



Raiffeisen

A vision conquers the world

by Herbert Matis



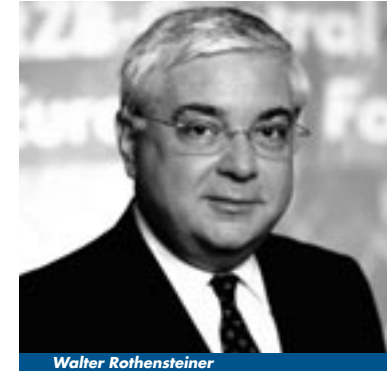
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Preface by the Chairmen of RZB’s Board of Management

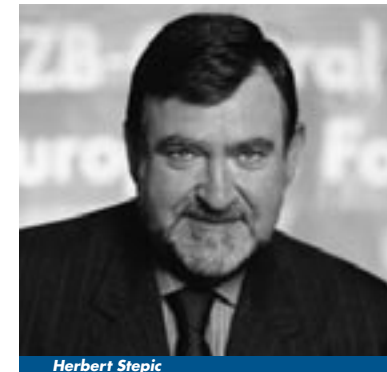
Dear colleague,

This booklet is a short summary of the life, ideas, works and heritage of F.W. Raiffeisen – the founder and mentor of the now globe-spanning co-operative movement named after him – Raiffeisen. We are proud that Herbert Matis, Professor at the *Vienna University for Economics and Business Administration*, agreed to be the author of this booklet. He is perhaps Austria’s most reputable social and economic historian and an expert on F.W. Raiffeisen.



Walter Rothensteiner

“Raiffeisen – a vision conquers the world” is dedicated to the staff of the RZB Group and should serve you as a brief, but nevertheless, comprehensive source of information on the background of our organisation. We are rooted deeply in the co-operative movement, the Raiffeisenbanks and most of the regional Raiffeisenbanks (Raiffeisenlandesbanks) – the shareholders of RZB – are organized as co-operatives. Our roots in and our role as the central institution of the strongest Austrian banking group give RZB enormous support and ensure that it has the necessary stability.



Herbert Stepic

F.W. Raiffeisen’s principles – translated into modern language – were, “Help yourself and don’t wait to be helped” and “As a group we are stronger”. They still apply to the RZB Group and the Austrian Raiffeisen Banking Group. All banking business is local to some

extent: We share F.W. Raiffeisen's believe in subsidiarity, a principle that enables local decision making and fosters entrepreneurship, while at the same time ensures the group as a whole works. The success of both the Austrian Raiffeisen Banking Group and RZB's network in Central and Eastern Europe is the best example of the dynamism these ideas create in today's environment.

The RZB Group has fine-tuned its Vision, Mission and Values Statement in 2002 that embodies the basic goals of our work, as well as the principles and rules of conduct that apply to all of us. They are based on F.W. Raiffeisen's founding principles and also reflect the specific working culture that has been created by 140 years of Raiffeisen banking and 75 years of RZB history.

We know where we come from, where we want to go and what we stand for. We have gained much of our strength from our rich heritage and our Mission, Vision and Values. We look forward to continuing on our shared path in the future!



Walter Rothensteiner
Chairman



Herbert Stepic
Deputy Chairman

of the Board of Management of
Raiffeisen Zentralbank Österreich AG (RZB)

Raiffeisen A vision conquers the world

by Herbert Matis

The RZB Group is part of the global Raiffeisen system. Spanning more than one hundred countries, it has 350 million members world-wide. Its 650,000 co-operative societies are organised in more than fifty branches. In the more than 150 years of its existence, the Raiffeisen organisation has remained firmly committed to its founder's principles, which were:

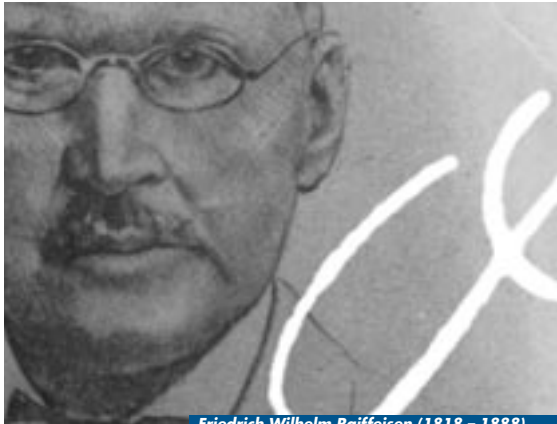
- co-operative behaviour;
- flexible organisation;
- self-reliance; and
- solidarity among members.

Even today, these principles are convincing concepts that guarantee the success of the international Raiffeisen movement. The RZB Group, consisting of *Raiffeisen Zentralbank Österreich AG (RZB)* and its global banking network and subsidiaries, is an essential part of the Austrian *Raiffeisen Banking Group (RBG)*, which represents one of the largest private banking groups world-wide. RZB is the central institution of RBG and plays a leading role among Central and Eastern European banks. With more than 500 business locations in 13 countries, it boasts the most developed banking network in this region. Offering a wide range of services from financing and global account management, transaction services, investment banking, market analysis, to electronic banking and asset management, it supports diverse market activities. As a result, the name Raiffeisen and the gable cross symbol that represents the Raiffeisen organisation are a strong brand, well known throughout the Central and Eastern European region.

Raiffeisen still stands for the name of the group's founder – for his visionary ideas, and for the whole organisation that he left to future generations.

Friedrich Wilhelm Raiffeisen

The man behind the mission.



Friedrich Wilhelm Raiffeisen (1818 - 1888)

Whereas the gable cross is a familiar sight and Raiffeisen is a household name, very few people know about their origins. Who was Friedrich Wilhelm Raiffeisen, the man who lent his name to the Raiffeisen organisation? What drove him to become one of the leading figures of the 19th century co-operative movement?

A lot of stories surrounding the person of Raiffeisen are mere legends. Far from being the heroic superman he is sometimes made out to have been, he was basically a Prussian official with a great sense of duty, a brilliant organiser, and an upright Christian, who empathised

with the misery of the fellow citizens entrusted to his care. He felt responsible for them and devoted himself to their well-being in the tradition of the old 'pater familias'. The honorary title, 'Father Raiffeisen', which was already given to him during his lifetime, could not have been more appropriate.

Determination distinguished Raiffeisen from contemporaries

Raiffeisen was not a heroic superman, neither was he a man of revolutionary ideas. His beliefs were mainly inspired by other early co-operative activities throughout Europe. The first consumer co-operative, for example, was organised, in 1844, by the *Equitable Pioneers*, a group of workers in Rochdale, England. In the same year, in Germany, professor Victor Aimé Huber developed some of the early European co-operative theories, among them the idea of credit societies. The demand for credit was an acute problem in the German states, where the capital market was overburdened with

government loans. Hermann Schulze-Delitzsch and F.W. Raiffeisen were responsible for creating the first genuine credit co-operatives in Germany.

While Schulze-Delitzsch set up the first *Volksbank* [literally translated 'People's Bank'] in the 1850s, Raiffeisen founded the very first credit union in the early 1860s. What they both had in common was a realistic knowledge of human nature and an aversion to ideological utopias. They did not want to improve the world as such, but they wanted to help people and regarded the association as a stabilising element for democracy. Their ideas became the cornerstone for the whole of the emerging co-operative movement.

What distinguished Raiffeisen from similar figures was, above all, the determination with which he pursued his aims. Furthermore, Raiffeisen is unique, as he is the only founder of a European co-operative whose name is still associated with his work. The principles he laid down still form the basis of the contemporary credit union movement.

