensions for older insured persons, amount to 31,772,944 Swiss francs. 21,912,040 Swiss francs of these costs were covered by the financing foundation for the pension fund of the SURB, while the remainder was debited directly to the consolidated profit and loss account.

The pension schemes of the SURB are of the defined contribution type as defined by SWISS GAAP FER 16. This means that

- the employer contributions are fixed
- if the pension plan does not have sufficient assets, the principle of fixed contributions by the company is not broken
- the occurrence of special investment or insurance situations within the pension schemes does not result in cost increases/reductions for the company
- surpluses achieved by the pension schemes are always applied in favour of beneficiaries

In 2005, the Raiffeisen Group paid and accounted for all employer contributions via personnel expenditure. Expenditure by the Raiffeisen Group on retirement benefits is higher than the statutory employer contributions due to voluntary payments. Details can be found in note 22 "Personnel expenditure".

As the pension schemes are of the defined contribution type, no actuarial calculations based on a retrospective method are required for the Annual Report to be published.

At 31 December 2005, an employer contribution reserve of 56,004,876 Swiss francs (prior year 67,467,883 Swiss francs) existed with the financing foundation for SURB employee benefits and with other pension schemes.

No liabilities resulting from the termination of employment relationships exist for which provisions have not been made.

8 Outstanding bonds and mortgage bond loans

	Year of issue	Interest rate	Maturity	Early redemption possibility	Bond principal in 1000 CHF
Bonds of the Swiss Union of Raiffeisen Banks					
	1996	4.000	06.02.2006		100,000
	1998	3.500	24.08.2006		150,000
	1999	3.250	27.05.2009		250,000
	2000	4.625	22.06.2006		500,000
	2001/02	4.000	02.02.2011		600,000
	2004	1.400	19.02.2007		70,000
	2004	3.000	05.05.2014		400,000
Total bonds of the Swiss Union of Raiffeisen Banks					2,070,000
Bonds of the Central Issuing Office of the Swiss Raiffeisen Banks					
	1997	4.250	05.02.2007		100,000
	1997	4.000	30.05.2007		100,000
	1997	4.125	20.11.2007		100,000
	1998	3.500	30.01.2006		200,000
	1998	3.250	31.03.2008		200,000
Total bonds of the Central Issuing Office of the Swiss Raiffeisen Banks					700,000
Mortgage bond loans					
	var.	3.039	var.		4,304,350
Total mortgage bond loans					4,304,350
Total outstanding bonds and mortgage bond loans					7,074,350

9 Value adjustments and provisions

	End of prior year in 1000 CHF	Appropriate application in 1000 CHF	Write-backs, overdue interest in 1000 CHF	New provisions against P & L in 1000 CHF	Reversal of provisions against P & L in 1000 CHF	End of current year in 1000 CHF
Provision for deferred taxes	528,324	–	–	45,005 ¹	–	573,329
Value adjustments and provisions for default risks (del credere and country risk)	505,397	– 46,157	7,354	136,746	– 105,381	497,959
Value adjustments and provisions for other business risks	23,734	– 6,221	–	9,877	– 1,309	26,081
of which provisions for restructuring costs ²	3,400	– 661	–	1,300 ²	–	4,039
Total value adjustments and provisions	1,057,455	– 52,378	7,354	191,628	– 106,690	1,097,369

1) of which 5.2 million Swiss francs from the initial equity valuation by the Mortgage Bond Bank of the Swiss Mortgage Institutions (via retained earnings)

2) made in respect of personnel expenditure

10 Evidence of equity capital

	Number of members	Nom. amount/share	in 1000 CHF
Equity capital at the beginning of the current year			
Cooperative capital with additional funding obligation	1,251,730	–	257,947
Cooperative capital without additional funding obligation*			103,806
Total equity capital	1,251,730	–	361,753
Retained earnings			4,973,628
Total equity capital at the beginning of the year (before approp. of profits)	1,251,730	–	5,335,381
+ Payments from new cooperative members (with additional funding obligation)	92,834	200	18,567
	210	300	63
	216	400	86
	1,671	500	836
+ Payment of cooperative shares without additional funding obligation			25,454
Total payments from new cooperative members	94,931	–	45,006
– Repayments to departing cooperative members	– 36,376	200	– 7,275
(with additional funding obligation)	– 120	300	– 36
	– 101	400	– 40
	– 527	500	– 264
– Payments through increase in nominal capital			– 2,949
– Repayment of cooperative shares without additional funding obligation			– 533
Total repayments for departing cooperative members	– 37,124	–	– 11,097
+ Revaluation of a participation according to the equity method			17,407
– Interest paid on the cooperative capital of the Raiffeisen banks in the prior year			– 19,306
+ Group profit in current year			608,251
Total equity capital at the end of the current year (before approp. of profits)	1,309,537	–	5,975,642
of which cooperative capital with additional funding obligation	1,280,049	200	256,010
	4,909	300	1,473
	4,216	400	1,686
	20,363	500	10,182
of which cooperative capital without additional funding obligation			126,311
Total cooperative capital at the end of the current year	1,309,537	–	395,662
of which retained earnings			4,971,729
of which group profit			608,251
Additional funding obligation of the cooperative members			10,476,296