Youth in poverty

Born on 30th, March 1818 in the small market town of Hamm in the German province of Westphalia, Friedrich Wilhelm Raiffeisen was the seventh of nine children. He came from a family of craftsmen, teachers and small farmers, who lived in difficult economic circumstances. His father, Gottfried Friedrich Raiffeisen, was a small farmer in the Siegerland, where his family had lived for generations.

Formerly mayor of Hamm, Gottfried Raiffeisen lost this position because of poor health and a drinking problem. He was unable to support his family from 1821 until his death in 1849, making it difficult for Friedrich's beloved mother, Susanne Marie, to bring up her nine children. Friedrich Wilhelm's godfather, Georg Friedrich Seipple, a Lutheran clergyman, made sure the young boy got an elementary education, which enabled him to start a military career at the age of seventeen.

In 1835, Raiffeisen enlisted in the Prussian army at Cologne, in the Rhine Province. Three years later he was sent to the garrison at Koblenz, where he hoped to become a non-commissioned officer in the Royal Artillery Corps. But early in 1842 he contracted a disease, possibly measles, which impaired his eyesight dramatically.



Raiffeisen's birthplace in Hamm, Germany

Career as a civil servant

After this illness, Raiffeisen left the army and began a civil service career as a Supernumerary of the city of Koblenz. Within a few months of settling into his new job, he was sent to Mayen, a small village in the Eifel region, where he worked as a local government secretary. He did so well that he was offered the position of mayor in the small town of Weyerbusch in the Westerwald, in 1845. At that time, mayors were part of the civil service and were appointed by the local authorities. They were not elected officials as they are today.

His promotion enabled Raiffeisen to marry Emily Storck, a pharmacist's daughter, in September 1845. In August 1846, the couple's first child, Amelia, was born. She was later to become his life-long assistant. From 1845 to 1865, Raiffeisen held a post in the Prussian Kingdom's civil service, acting as the mayor of several small towns in the immediate area.

Farmers and craftsman suffered from lack of capital

It was during this period that he became increasingly aware of the problems faced by ordinary people. The breakdown of the old order – the manorial and the guild systems – exposed farmers, as well as craftsmen, to free market forces. At a time of growing international trade in agricultural products, capital became increasingly important. Local craftsmen and farmers did not have enough investment capital to enable them to withstand the competition of

an increasingly globalized world market. They also had little access to credit for buying machinery, seeds, and fertilizers, as this was reserved for big landowners. It was considered extremely risky to grant small farmers loans, meaning they could only borrow money at high interest rates.

In 1846/47, Weyerbusch, like many other towns and villages in Central Europe had a bad harvest, followed by a severe famine. The majority of the population in rural Westerwald lived in extreme poverty. The famine of 1846/47 was the last of the old type of agricultural crises that were endemic in pre-industrial Europe.

Apart from the cyclical fluctuations of harvests, European farmers were confronted with structural problems that resulted from the emancipation of the peasantry in the early 19th century. The peasants, who had finally been freed from statutory labour dues and the tithe, now had to meet the challenge of global competition. As individual producers their resources were far too meagre for them to be able to cope with these radical changes. Farmers and especially smallholders – many of them illiterate – were not familiar with loans and credit. They frequently became the victims of excessive usury, falling into debt and losing all their possessions.



Farmers, around 1900

Confronted by people's misery F.W. Raiffeisen founded relief organisations

During the agricultural depression in mainland Europe, Raiffeisen was deeply moved by the hardship and suffering of his fellow citizens. Confronted by their misery, he came to the conclusion that what people needed above all was access to credit. "The farmer, the craftsman, and the wage labourer, too, must have their own banker. There are plenty of people in need of money but there is none available for the required loans," Raiffeisen said. Obviously, market

forces alone could not solve the problems faced by agrarian producers, particularly those caused by capital shortages and a lack of credit facilities.

Above all, Raiffeisen saw credit as an essential requirement for overcoming the cyclical fluctuations that had periodically hampered European agriculture up to the mid-nineteenth century. Moreover, he was aware there was a link between agricultural demand for investment goods and industrial prosperity – shortages in agricultural demand would sometime unleash an overall economic crisis. The famine in Central Europe of 1846/47 had obviously its share in provoking the revolutionary upheavals of the year 1848 in many parts of the European continent.

It is quite certain that Raiffeisen did not read the Communist Manifesto of 1848, written by his German contemporary Karl Marx. He was practical and, above all, open to people's needs. Notwithstanding his Christian belief in charity, he believed in the basic principle of 'people helping people'. Considering the economic problems of the time, Raiffeisen's practical principles greatly contributed to the solution of the so-called 'social question'.

■ **The 'Bread Union' and the first welfare organisations**



The communal bakery at Weyersbusch

In 1847, Raiffeisen laid the foundation for a communal bakery, the so-called *Brodverein* at Weyersbusch. The 'Bread Union' was a charitable body for distributing bread and grain to poor farmers. In spring 1848, the Raiffeisen family moved to the neighbouring town of Flammersfeld. Today, the half-timbered house, where the new mayor of Flammersfeld and his family lived for the next few years, serves as a Raiffeisen museum. In 1849, Raiffeisen founded the *Hülfsverein zur Unterstützung unbemittelter Landwirte* ['Relief Organisation to Aid Poor Farmers'] in Flammersfeld. This

organisation depended on the charity of wealthy patrons like the German Prince of Wied for support, giving its contributors control over the use of its funds. Thus, it was not a genuine co-operative.

Raiffeisen, who was aware of the importance of infrastructure in region's wealth and development, planned a local road network, in addition to the *Hülfsverein*. Having moved to neighbouring Heddersdorf in 1852, where he was also mayor, he founded a thrift and loan society called *Heddersdorfer Wohlfahrtsverein* ["Heddersdorfian Welfare Association"]. Its purpose was to subsidise poor farmers as well as to integrate vagrants, criminals and orphans into society. In the more urbanised Rhine province, where Raiffeisen then lived, the local craftsmen had suffered from a shortage of capital, and small businessmen were unable to compete with bigger firms. It became increasingly evident that the social problems that existed were mainly caused by the individual consumer's and/or producer's helplessness vis-à-vis the anonymous power of market forces.

Raiffeisen used his own modest fortune to set up a system of charitable loan societies to help his poor countrymen. The entire system obviously still depended on the charity of wealthy people for its support.

■ **Mutual self-help, founding principle of F.W. Raiffeisen's co-operatives**

Raiffeisen realised very early on that, in the long run, a successful self-help organisation could not be based on charity. It had to be built on the concept of mutual self-help: "There is but one way to improve the social and, above all, the economic lot of the population, and that is to apply the principle of Christianity to free co-operative societies," he said.

This vision marked the start-up of the first agrarian co-operative, which was organised along principles that are still fundamental today. Instead of relying on private charity or state-administered welfare, it seemed necessary for all the people involved to increase their market power. Those in need had to be motivated towards selfhelp,

unity and co-operation, which would enable them to sell goods at more favourable conditions and thus help them to remain competitive. The Heddesdorf initiative became the basis of the very first agrarian co-operative. Raiffeisen had the vision that his idea would attract others to follow his example – and he was right. Since then, Raiffeisen’s fundamental co-operative principles, i.e. self-reliance and self-administration, not only have remained the same, but also have inspired millions of people all over the world.

1864 – first Raiffeisen credit union

The idea of mutual self-help and co-operation was soon adapted to saving and loans as well. To that purpose, Raiffeisen encouraged the foundation of credit unions on a non-profit basis. In 1862, he became the co-founder of credit unions in the nearby villages of Anhausen, Rengsdorf and Bonefeld, and, in 1864, he transformed his Heddesdorfian Welfare Association into a credit union. The purpose of Raiffeisen’s credit unions was solely to give loans. All acts of charity were stopped. The idea behind the credit unions was to supply farmers and craftsmen with enough financial resources to buy, for example, seeds, crop protection, fertilisers, fodder and machines.



A detail from the „Raiffeisen fountain“ in Hamm

Following his initiative, other rural co-operatives merged to form credit unions, which offered a range of banking services to their members. Based on Raiffeisen’s principles, the credit union idea was simple: a credit union is a financial co-operative, owned and administered by its members on a non-profit basis and according to democratic principles. It is run solely to benefit its members, who have mutual and unlimited liability for all loans borrowed by other members. The aim of the credit union is to encourage members to save and pool their money, to provide loans for members for ‘prudent and productive’ purposes and at a reasonable rate of interest. This means that only people who are credit union members are

eligible to apply for loans and that there is a joint liability of members for loans.

First Regional and Central Banks established by F.W. Raiffeisen

Continuing the old tradition of good neighbourly relations, Raiffeisen’s concepts enabled large parts of the agrarian population to participate favourably in further economic progress. In 1872, Raiffeisen founded the first regional co-operative credit union, the *Rheinisch Landwirtschaftliche Genossenschaftsbank* [‘Rhineland Agricultural Co-operative Bank’] at Neuwied, by coordinating several local credit unions. He personally acted as the bank’s first director, and, in 1877, he unified the entire system by establishing the *Anwaltschaftsverband ländlicher Genossenschaften* [‘The Bar Association of Rural Co-operatives’] as a central unit.

After establishing a large network of local co-operatives it became necessary to impose a superstructure at regional and national levels to minimise financial risk, to exchange information, and to supply the member organisations with legal and legislative advice in the best possible way. The agricultural co-operative banks and their business arose from the traditional combination of money and products. Diverse product and service co-operatives were built up with increasing specialisation and increasing market integration. The central banking system that developed has been the supportive backbone of the co-operative credit system until now.

Three-tiered system established

Raiffeisen had originally planned a hierarchical organisation on three levels: local ‘primary co-operatives’ laid the basis, while on a regional level, there were ‘secondary co-operatives’. The whole structure was crowned by the *Deutsche ländliche Generalbank* [‘German Agrarian General Bank’] in Berlin. In 1881, the first agricultural warehouse was built. Since then, Raiffeisen warehouses

have been an integral part of the rural co-operative scene. Soon, other credit unions and co-operatives followed – further evidence of the remarkable progress of the Raiffeisen organisation.

However, the name ‘Raiffeisen’ was only adopted after the Second World War by German credit unions. Before that, they were called *Spar-und Darlehenskasse* [‘Savings and Loan Offices’] or, up to the 1920’s, *Darlehenskassenverein* [‘Loan Offices’ Associations’]. As for Raiffeisen’s well-known motto, “One for all and all for one”, it is not known whether or not it was borrowed from Alexandre Dumas’ ‘The Three Musketeers’ – a novel that was translated into German in 1844. On the other hand, it is equally possible that it is a quote from Saint Paul’s epistle to the Corinthians (2 Cor.5, 14-15) in which the saint says that Jesus Christ died as ‘one for all’. Whatever its origins, it is a fitting motto for the ‘Green Giant’ – a name which is sometimes used as a synonym for the Raiffeisen organisation as a whole.

■ **Private misfortune**

While Raiffeisen’s tireless efforts to help the poor were crowned with success, he suffered considerable misfortune in his private life. Two of his six children died a few weeks after they were born, and his wife Emily died after a heart attack in 1863. His eyesight deteriorated and in 1862, at the age of 47, he retired as mayor. He continued, however, to work in the co-operative movement, where he supervised the newly founded network of credit facilities. His elder daughter, Amelia, worked as his secretary, writing letters and manuscripts for the, by then, almost blind man. Even when he married a second time in December 1867, a widow called Maria Penserot, his daughter remained his closest collaborator.

In 1866, Raiffeisen had a book published. Its title sums up the co-operative programme – “Die Darlehenskassen Vereine als Mittel zur Abhilfe der Noth der ländlichen Bevölkerung sowie auch der städtischen Handwerker und Arbeiter” [“Credit Unions as a Remedy for the Poverty of the Rural Population as well as Urban Industrial

Workers and Artisans”]. This book, 227 pages long, went through eight editions, was translated and read throughout the whole world. Several years later, Raiffeisen published another book, the “Instruktion zur Geschäfts- und Buchführung der Darlehenskassenvereine” (1884), [“Instruction for the Management and Bookkeeping of Credit Unions”].

Raiffeisen also founded his own publishing house at Neuwied, where he edited calendars, pamphlets and all kinds of brochures to popularise his ideas. It was not until the mid-1870’s, though, that his kind of co-operative organisation became more widely known. One of the reasons for Raiffeisen’s growing success was that his missionary vision of the co-operative idea went beyond pecuniary help, to include education, participation in community life, social responsibility and mutual aid. To that purpose he organised educational programmes, gave public lectures and encouraged people to take a more active interest in political affairs. Nevertheless, Raiffeisen kept his co-operative movement free from any political affiliations.

■ **F.W. Raiffeisen’s ideas spanning the world**

At the time of Raiffeisen’s death in 1888, there were 425 Raiffeisen societies in Germany and about 120 in Austria. The idea, however, continued to grow and the Raiffeisen societies emphasised their founder’s Christian principles. From the mid-1870s onwards the co-operative idea turned into a true success story: the Raiffeisen organisation continued to prosper in Germany, the Austro-Hungarian Empire, France, Switzerland, Belgium, Luxembourg, and the Netherlands.

There was hardly a village without a credit union or without a warehouse carrying the sign of the gable cross. A wide range of Raiffeisen co-operatives sprang up quickly in many parts of Europe.



The late F. W. Raiffeisen

They included purchasing and marketing co-operatives, banks and warehouses catering for more or less the entire range of agricultural products. Within a short time, Raiffeisen's example triggered off a chain reaction. More loan associations were founded, which later came to be known as 'Raiffeisenbanks'. Soon, commodities and processing co-operatives were founded. They also operated on the basis of Raiffeisen's principles.

Over the years, the credit union movement developed rapidly throughout Europe, India, Japan, Canada, the USA and Australia – initially in the form of credit societies later on as credit unions. The credit societies in Germany, and similar institutions in Italy founded by Luigi Luzatti, were the forerunners of the large co-operative banks that have been prospering in Europe ever since. In 1871, credit union legislation was debated in North America, but both this initiative and later attempts to start credit unions in the USA were not very successful.

So, it was a French Canadian who transplanted the credit union concept to the western hemisphere. In 1900, Alphonse Des Jardins organised a credit union in the province of Quebec for very much the same reasons that Raiffeisen had in Germany 50 years before – people were poor, interest rates were crippling, and the idea of credit unions offered a way out. In the United States, Pierre Jay, a Massachusetts banking commissioner, and Edward A. Filene, a charitable Boston merchant, established the first credit union in 1909, all operating on the basis of self-help, self-reliance, and self-administration.

Memory is alive

Friedrich Wilhelm Raiffeisen died on 11th, March 1888 and was buried at the Heddesdorf cemetery. The memory of Raiffeisen and his work is kept alive today in various ways. The City of Neuwied erected a monument dedicated to 'Father Raiffeisen', an inscription he, himself, would probably have liked best. A modern bridge across the river Rhine also bears his name, and Raiffeisen's portrait

used on the five Deutschmark silver coin of the Federal Republic of Germany. There is also the Raiffeisen museum in the town of Weyerbusch, and the historic road – 40 kilometres long – from Hamm to Neuwied, built at the instigation of the former mayor and connecting most of the places he worked in, still bears his name. In Austria, there is hardly a town or village without the obligatory *Raiffeisenplatz* ['Raiffeisen square'] or *Raiffeisenstraße* ['Raiffeisen street'].