* Only those cooperative members who have a share certificate with additional funding obligation may subscribe to cooperative capital without additional funding obligation. To avoid double counting, the number of members is shown only under the position "Cooperative capital with additional funding obligation".

Non-distributable statutory or legal reserves (in accordance with Swiss GAAP FER 24 section 11) based on separate financial statements at 31 December 2005: 1,876,533,000 Swiss francs (prior year 1,757,945,000 Swiss francs).

No cooperative member holds more than 5% of voting rights.

11 Maturity structure of current assets and outside debt

	On demand in 1000 CHF	Redeemable by notice in 1000 CHF	Due within 3 months in 1000 CHF	Due within 3 to 12 months in 1000 CHF	Due within 1 to 5 years in 1000 CHF	Due after 5 years in 1000 CHF	Total in 1000 CHF
Current assets							
Liquid funds	1,139,567	–	–	–	–	–	1,139,567
Receivables from money market sec.	10,846	–	–	–	–	–	10,846
Receivables from banks	733,478	–	7,410,805	1,985,434	–	–	10,129,717
Receivables from clients	87,703	3,456,585	454,874	785,877	1,813,811	289,571	6,888,421
Mortgage receivables	46,442	28,185,463	3,496,738	9,242,578	39,113,736	3,808,312	83,893,269
Trading portfolios in securities and precious metals	56,197	–	–	–	–	–	56,197
Financial assets*	137,966	–	86,784	456,765	1,690,789	482,376	2,854,680
Total current assets							
Current year	2,212,199	31,642,048	11,449,201	12,470,654	42,618,336	4,580,259	104,972,697
Prior year	2,305,954	35,102,623	9,626,159	13,516,645	39,765,770	2,686,555	103,003,706
Outside debt							
Liabilities to banks	1,158,050	–	5,227,963	681,889	2,226,513	446,209	9,740,624
Liabilities to clients in the form of savings and investment deposits	–	61,984,063	–	–	–	–	61,984,063
Other liabilities to clients	5,827,685	64,708	2,286,868	935,639	1,149,983	360,363	10,625,246
Medium-term notes	–	–	591,964	1,668,568	7,822,360	674,609	10,757,501
Bonds and mortgage bond loans	–	–	300,000	1,208,000	2,848,850	2,717,500	7,074,350
Total outside debt							
Current year	6,985,735	62,048,771	8,406,795	4,494,096	14,047,706	4,198,681	100,181,784
Prior year	6,332,365	59,980,089	11,080,884	4,516,559	13,305,191	3,517,422	98,732,510

* The financial assets include 38,314,000 Swiss francs of real estate (prior year 56,151,000 Swiss francs).

12 Loans to executive bodies and transactions with associated persons

	Current year in 1000 CHF	Prior year in 1000 CHF
12.1 Loans to executive bodies and employees		
Members of the Board of Directors and Supervisory Board of the Swiss Union of Raiffeisen Banks	15,843	16,006
Members of the Executive Board of the Swiss Union of Raiffeisen Banks	9,975	6,716
Total loans to executive bodies and employees	25,818	22,722

12.2 Transactions with associated persons

The same procedures regarding processing and supervision apply to loans to executive bodies as to other loans.

The same conditions apply to members of the Board of Directors and the Supervisory Board as to other clients.

The Bank's management enjoys the same industry-standard preferential terms as other personnel.

13 Breakdown of foreign and domestic assets and liabilities

	Current year domestic in 1000 CHF	Current year foreign in 1000 CHF	Prior year domestic in 1000 CHF	Prior year foreign in 1000 CHF
Assets				
Liquid funds	1,136,758	2,809	1,251,277	7,401
Receivables from money market securities	10,846	–	13,235	–
Receivables from banks	2,783,519	7,346,198	3,633,000	8,618,020
Receivables from clients	6,857,525	30,896	7,062,156	31,615
Mortgage receivables	83,893,269	–	79,471,579	–
Trading portfolio in securities and precious metals	34,724	21,473	10,832	8,819
Financial assets	2,785,996	68,684	2,874,382	21,390
Non-consolidated participations	354,469	3,662	344,443	3,662
Tangible fixed assets	1,631,071	–	1,597,893	–
Intangibles	11,565	–	9,791	–
Accrued income and prepaid expenses	207,983	–	204,226	–
Other assets	1,005,153	–	933,817	–
Total assets	100,712,878	7,473,722	97,406,631	8,690,907
Liabilities				
Liabilities to banks	5,865,115	3,875,509	7,712,114	3,290,253
Liabilities to clients in the form of savings and investment deposits	60,771,235	1,212,828	58,792,413	1,120,110
Other liabilities to clients	10,375,698	249,548	10,561,447	250,155
Medium-term notes	10,757,501	–	10,114,018	–
Bonds and mortgage bond loans	7,074,350	–	6,892,000	–
Accrued expenses and deferred income	494,420	–	471,280	–
Other liabilities	437,385	–	500,912	–
Value adjustments and provisions	1,097,369	–	1,057,455	–
Cooperative capital	395,662	–	361,753	–
Retained earnings	4,971,729	–	4,467,766	–
Group profit	608,251	–	505,862	–
Total liabilities	102,848,715	5,337,885	101,437,020	4,660,518

14 Total assets by country or country group

	Current year in 1000 CHF	Current year in %	Prior year in 1000 CHF	Prior year in %
Assets				
Switzerland	100,712,878	93.09	97,406,631	91.81
Rest of Europe	7,358,244	6.80	8,509,036	8.02
Rest of world (America, Asia, Oceania, Africa)	115,478	0.11	181,871	0.17
Total assets	108,186,600	100.00	106,097,538	100.00

15 Balance sheet by currency

	CHF in 1000 CHF	EUR in 1000 CHF	USD in 1000 CHF	Various in 1000 CHF	Total in 1000 CHF
Assets					
Liquid funds	926,052	156,546	13,027	43,942	1,139,567
Receivables from money market securities	9,901	831	88	26	10,846
Receivables from banks	9,292,870	589,242	215,059	32,546	10,129,717
Receivables from clients	6,875,131	7,971	5,103	216	6,888,421
Mortgage receivables	83,893,269	–	–	–	83,893,269
Trading portfolio in securities and precious metals	28,978	–	3,140	24,079	56,197
Financial assets	2,802,843	780	7,862	43,195	2,854,680
Participations	354,689	3,442	–	–	358,131
Tangible fixed assets	1,631,071	–	–	–	1,631,071
Intangibles	11,565	–	–	–	11,565
Accrued income and prepaid expenses	207,983	–	–	–	207,983
Other assets	1,005,153	–	–	–	1,005,153
Total assets reflected in the balance sheet	107,039,505	758,812	244,279	144,004	108,186,600
Delivery claims under spot exchange, forward exchange and currency option contracts	116,878	362,782	260,745	15,560	755,965
Total assets	107,156,383	1,121,594	505,024	159,564	108,942,565
Liabilities					
Liabilities to banks	9,042,886	468,555	229,083	100	9,740,624
Liabilities to clients in the form of savings and investment deposits	61,763,288	220,775	–	–	61,984,063
Other liabilities to clients	10,069,308	344,006	130,907	81,025	10,625,246
Medium-term notes	10,757,501	–	–	–	10,757,501
Bonds and mortgage bond loans	7,074,350	–	–	–	7,074,350
Accrued expenses and deferred income	494,420	–	–	–	494,420
Other liabilities	437,385	–	–	–	437,385
Value adjustments and provisions	1,097,369	–	–	–	1,097,369
Cooperative capital	395,662	–	–	–	395,662
Retained earnings	4,971,729	–	–	–	4,971,729
Group profit	608,251	–	–	–	608,251
Total liabilities reflected in the balance sheet	106,712,149	1,033,336	359,990	81,125	108,186,600
Delivery obligations under spot exchange, forward exchange and currency option contracts	587,611	25,685	127,211	15,458	755,965
Total liabilities	107,299,760	1,059,021	487,201	96,583	108,942,565
Net position per currency	– 143,377	62,573	17,823	62,981	–