Above all, however, his name stands for the impressive organisation he left behind. What was born more than 150 years ago out of poverty and need, nowadays represents a convincing economic concept on a co-operative and democratic basis. There is no other form of co-operation that offers the same possibilities of participation and joint responsibility to its members. Today, in the days of growing global competition inspired by radical neo-liberal ideas, Raiffeisen's work is again very much in demand. According to his legacy, we should bear in mind that economic decisions should not solely be taken with a view to maximising profits. Instead, we also have to assume social responsibility for our fellow human beings and for nature, and strive for a sustainable economic development. As Friedrich Wilhelm Raiffeisen once remarked, "Co-operatives only represent what human insight, confidence and spirit are able to create."

Today, Raiffeisen's ideas remain as relevant as ever: 'Help for self-help' still is a convincing principle within the co-operative movement, which has become an integral part of our society and economy. The Raiffeisen organisation continues to play a key role in our global economy. Friedrich Wilhelm Raiffeisen's initial aim was to help his fellow citizens in the immediate neighbourhood overcome their economic difficulties. Little did he know that his ideas would inspire the whole world.



The commemorative plaque at the mayor's office in Flammersfeld

F.W. Raiffeisen's vision

A common symbol frequently decorating the roofs of the half-timbered, reed-thatched farmhouses in Northern Europe, was chosen as the trademark of the Raiffeisen organisation – two crossed horse heads. They symbolise a gable cross, which, following an old custom, used to be attached to the roof gable of houses, and was supposed to protect its inhabitants against all outside dangers. The symbol should also remind one of the Viking warships, with the prow in the shape of a horse head, to protect the crew during their perilous voyages. In 1877, still in the lifetime of F.W. Raiffeisen, the *Anwaltschaftsverband ländlicher Genossenschaften* [‘The Bar Association of Rural Co-operatives’] chose this protective symbol as its trademark, to indicate that Raiffeisen members are protected against economic dangers through their alliance and co-operation within the association.

From Raiffeisen’s point of view, the whole co-operative idea was based on religious and moral conviction. He was convinced that a decisive improvement of his fellow citizens’ economic situation had to come from within rather than be achieved with the help of outside forces. He believed in self-reliance because he advocated the free self-realization of the individual. In order to enable individuals to break through the vicious circle of poverty, indebtedness and social misery, they had to be supported by the community of fellow men.



Logotypes used by the Austrian Raiffeisen Banking Group (in historical order)

In Raiffeisen’s view, human beings were neither isolated individuals nor ‘economic men’ who maximised benefits. They were first and foremost seen as social beings and community members.

Only as the latter, could individuals preserve their personal dignity and master their lives through their own spiritual power and material strength. Raiffeisen’s view of human beings flies in the face of the imposed conformity of collectivism. Rather than collectivism, the Christian principles of ‘personality’ and ‘subsidiarity’ are emphasised. The innate abilities of individuals for self-help and mutual aid are deemed more important than government welfare and private charity. This also holds true in economically difficult situations. Only if the individual is too weak for self-help is the community of fellow beings supposed to show solidarity and help him solve his problems. These are relatively simple basic principles. Still, they represent plausible alternatives to both individualistic and collectivist approaches. Seen like this, the co-operative movement indeed represents a ‘third way’, different from capitalism as well as communism. This is also the reason why the Raiffeisen movement offers an attractive economic alternative not only for Central and East European countries, but also for Africa, Asia and Latin America.

Self-help, self-administration and self-reliance as guiding principles

Co-operative work is always guided by three personal attitudes that are closely interconnected: self-help, self-administration and self-reliance. This motto was laid down in the Raiffeisen organisation’s basic statutes and articles. More than 150 years of organisational development have not changed these guiding principles. The first aim of co-operatives is to serve as self-help institutions for their members, even today. They are voluntary organisations, i.e. free associations of individuals and economic agents. Their main idea is to increase the market power of their members and to improve the position of every single member by collective bargaining. Self-help means that the organisation is devoted to the principle of ‘subsidiarity’: Only if an individual member is too weak to cope with his/her

economic problems alone, should the organisation take steps to preserve the individual's economic independence.

Co-operatives could be defined as free associations of individuals who are shareholders with common goals, interests and liabilities. The basic principle of self-help is grounded in this free association of members who are partners with full responsibility and full rights. Vice versa, participation and partnership represent an integral part of a member's democratic rights. The ideal of democracy, which was another early principle of the Raiffeisen organisation, is based on self-administration from the bottom up. Nowadays there is no joint liability like in the days of 'Father Raiffeisen', but members still take full responsibility for the co-operative in their capacity as shareholders.

Despite an increasing number of members and a growing organisational complexity, the democratic principles of self-administration are still valid. Raiffeisen has always been synonymous with lively grassroots democracy. Of course, the patterns of decision-making have had to evolve to fit the needs of an increasingly complex world. That means, for example, that self-administration has been delegated to member-nominated authorities, such as the executive and supervisory boards, or to general or representative assemblies. Even if co-operatives, nowadays, are run by professionals or honorary chairpersons, the ruling principle – 'One man, one vote!' – remains the same as ever.

■ **Organisational structure based on subsidiarity**

Raiffeisen's legacy includes – besides a widespread banking network that offers a variety of financial services – a range of agrarian co-operatives, warehouses, purchasing and marketing co-operatives. They are all part of different local primary co-operatives that are self-administered and supervised by central units. Almost everywhere, where Raiffeisen is active, primary co-operatives on a local basis exist. They form a strong basis for the entire organisation. They are stand-alone businesses economically and legally, whose business activities concentrate on a spatially contiguous field. They

supply the local population with the resources they need and help organise the production and marketing of their products.

True to subsidiary principles, local primary co-operatives get together to form regional co-operative associations at the next administrative level. Regional co-operative associations take over tasks the primary co-operatives are unable to fulfil due to their economic and financial limitations. Regional headquarters combine supply and demand of primary co-operatives through wholesaling. As competent and reliable business partners, they work with bulk suppliers and industrial consumers, providing their members with warehouse facilities, legal expertise and marketing strategies. As well as coordinating the primary co-operatives, the regional headquarters also co-operate with each other.

For co-operative action at the national level, the regional co-operative associations have amalgamated to form central units, which carry out tasks that are important for the Raiffeisen organisation as a whole. Among these, are the co-ordination of supra-regional market equilibrium, combined buying and selling of products on national and international markets, co-ordination of world-wide exports, promoting trademarks, and, numerous ways of providing financial services for their co-operative associations. Together, they form the global Raiffeisen organisation, the collective goal of which is – following its founder's principles – the economic betterment of its members and customers. Raiffeisen agricultural co-operatives and their central institutions have proved to be strong and reliable partners for farmers for more than 150 years.



A typical old sign of a 'Sunday bank', usually in an inn, where people went after church, to pay in their savings or to draw money

Market orientation and international co-operation also in agricultural co-operatives

Raiffeisen co-operatives are problem-solvers that support their members by taking over all kinds of services. They offer expertise and know-how. The increasingly keen competition on global agricultural commodities markets that led to structural changes in agriculture, as well as market adjustment effects,



The logo of the International Raiffeisen Union

made a further concentration of the Raiffeisen organisation indispensable. There is an obvious connection between larger units and a better economic performance, as only larger units can take advantage of the so-called economies of scale. Over the years, the number of primary co-operatives decreased as a result of concentration, while turnovers and profits rose. Raiffeisen co-operatives are planning to increase their capacities even further with the help of an offensive structural adjustment policy, a stronger market orientation, awareness of environmental factors, an expansion of services and stronger international co-operation.