	31.12.2005	31.12.2004
Foreign currency conversion rates		
EUR	1.557	1.543
USD	1.312	1.133



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Information on Off-Balance-Sheet Business

16 Contingent liabilities

	Current year in 1000 CHF	Prior year in 1000 CHF
Loan security guarantees	142,100	121,205
Warranty bonds	63,888	64,773
Other contingent liabilities	110,360	122,239
Total contingent liabilities	316,348	308,217

17 Open derivative financial instruments

17.1 Trading instruments with internal and external counterparties

	Positive contract replace- ment value in 1000 CHF	Negative contract replace- ment value in 1000 CHF	Contract volume up to 1 year in 1000 CHF	Contract volume 1 to 5 years in 1000 CHF	Contract volume over 5 years in 1000 CHF	Contract volume total in 1000 CHF
Interest rate instruments						
Futures contracts incl. FRAs	–	1,186	250,000	–	–	250,000
Swaps	177,711	179,678	10,565,000	17,426,500	4,273,000	32,264,500
Futures	–	–	797,248	75,000	–	872,248
Options (OTC)	–	1,058	86,391	147,849	8,979	243,220
Foreign currencies						
Futures contracts	16,747	16,623	565,709	–	–	565,709
Comb. interest rate/currency swaps	10,822	10,818	512,374	27,842	144,309	684,524
Options (OTC)	307	307	25,481	–	–	25,481
Precious metals						
Futures contracts	180	169	11,743	–	–	11,743
Total						
Current year	205,767	209,839	12,813,945	17,677,191	4,426,288	34,917,424
Prior year	223,083	238,677	28,520,851	15,144,278	3,561,570	47,226,699

17.2 Hedging instruments with internal counterparties

	Positive contract replacement value in 1000 CHF	Negative contract replacement value in 1000 CHF	Contract volume up to 1 year in 1000 CHF	Contract volume 1 to 5 years in 1000 CHF	Contract volume over 5 years in 1000 CHF	Contract volume total in 1000 CHF
Interest rate instruments						
Swaps	55,227	86,132	1,375,000	7,355,000	1,855,000	10,585,000
Foreign currencies						
Forward contracts	14,540	–	131,200	–	–	131,200
Comb. int. rate/currency swaps	4,475	6,344	252,234	14,013	71,209	337,456
Total						
Current year	74,242	92,476	1,758,434	7,369,013	1,926,209	11,053,656
Prior year	50,685	126,096	5,658,355	5,978,968	1,598,100	13,235,423

17.3 Derivative financial instruments by external counterparty

	Positive contract replacement value in 1000 CHF	Negative contract replacement value in 1000 CHF	Contract volume up to 1 year in 1000 CHF	Contract volume 1 to 5 years in 1000 CHF	Contract volume over 5 years in 1000 CHF	Contract volume total in 1000 CHF
Banks	111,837	133,448	10,010,608	10,084,329	2,491,100	22,586,036
Clients	1,454	2,149	247,656	148,849	8,979	405,484
Stock exchanges	–	–	797,248	75,000	–	872,248
Total						
Current year	113,291	135,597	11,055,511	10,308,178	2,500,079	23,863,768
Prior year	96,987	187,992	22,862,495	9,165,311	1,963,470	33,991,276

No netting contracts were used.

Quality of counterparties

Banks: Derivative transactions were conducted with counterparties with a good to very good credit rating. 99 percent of the positive replacement values are open with counterparties with a rating of A or better (Standard & Poor's) or with a comparable rating.

Clients: In transactions with clients the required margins were secured by assets or free credit lines.

18 Fiduciary transactions

	CHF in 1000 CHF	EUR in 1000 CHF	USD in 1000 CHF	Various in 1000 CHF	Total in 1000 CHF
Fiduciary investments with third-party banks	6,933	111,047	36,012	9,479	163,470
Total fiduciary transactions	6,933	111,047	36,012	9,479	163,470
Prior year	500	107,353	29,075	9,622	146,550



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Information on the Profit and Loss Account

19 Net income from commission business and service transactions

	Current year in 1000 CHF	Prior year in 1000 CHF
Commission income		
Commission income from lending business	5,643	5,262
Commission income from securities and investment business		
Fund business	60,110	52,145
Custody account business	32,279	26,002
Brokerage	48,184	34,979
Other securities and investment business	16,975	10,282
Commission income from other service transactions		
Payments	78,929	85,490
Account maintenance	26,618	25,520
Other service transactions	16,093	13,540
Total commission income	284,831	253,220
Commission expenditure		
Securities business	- 12,974	- 13,030
Payments	- 46,210	- 62,086
Other commission expenditure	- 8,641	- 6,123
Total commission expenditure	- 67,825	- 81,239
Total net income from commission business and service transactions	217,006	171,981

20 Net trading income

	Current year in 1000 CHF	Prior year in 1000 CHF
Foreign currency trading	70,487	52,576
Precious metal trading	3,676	454
Equities trading	7,849	5,573
Fixed income trading	- 6,503	- 2,245
Total net trading income	75,509	56,358

21 Income from participating interests

	Current year in 1000 CHF	Prior year in 1000 CHF
Holdings valued according to the equity method	4,016	4,163
Other non-consolidated holdings	20,084	4,189
Total income from participating interests	24,100	8,352

22 Personnel expenditure

	Current year in 1000 CHF	Prior year in 1000 CHF
Corporate bodies, attendance fees and fixed emoluments	19,580	18,341
Salaries and bonuses for staff	586,666	551,138
AHV, IV, ALV and other statutory contributions	56,820	53,131
Contributions to staff pension funds	48,004	37,100
Contribution to financing foundation for SURB employee benefits	18,018	18,188
Ancillary staff expenses	19,437	19,091
Total personnel expenditure	748,525	696,989

23 Operating expenditure

	Current year in 1000 CHF	Prior year in 1000 CHF
Occupancy costs	61,487	58,211
Cost of computer equipment, machinery, furniture, vehicles and other equipment	136,838	121,352 ¹
Other operating expenditure	210,551	191,951 ^{1,2}
Total operating expenditure	408,876	371,514

1) The payment services charges that were previously listed under "Cost of computer equipment, machinery, furniture, vehicles and other equipment" and the production costs for Maestro cards and account cards listed under "Other operating expenditure", as well as post office account charges and charges for processing ATM fees, are now included in "Commission expenditure".

2) The postal charges passed on to clients are now booked as expense reductions in "Other operating expenditure" instead of in "Commission income from other service transactions".

24 Extraordinary income and expenditure

Current year

The extraordinary income of 53.9 million Swiss francs includes the price gains from non-consolidated participations of 35.6 million Swiss francs, the proceeds from the sale of a holding of 11.7 million Swiss francs and profits from the sale of tangible fixed assets of 3 million Swiss francs.

The extraordinary expenditure of 6.7 million Swiss francs includes losses from the sale of tangible fixed assets of 4 million Swiss francs.

Prior year

Included in the extraordinary income of 11.8 million Swiss francs and the extraordinary expenditure of 5.1 million Swiss francs are, in particular, gains and losses from the sale of tangible fixed assets.

25 Tax expenditure

	Current year in 1000 CHF	Prior year in 1000 CHF
Formation of provisions for deferred taxes	39,805	45,524
Expenditure for current income tax	129,229	108,212
Total tax expenditure	169,034	153,736

26 Calculation of mandatory capital

	Current year nominal in 1000 CHF	Current year risk-weighted positions in 1000 CHF	Prior year nominal in 1000 CHF	Prior year risk-weighted positions in 1000 CHF
Mandatory capital				
Direct assets requiring equity backing				
Receivables from banks	10,129,717	849,972	12,251,020	1,046,809
Receivables from clients	6,888,421	3,355,432	7,093,771	3,332,965
Mortgage receivables	83,893,269	43,899,528	79,471,579	41,733,142
Real estate in financial assets	38,314	143,678	56,151	210,566
Tangible fixed assets/intangibles	1,642,636	5,359,779	1,607,684	5,248,210
Accrued income and prepaid expenses	207,983	191,778	204,226	185,220
Other assets, total replacement value	113,292	68,285	96,987	67,341
Other assets, miscellaneous	891,862	58,308	831,707	49,764
Indirect assets requiring equity backing				
Net positions outside trading book	2,789,313	660,219	2,820,452	789,082
Market risk positions	–	620,346	–	685,952
Deductible liabilities				
Deductible provisions in the liabilities	– 497,959	– 373,469	– 505,397	– 379,048
Off-balance-sheet transactions				
Contingent liabilities	316,348	202,704	308,217	144,671
Irrevocable commitments	39,345	98,362	37,104	92,758
Add-ons for forward contracts and options purchased	–	63,794	–	61,652
Total risk-weighted positions		55,198,716		53,269,083
Mandatory capital (8% of risk-weighted positions)		4,415,897		4,261,527
Available capital				
Eligible core capital		5,954,214		5,316,081
Eligible supplementary capital		2,977,107		2,658,041
./. Participations in the financial area		– 352,835		– 342,691
Total allowable capital		8,578,486		7,631,431
Equity surplus		4,162,589		3,369,904
Equity cover		194.3%		179.1%
Tier 1 ratio		10.8%		10.0%
Tier 2 ratio		15.5%		14.3%