An early pioneer, the Raiffeisen organisation still plays a pivotal role when it comes to environmental concerns. The environmental compatibility of co-operative activities is exemplary: the use of alternative forms of energy, the recycling of raw materials, the optimisation of biological products and the promotion of sustainable farming, are only a few examples of Raiffeisen's leading role in ecological questions. In the past, the Raiffeisen organisation was generally associated with agriculture, warehouses, cattle, milk, grain, gardening, viticulture, vegetables and fruits. But the contemporary image of the Raiffeisen movement goes beyond that of the 'Green Giant'. In our day and age, Raiffeisen also stands for modern media, cultural and sport sponsorship and nature preservation - as well as patriotism and solidarity.

Obviously, economic conditions in modern European agriculture are very different from those in the past. The market for agricultural products is satiated and the European Union pays out tremendous sums of money in the form of farm subsidies. Despite that, the agricultural sector is decreasing steadily, a development that culminates in the extinction of small farms, which has become more or less routine in rural communities.

Transformation of the Raiffeisen banking sector

In the same way as European agricultural structures have changed dramatically in the last few decades, the tasks of the Raiffeisen banking sector has undergone a complete transformation. While fewer tasks are being performed by small local associations, the Raiffeisen co-operative banks of today offer a comprehensive portfolio of services and compete with large universal as well as specialised banks. Whereas in Raiffeisen's time, credit institutes almost solely acted as intermediaries at a local level, nowadays Raiffeisenbanks, especially the RZB Group, also take initiatives on an international scale.

From the very first moment on, RZB was among the pioneers in the economic transformation of post-communist Central and Eastern European (CEE) countries. Raiffeisen's message seems more attractive than ever before, especially in countries with a strong tradition of a 'social market economy', or of social welfare and state regulation. Raiffeisen's ideas make it possible to combine free market forces with the degree of social responsibility necessary for the progress and prosperity of modern society.

The Austrian Raiffeisen Banking Group

In 1846/47 also the Austrian Empire was hit by an agricultural crisis, which, among other things, provoked the Revolution of 1848. The latter was the impetus for a number of important reforms, such as finally deciding to abolish feudal dues.

The separation of agriculture from the old feudal system of dependencies in the 19th century was one of the most important prerequisites for the development of modern market economic structures in Europe. It included the emancipation of peasantry and the abolition of traditional economic burdens associated with the land they farmed on. The process of transformation towards a free market economy brought about a new potential for growth, while upsetting traditional social structures.

Commercialisation of agriculture

In the course of the emancipation of the peasantry in 1848, a third of the estimated value of feudal dues had to be raised by the peasants themselves. However, the economic development of agriculture in the third quarter of the 19th century was so favourable that many peasants were quickly able to pay off the financial obligations arising from the emancipation process. Some of them were able to pay back a considerable part of their debts in the first year after the abolition of feudal dues. In Upper Austria, for example, more than 80 per cent of these payments had been made by the year 1856. Numerous aristocratic large-scale landowners invested the money in agrarian-industrial structures for the production of sugar, starch, spirit and beer, among other things. In Hungary, the extension of farmland led to a 40 per cent rise in gross earnings from large estates.

However, after two decades of relatively prosperous development in agriculture, the economic situation deteriorated in the last quarter of

the 19th century. This was due to both the general economic depression after the stock exchange crash of 1873 and increasing international competition. While the agrarians managed to introduce higher tariffs against competition from abroad, it was still necessary for productivity at home to be increased. Growing internal competition within the monarchy resulted in Alpine farmers increasingly suffering from Hungarian competition. At the same time, their traditional exports of cattle and horses to Germany, were reduced after the 1880s by the German Empire's import restrictions. Thus, farmers in the Alpine region were particularly hard hit by the agrarian crisis in the late 19th century. Investments to increase productivity were urgently needed.



Farmers – around 1900

Difficulties for farmers and craftsman also in the Habsburg Empire

On account of the small size of most farms and the great risk for potential investors – as the economic survival of a farm through credit investments was by no means assured – farmers were not an attractive customer group for credit institutes. Big banks were not interested in this segment of credit business either. Occasional private lenders remained the only source of credit. Because of the high credit risk and the considerable administrative burden for small loans, extremely high interest rates were an economic necessity. This is why individuals who were prepared to take the risk and offer this kind of financial service were often perceived as so-called 'usurers'.

First Austrian Raiffeisen banks founded in 1886

In view of the difficult structural conditions, agricultural producers tried to make do without loans as far as possible. Only if their

economic survival was under acute threat and they were prepared to borrow money and mortgage their property as a last resort. At this stage, however, they were not really creditworthy and, therefore, had to accept a high interest rate on any loan. This led them into a debt trap, which frequently resulted in the money lenders losing a great part of their money and the farming properties being auctioned off.

At that time, the savings and credit co-operatives based on Raiffeisen's model – which had already experienced two decades of successful activity in Germany – appeared an attractive option. This is why, from the 1880's onwards, numerous Raiffeisen banks came into existence in Austria. The *Darlehenskassen-Verein Rosswein* ('Loan Office Association Rosswein', today Razvanja close to Maribor, Slovenia) and the bank in Mühldorf near Spitz (Lower Austria) were the first two Raiffeisen banks to be set up in the Austro-Hungarian Empire. Both were founded in 1886. The rural savings and credit co-operatives proved to be valuable institutions to support socially acceptable structural change in agriculture.

■ **Proximity to the customers and integration in the local communities**

What proved a particular strength of savings and credit co-operatives in contrast to commercial creditors, who came from outside the community, was their proximity to the customer on the one hand, and their integration in the local community, on the other. It was the local population itself, who, within the framework of the co-operative, raised the capital, which was made available at favourable rates of interest. As for the question to whom should be granted a loan, the proximity to the customer made it possible to eliminate credit applications which were obviously hopeless. Instead, the capital could be channelled towards applicants who really could benefit from the loan.

Compared to creditors from outside, the Raiffeisen system prevented capital losses and saved debtors from falling into a fatal debt trap.

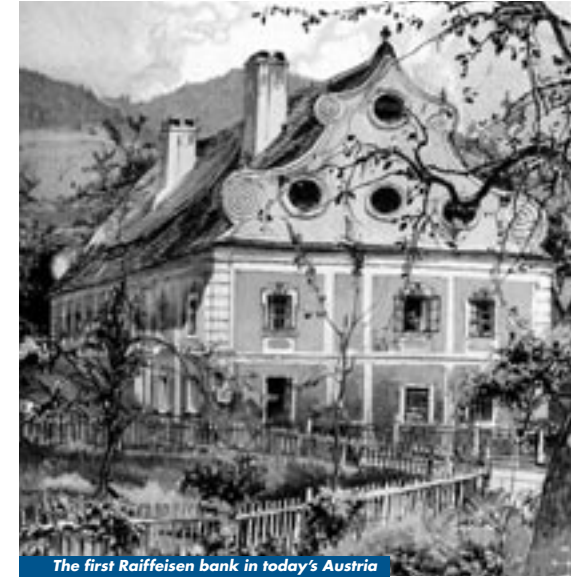
Another positive side effect of the co-operatives' proximity to the customer and their integration into the regional community was that debtors were very disciplined about paying back their loans. Thus interest rates could be kept low because of the minimal credit risk. As for the administrative work involved in running the co-operatives, it was initially done free of charge by volunteers.