Auditing report for the consolidated annual financial statements

Auditing report for the Raiffeisen Group's consolidated annual financial statements to the Board of Directors of the Swiss Union of Raiffeisen Banks, St.Gallen

We have audited the consolidated financial statements as contained on pages 86 to 122 (consolidated balance sheet, consolidated profit and loss account, statement of cash flows and notes) for the year ended on 31 December 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting principles applicable to banks and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG
Peter Ochsner Beat Rüttsche

St.Gallen, 31 March 2006



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Group Companies Compared

	Raiffeisen banks		SURB		Other Group companies		Consolidation effects		Raiffeisen Group	
	Current year in CHF mill.	Prior year in CHF mill.	Current year in CHF mill.	Prior year in CHF mill.	Current year in CHF mill.	Prior year in CHF mill.	Current year in CHF mill.	Prior year in CHF mill.	Current year in CHF mill.	Prior year in CHF mill.
Profit and loss account										
Net interest income	1,597	1,518	103	100	12	10	4	6	1,716	1,634
Net income from commission business and service transactions*	144	100	71	69	2	3	–	–	217	172
Net trading income	51	39	25	18	–	–	–	–1	76	56
Other ordinary result*	–9	–16	173	143	184	160	–299	–255	49	32
Operating income	1,783	1,641	372	330	198	173	–295	–250	2,058	1,894
Personnel expenditure	–551	–515	–147	–135	–90	–81	39	34	–749	–697
Operating expenditure*	–433	–408	–141	–137	–79	–69	244	242	–409	–372
Total operating expenditure	–984	–923	–288	–272	–169	–150	283	276	–1,158	–1,069
Gross profit	799	718	84	58	29	23	–12	26	900	825
Depreciation on fixed assets	–115	–112	–35	–35	–19	–15	41	33	–128	–129
Value adjustments, provisions and losses	–468	–432	–10	–1	–2	–3	438	393	–42	–43
Operating profit (interim result)	216	174	39	22	8	5	467	452	730	653
Key balance sheet figures										
Balance sheet total	97,973	93,277	24,404	26,373	1,248	1,349	–15,438	–14,901	108,187	106,098
Loans to clients	86,198	81,856	4,525	4,673	377	298	–318	–262	90,782	86,565
Client monies	77,482	74,391	5,878	6,444	61	49	–54	–46	83,367	80,838

* Prior-year figures were adjusted to correspond with the new profit and loss account structure (see page 87).

Balance Sheet – Five-Year Overview

	2005 in CHF million	2004 in CHF million	2003 in CHF million	2002 in CHF million	2001 in CHF million
Assets					
Liquid funds	1,140	1,259	1,234	997	1,036
Receivables from money market securities	11	13	15	18	25
Receivables from banks	10,130	12,251	13,788	10,814	5,463
Receivables from clients	6,888	7,094	7,723	7,331	7,320
Mortgage receivables	83,893	79,471	74,154	68,570	63,501
Loans to clients	90,782	86,565	81,877	75,901	70,821
Trading portfolios in securities and precious metals	56	20	25	27	73
Financial assets	2,855	2,896	3,049	2,771	2,988
Non-consolidated participations	358	348	120	114	110
Tangible fixed assets	1,631	1,598	1,552	1,511	1,464
Intangibles	12	10	6	4	8
Accrued income and prepaid expenses	208	204	275	271	279
Other assets	1,005	934	199	256	142
Total assets	108,187	106,098	102,140	92,684	82,409
Liabilities					
Liabilities to banks	9,741	11,002	12,540	9,509	6,127
Liabilities to clients in the form of savings and investment deposits	61,984	59,912	57,228	51,499	45,645
Other liabilities to clients	10,625	10,812	8,667	7,305	7,247
Medium-term notes	10,758	10,114	9,323	9,589	9,133
Client monies	83,367	80,838	75,218	68,393	62,025
Bonds and mortgage bond loans	7,074	6,892	7,506	8,124	8,188
Accrued expenses and deferred income	494	471	557	562	510
Other liabilities	437	501	483	776	726
Value adjustments and provisions	1,097	1,058	1,031	986	952
Cooperative capital	396	362	320	287	249
Retained earnings	4,972	4,468	4,032	3,618	3,297
Group profit	608	506	453	429	335
Total equity capital	5,976	5,336	4,805	4,334	3,881
Total liabilities	108,187	106,098	102,140	92,684	82,409