■ **First Raiffeisenlandesbanks established in the 1890s**

The first Raiffeisen central banks at the provincial level – today's Raiffeisenlandesbanks – were founded in the 1890s. They functioned as bankers for the regional savings and credit co-operatives and promoted the agricultural co-operatives being set up at that time. In 1898, the '*Allgemeine Verband für das landwirtschaftliche Genossenschaftswesen in Österreich*' ['General Association for Agricultural Co-operatives in Austria'] came into existence; however, a nation-wide central bank for the Raiffeisen sector in Austria was not set up before the World War I.

In the last years of the Austro-Hungarian Empire, the Raiffeisen sector had basically conquered rural areas with its savings and credit co-operatives. Loans were used for buying machinery, livestock, farmland, vineyards and orchards and for construction, as well as paying off previous, high-interest loans.

However, the position of Raiffeisen within the total Austrian credit sector remained relatively modest. Before the World War I, Raiffeisen's annual closing balance amounted to no more than 4 percent of the assets of all Austrian credit institutes. In addition, the other parts of the rural co-operatives, the product and processing co-operatives, were only in their beginnings.



The first Raiffeisen bank in today's Austria was founded in Mühldorf

RZB founded in 1927

The economic damage inflicted by the First World War, the collapse of the Habsburg Empire in 1918 and hyperinflation in Austria up to the year 1922 necessitated a reconstruction of the organisation. In 1923, the Raiffeisen association was re-founded. On August 16, 1927, the then *Girozentrale der österreichischen Genossenschaften* ['Central Clearing Bank of the Austrian Co-operatives'], the later RZB, was founded. Thus the three-tiered structure of the Austrian Raiffeisen Banking Group, consisting of locally active Raiffeisen-banks, regional Raiffeisenlandesbanks and a nation-wide central institute, today's RZB, had been completed.

The world economic crisis in the thirties led to a renewed contraction of the Raiffeisen banking sector in Austria. By contrast, the Raiffeisen agricultural co-operatives gained importance, due to far-reaching state regulation of the agricultural commodities market.



The number of Raiffeisen credit unions in the Austrian parts of the Austro-Hungarian Empire in 1910.

Between 1938 and 1945, during the time of the German occupation of Austria and World War II, the Austrian Raiffeisen organisation lost its independent existence by being absorbed by the German Raiffeisen organisation, which itself has been taken over by the Nazis.



A founder's share in RZB

Acting as a group

In the difficult post-1945 period, the agrarian co-operatives were instrumental in providing food for the population. After a modest new beginning, the *Raiffeisen Banking Group (RBG)* managed to turn itself into a powerful universal banking group within just a few decades. While the institutes continued to support agriculture, Raiffeisen evolved into a dynamic group, providing aid and support for its members. The dense network of branches was modernised. While maintaining a rural base, it also proved possible to penetrate urban centres.

The RBG's organisational structure, with its voluntary and enhanced co-operation at all levels, made it possible to combine the strength and potential synergies of a large financial institute with the proximity to its customers and the flexibility characteristic of smallish, community based co-operatives. To make the most of the new organisation, the members of the Raiffeisen Banking Group agreed to appear in public as a united group. The central institutes offered extensive training for all staff and the latest banking methods were introduced (e.g. retail banking since 1958). The introduction of state-of-the-art electronic data processing and self-service in routine business dealings are just two examples of the rationalisation programme.

Since the beginning of the 1960s there has been a wave of mergers between tiny regional co-operatives to form banks, which were of a sufficient size for modern banking.

Development towards universal banking

In accordance with their development towards universal banking, the importance of long-term and current account loans grew. In 1961, the *Raiffeisen Bausparkasse* ['Raiffeisen Building Society'] was founded, followed by *Raiffeisen Finanzierungsgesellschaft* ['Raiffeisen Financing Society'] in 1968. The setting-up of the *Raiffeisen Lebensversicherung* ['Raiffeisen Life Insurance'] in the 1960s, since 1975 *Raiffeisen Versicherungs AG* [Raiffeisen Insurance – today a part of RZB's subsidiary UNIQA] signified an early step towards the development of an enterprise offering universal financial services. New areas of business like investment banking, leasing, factoring and management consulting, as well as currency exchange and export trade services, gained in importance.

The provincial Raiffeisenbanks and the *Genossenschaftliche Zentralbank AG* ['Co-operative Central Bank'], as RZB was called until 1989, thus fulfilled an important function in the total organisation. They were central institutes that supported the modernisation of a particular sector, while at the same time acting as investment institutes and asset administrators for Raiffeisenbanks and finance institutes for agricultural co-operatives.



Old savings passbooks, around 1900.

Increase in market share

The total organisation succeeded in considerably increasing its market share. In addition to agriculture, it proved possible to win over customers in all other economic sectors as well. Since 1960, annual accounts for the total Austrian Raiffeisen sector have been available. These clearly reflect the success of the organisation. Between 1960 and 1970, deposits rose from € 0.52 billion to € 2.42 billion. Raiffeisen's share of the total Austrian market rose from 13.1 to 18.3

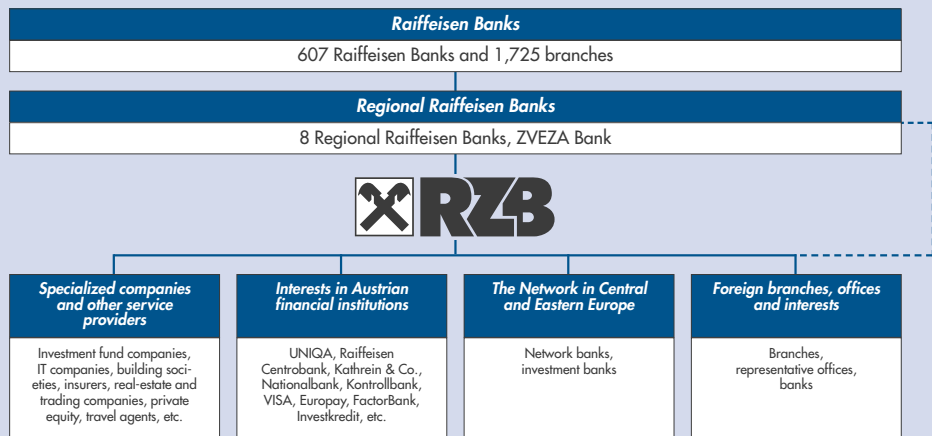
per cent. The lending business showed a similar development. The sum total of loans and credits rose from € 0.44 billion to € 1.21 billion, thus pushing the group's market share from 13.1 to 16.7 per cent. It was possible to maintain this upward trend without interruption. In 1997, the Raiffeisen group, for the first time, had over 1,000 billion schillings in assets [€ 72.67 billion] on its balance sheet and the market share of the RBG grew to more than a quarter. Today, more than 40 per cent of Austrians are customers of a Raiffeisenbank.

The cohesion of the organisation is guaranteed by the close integration of ownership. The regional Raiffeisenlandesbanks own almost 90 per cent of the equity capital of RZB. Solidarity within the organisation makes close co-operation for the benefit and the security of Raiffeisen customers possible. Due to the *Raiffeisen Kundengarantiegemeinschaft Österreich* ['Raiffeisen Customer Deposit Guarantee Scheme'], a deposit cross-guarantee system, deposits in the scheme's members, be they Raiffeisenbanks, Raiffeisenlandesbanks or RZB are secured to up to 100 per cent and therefore far beyond the minimum levels prescribed by law.

At the moment, the Raiffeisen Banking Group consists of more than 600 local Raiffeisen banks and nine regional Raiffeisenlandesbanks with together over 1,700 branches, and RZB. With 2,350 banking outlets in total, the Raiffeisen institutes dispose of the best developed network of bank branches in Austria. The renowned rating agency *Moody's* wrote in its December 2001 analysis on RZB, "Its dominant market share in retail banking and relatively strong profitability make the Raiffeisenbanken the strongest banking group in the domestic market."

Brief history of RZB

RZB was created as the clearing center for Austria's agricultural and commercial co-operatives in 1927. Within just ten years of being founded, RZB had already considerably extended the scope of its business activities. The declared 'Objects of the Business' were



Structure of the Raiffeisen Banking Group

rapidly broadened to include foreign-exchange and notes-and-coin business, cash operations, the feoffment of bills, lending underwritten by public bodies, the acceptance of deposits, the undertaking of guarantees, investing in financial instruments and acquiring interests in similar co-operatives and enterprises. Despite the economic crisis in the interim, RZB developed into a stable and consolidated institution with 85 employees in the first ten years of its existence.

However, the administration of RZB was taken over by a government commissioner in 1938 on the day after Austria's occupation by the German Reich. The bank then passed into German ownership followed by public administration after the war ended in 1945. It was 1955 before RZB's pre-War shareholders regained ownership. Today the Raiffeisenlandesbanks are RZB's principal shareholders with a collective stake of roughly 90 per cent. The remainder is held by *Raiffeisen Warenorganisation* and *ÖVAG* as successors to the commercial co-operatives, by *UNIQA* and by a number of regional mortgage banks.

The beginnings of RZB's international operations

RZB began developing and extending its foreign business operations back in the 1950s. Initially, they were limited to documentary business, but the development of the first business links with leading banks in other countries soon followed. At the same time, syndicate transactions and the collective raising of funds within the RBG allowed it to enter the large-scale finance market. The concentration of the RBG's foreign business operations within its central institution RZB, gave it the scale it needed to be a player in the international marketplace. As a result, having had just 62 employees in 1946, RZB had increased the workforce to 184 by 1957. The number of employees passed the 1,000 mark for the first time at the end of the 1980s.

At the same time as developing its foreign operations, RZB began founding specialized companies or acquiring interests in them towards the end of the 1950s. Co-operation within the Group made it possible for both its central institution and every individual Raiffeisen bank to offer its customers a comprehensive line of services.

Extending the radius of RZB's activities

RZB entered the investment banking market at the end of the 1960s and was already a regular member of domestic and international issuing syndicates in the 1970s. The product line was rapidly enlarged to include equity investments, domestic and foreign investment funds and – following the founding of *Raiffeisen KAG* – investment fund management. Within a few years of being set up, *KAG* was Austria's market leader in the segment, and at the same time RZB developed into the country's leading supplier of third-party fund products. In addition, RZB became a key player in the Austrian equities sector and a leading issuing house.

It has also developed from a traditional clearing house into a treasury specialist. Thanks to its know-how in the cash management

field and in the money and foreign-exchange markets, it has been able to develop an excellent reputation. As a result, RZB now belongs to the exclusive circle of financial institutions that take part in fixings for Europe's key *EURIBOR* interest rate.

■ **One of Austria's foremost commercial banks**

RZB's development into one of Austria's foremost commercial banks began at the end of the 1960s. The unequivocal focus on commercial customer business was reinforced at the beginning of the 1990s when it transferred its retail operations to *Raiffeisenbank Wien*. Since then, RZB has concentrated on servicing Austria's 1,000 largest companies, selected high-growth enterprises and multinationals. And today, RZB's *Global Account Management System (GAMS)* guarantees the ability to provide extensive services to internationally active companies at every RZB outlet on the basis of the tried-and-tested one-stop-shop service principle.

RZB's first move into the foreign business segment took the form of developing and steadily enlarging the network of correspondents, but RZB also started acquiring interests in foreign banks in the 1970s. After that, RZB created its own foreign bases by setting up representative offices in the world's major financial centers.

■ **The development of a network in Central and Eastern Europe**

As early as 120 years ago, the Raiffeisen organisation transcended linguistic and national groupings within the Habsburg Monarchy, while contributing towards a socially acceptable development from traditional agriculture towards structures prevailing in market economies. The collapse of the monarchy led to a disintegration of the former Central European Raiffeisen network.

RZB's early strategic decision to establish a foothold in Central and Eastern Europe (CEE) marked a significant new beginning. The

decision was rooted in the close economic links that existed between constitutionally neutral Austria and the countries 'on the other side of the Iron Curtain' even while the communists were in power. In addition, there was a low tradition of service in the CEE region, and an underdeveloped banking culture, giving new players outstanding growth opportunities and profit potential. Hence RZB founded the then *Unicbank*, Budapest, its first 'Network Bank' in CEE in 1986.

The collapse of Europe's communist regimes began in 1989, enabling RZB to commence operations in other CEE countries. The most recent addition to the list was Yugoslavia, following the revolution in 2000. In many markets, RZB was the first foreign bank to develop an on-the-spot presence. Thus, Raiffeisen took a pioneering role in economic co-operation with CEE countries, helping their transformation into market economies at the end of the socialist era. RZB was the first western bank to succeed, within a short period of time, in establishing a dense network of commercial banks, representative offices and other kinds of financial institutions in the reform countries.



RZB soon managed to position itself as one of the leading banking groups in CEE. Today, the CEE region is as much RZB's home market as Austria. RZB is serving the market with a broad line of products as a universal bank. Besides commercial banking business, it also engages in investment banking and, since 1999, retail banking operations. At the end of 2001, RZB Group employed more than 11,000 people in CEE. Three out of four RZB employees work for the 'Network banks'. RZB operates a dense network of more than 500 branches throughout the region, half of which have been opened by organic growth. On account of these activities, the Raiffeisen sector accompanied the economic transformation in CEE from the very beginning. In recognition of this role, RZB was awarded the title 'leading east-west bank' by the financial newspaper *Central European* as early as 1993. Since then both RZB and its subsidiaries have received numerous other regional and national awards by renowned international financial magazines.

The RZB Group's banking network in CEE consists of the following banks:

- *Raiffeisen Bank Rt.*, Budapest: founded in 1986. It is today one of Hungary's leading banks. It introduced electronic banking services in the early 1990s and operates a nation-wide network of branches.
- *Tatra banka a.s.*, Bratislava: founded in 1990. It became Slovakia's third largest bank a few years later solely through organic growth. It is the country's most successful bank, covering the nation with approximately 100 branches.
- *Raiffeisen Bank Polska S.A.*, Warsaw: started in 1990 with the Central Bank Licence No.2. Its branches cover Poland's major cities and it even opened a representative office in Vilnius, Lithuania, in 2002.
- *Raiffeisenbank a.s.*, Prague: commenced its business in 1993. It has developed into a leading Czech bank offering universal banking services in its nation-wide branch network.
- *Raiffeisenbank (Bulgaria) A.D.*, Sofia: it begun in 1994 as the first foreign owned bank founded in Bulgaria. It was also the first one to branch out and now has a presence in all major towns.
- *Raiffeisenbank Austria d.d.*, Zagreb: started in 1994 as the first international bank in its market. In only seven years, it became the fourth largest bank of Croatia solely through organic growth.
- *ZAO Raiffeisenbank Austria*, Moscow: begun in 1997 and braved the Russian financial crises soon afterwards. It stepped out of it strengthened and is today one of the leading Russian banks with branches in Moscow and St. Petersburg.
- *JSCB Raiffeisenbank Ukraine*, Kiev: was opened in 1998. It is by far the largest foreign owned bank in Ukraine and was also the first international bank of its country to branch out.
- *Raiffeisenbank Romania S.A.*, Bucharest: consists of the merged banks *Banca Agricola-Raiffeisen*, which was founded in 1894 and the 1998 start-up *Raiffeisenbank*. It aims at becoming the leading bank in Romania.
- *Raiffeisen Bank d.d. Bosna i Hercegovina*, Sarajevo: founded in 1993 as *Market banka*. It has been taken over by RZB as a mid-sized bank in 2000 and become Bosnia and Herzegovina's largest bank already in 2001. Founded in 1994, *Raiffeisen Bank HPB d.d.*, Mostar, the former *Hrvatska Poštanska Banka*, will be merged with *Raiffeisen Bank d.d.*
- *Raiffeisenbank Jugoslavija a.d.*, Belgrade: was the first international bank founded after the Revolution. It already became Yugoslavia's number one in foreign deposits after only a few months in business in 2001.
- *Raiffeisen Krekova Banka d.d.*, Maribor: was established in 1992 and runs a nation-wide network. It was founded in the spirit of Janez Evangelist Krek, 'Slovenia's F.W. Raiffeisen', and taken over by RZB in 2002.