Profit and Loss Account – Five-Year Overview

	2005 in CHF million	2004 in CHF million	2003 in CHF million	2002 in CHF million	2001 in CHF million
Interest and discount income	2,861	2,757	2,795	3,049	3,115
Interest and dividend income from financial assets	82	88	98	106	115
Interest expenditure	- 1,227	- 1,211	- 1,314	- 1,704	- 1,904
Net interest income	1,716	1,634	1,579	1,451	1,326
Commission income from lending business	6	5	6	4	3
Commission income from securities and investment business	158	123	105	104	113
Commission income from other service transactions*	122	125	111	95	113
Commission expenditure*	- 68	- 81	- 68	- 66	- 84
Net income from commission business and service transactions	217	172	154	137	145
Net trading income	76	56	66	62	54
Income from sale of financial assets	2	2	2	1	-
Income from participating interests	24	8	7	8	8
Income from real estate	17	17	19	17	20
Other ordinary income*	7	6	8	10	6
Other ordinary expenditure	- 1	- 1	- 4	- 10	- 11
Other ordinary result	49	32	32	26	23
Operating income	2,058	1,894	1,831	1,676	1,548
Personnel expenditure	- 749	- 697	- 639	- 608	- 556
Operating expenditure*	- 409	- 372	- 336	- 338	- 313
Total operating expenditure	- 1,157	- 1,069	- 975	- 946	- 869
Gross profit	900	825	856	730	679
Depreciation on fixed assets	- 128	- 129	- 134	- 142	- 228
Value adjustments, provisions and losses	- 42	- 43	- 153	- 70	- 77
Operating profit (interim result)	730	653	569	518	374
Extraordinary income	54	12	29	7	1
Extraordinary expenditure	- 7	- 5	- 5	- 2	- 13
Taxes	- 169	- 154	- 140	- 94	- 27
Group profit	608	506	453	429	335

* Prior-year figures were adjusted to correspond with the new profit and loss account structure (see page 87).



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Important characteristics of the Raiffeisen Banking Group

The most important special features of the Raiffeisen Banking Group are described with the following keywords.

Cooperative banks ■ Each of the 421 Raiffeisen banks is an independent cooperative with directly elected banking authorities.

Members/share certificate ■ The members themselves are responsible for the individual Raiffeisen banks. With the share certificate, they are, as cooperative members, co-owners in equal shares of their Raiffeisen bank.

Integration in the Swiss Union ■ The Swiss Union of Raiffeisen Banks fulfils the strategic management function for the entire Raiffeisen Group. In addition, it is responsible for Group-wide risk management, ensuring liquidity and capital adequacy and refinancing. It also coordinates the Group's activities, creates the basic conditions for the business activity of the local Raiffeisen banks (such as IT, infrastructure and refinancing) and advises and supports them in all matters. Furthermore, the Swiss Union of Raiffeisen Banks operates the central treasury, trade and processing functions for the entire Raiffeisen Group.

Security/solidarity ■ The Union is a united solidarity group. The Swiss Union represents the last line of defence in the security network of the Raiffeisen banks.

Manageability ■ Each Raiffeisen bank has its own business circle. Business is only permitted within the clearly defined geographical area.

Client proximity ■ Being close to the client is not only ideal business philosophy but also has its business reasons. As a rule, the bank directors and employees know their members and clients personally.

Loans to members ■ Loans are predominantly made to cooperative members, against collateral, and to public bodies. The majority of loans are invested in residential properties.

Conditions ■ The individual Raiffeisen banks are autonomous in setting interest rates. The member products of Raiffeisen banks are especially attractive.

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