Today, RZB operates further subsidiary banks and branches in London, New York, Malta, Singapore and Beijing, as well representative offices in New York, Paris, Brussels, Milan, Moscow, Ljubljana, Vilnius, Beijing, Ho Chi Min City, Hong Kong, Mumbai and Tehran. Other units of RBG also run further banks as well as representative offices in Munich, Nuremberg, Liechtenstein, St. Gallen, Trento, Padova and Udine. It also has part-ownership and shares in numerous financial institutions world-wide.

■ **Role to play in Central and Eastern Europe's economies**

The role of the Raiffeisen organisation in CEE today combines basic principles from its early history with modern banking know-how in an up-to-date way. The Raiffeisen institutes greatly benefit from the highly developed specialised knowledge of its local staff, well versed in the specific characteristics, needs and business potentials in the new markets. Staff qualification is considered of utmost importance and, therefore RZB consciously developed continuous training and coaching programmes. In this way, the continuous education of its staff in CEE is considered a matter of course for Raiffeisen and seen as an essential part of its economic success. By offering financial services of the highest quality, the institutions of the Raiffeisen group make a considerable contribution to the development of the individual national economies.

Down to this day and true to the principles of their founder, Raiffeisen institutions are characterised by features like customer orientation, local integration, social commitment and co-operative solidarity within the Group, combined with the strength of a large and modern financial services group. Through these qualities, the Raiffeisen group is a reliable partner in the present transformation of Central and Eastern European countries into market economies.

■ **Significant Group functions**

Alongside its success as an independent financial services provider, RZB has grown beyond the tasks it was given at the time of its founding by continually expanding its role as RBG's central institution. Today, its tasks extend well beyond clearing. Besides performing operational functions such as providing central IT, treasury, refinancing, payment, clearing, securities trading and securities settlement services, it also plays a coordinating role in marketing, risk management, product organization and the implementation of new sales channels. In addition, RZB represents and protects RBG's interests vis-à-vis Austrian and foreign authorities, chambers and associations. Conversely, RZB is deeply rooted within RBG, giving it enormous support and guaranteeing that it has the necessary stability.

Vision – Mission – Values of the RZB Group

We are fully committed to these values and expect everyone to identify with and live up to them. By adding local flavour to these values, we will bring our corporate culture closer to both customers and employees.

*The Board of Management
of Raiffeisen Zentralbank Österreich AG*

■ **Vision**

RZB is the leading Banking Group in Central & Eastern Europe (CEE) and Austria.

■ **Mission**

We seek long-term customer relationships.

In the CEE and Austria we provide a full range of highest quality financial services.

In the World Financial Centres and Asia we are an important niche player.

As the Central Institution of the Raiffeisen Banking Group in Austria we offer specific services to our owners.

We achieve sustainable and above-average Return on Equity.

We empower our employees to be entrepreneurial and to show initiative and we foster their development.

Values

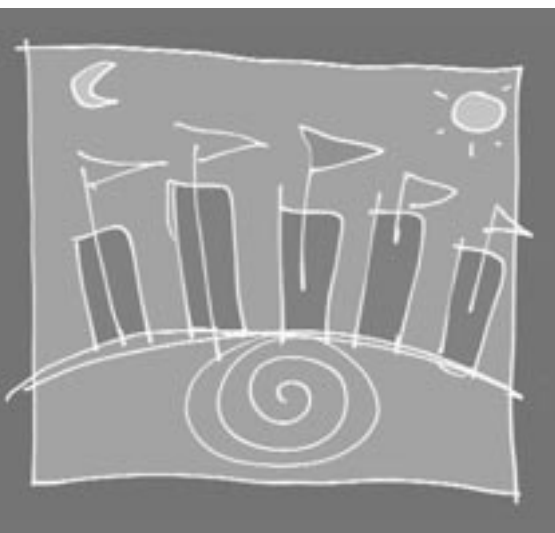
The values of the RZB Group include:

General Values:

1. Focus on Customer Needs
2. Increase Shareholder Value
3. Uphold Solid General Ethics

Managerial Values:

4. Lead, Motivate and Empower People



1. Focus on Customer Needs

We provide excellent financial services to our customers

We regularly review our customers' expectations and needs to optimise the range of products and services provided by our highly qualified workforce.

We are committed to highest professional standards

We meet our customers' needs with professionalism and therefore offer them state-of-the-art solutions and value-added services. Internal customer satisfaction is equally important as the external one, since the customer will benefit from our smooth cooperation.

We support flexibility to ensure a rapid response to customer needs

We react rapidly and with maximum flexibility to customer needs. However, flexibility does not mean lack of discipline. It is rather an efficient use of the room provided within set rules. To continuously improve our internal rules and procedures, we emphasize process innovation and improvement.

2. Increase Shareholder Value

We strive for continuous and sustainable growth in shareholder value by achieving an exceptional Return on Equity

We aim at being the leading international banking group in Central and Eastern Europe. Our target is a sustainable, above-average Return on Equity.

3. Uphold Solid General Ethics

We base our work and attitudes on fundamental ethical values

Banking is traditionally built on trust. We carefully foster trust-based relationships with our customers. Integrity and honesty guide us in everything we do.

4. Lead, Motivate and Empower People

We set strategic and operational goals and lead the Group to their successful implementation

The leaders of the RZB Group develop a clear business vision and viable strategies. They create an organisational environment that supports and rewards profitable growth. They set challenging but achievable goals and continuously search for future opportunities.



We encourage entrepreneurship and initiative

Entrepreneurship and initiative are keys to better performance, greater responsiveness and quality in everything we do. They are indicators of our employees' identification with the corporate goals and their commitment to work.



We empower the employees of the RZB Group, creating a climate that motivates them to high performance

Empowerment is our basis for entrepreneurship and initiative. We strive to maintain a supportive and trustful working environment, resulting in motivated and committed employees.

We foster the development, satisfaction and loyalty of our employees

Our employees are committed to satisfying customers and building long-term relationships. Equally, the RZB Group is committed to fostering the development, satisfaction and loyalty of its workforce. This gives employees the confidence and stimulus to take on new assignments locally and internationally.

We see teamwork as the basis for successful cooperation within the RZB Group and for its future development

Teamwork adds value through discussions, the joint development of ideas, problem-solving and the preparation of decisions. Due to our presence in many countries, we especially stress cross-border cooperation. Although teamwork is a valuable tool, decision-making need not always be consensus-based.

We provide equal opportunities based on merit and reward performance

Although the RZB Group has its roots in Austria, most of its employees are from different national and cultural backgrounds. We all benefit from that diversity. At the RZB Group, if you perform, you get ahead.

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