



V N E S H E C O N O M B A N K





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Ladies and Gentlemen,

I am pleased to present this booklet featuring the performance of Vnesheconombank for the year of 1998. It is, in fact, a brief report on the Bank's major activities, a survey of certain phases in its development, a retrospective review of the course of events which were in the background of its last year history.

It was not easy, I would admit, to find adequate words and expressions to make a well-balanced estimate of the previous year. On the one hand, for too many people, especially in banking, 1998 appeared to be a year of ruined hopes, frustrated plans and bitter disillusion. Our country, among many others, was severely hit by financial and economic crisis. The 17th of August witnessed an overall collapse of the country's banking system which had just begun to prosper and blossom. Largely, it was a consequence of the pressure exerted by most unfavourable financial developments in the world, as well as by specific economic surroundings in Russia. A wave of the crisis swept over major financial institutions, breaking the very backbone of an emerging securities market and resulting in great losses for Russian banks and their foreign counterparties. It was but natural at that time to start asking the question our forefathers used to ask - "Who is to blame?" I don't believe there could be a straightforward answer to that eternal philosophical issue. It's the overall environment and general route along which our economy had been developing for the last few

years that actually mattered. In its transition from the 'plan-and-distribute' principles to the real market-oriented ones the country's economy and finances got stuck halfway. That was, undoubtedly, a major negative and least desirable outcome of the last year, and one could not but feel regret and sorrow about it.

Still, on the other hand, we should not forget an old saying which is no less philosophical, if not wiser, it reads: "Every cloud has a silver lining". Seen from this angle, the positive outcome of the year under review is that the footholds gained by the liberal reforms and democracy since 1991 stood the test and survived, despite numerous predictions of those who advocated restoration of the 'radiant', in fact, totalitarian past.

Actually, Vnesheconombank was among very few financial institutions which did manage to overcome these difficulties. Moreover, by getting mobilized all the resources available the Bank came out of the crisis strong enough to rise to a new stage in its development. I could quite confidently assert that since August 17, 1998, when most of Russia's creditors got really concerned about a possible default on the former USSR sovereign debt, no customers' money has been lost by the Bank, no payment delayed, no enquiry ignored.

In that dramatic crisis and post-crisis period, Vnesheconombank sought to implement the decisions and instructions of the President and the Government of the Russian Federation concerning the management of sovereign foreign debt and

financial assets of Russia. Achieving these goals remains a fundamental part of the Bank's policy. Our professionals actively participate in negotiations with the Paris and London Clubs, as well as with other foreign creditors, they are engaged in a difficult, but critically important job of seeking ways to settle the foreign debt issue. In the year of 1998, the Bank enhanced its corporate customer base and expanded its lending, guarantee, settlement and depository businesses, thereby solidifying its presence on the Russian banking services market. We devoted considerable attention to enterprises working in the real sector of Russia's economy and were able to offer them most favourable terms and conditions of pre-export financing, though, certainly, after August 1998 the funding capability of the Bank both within and outside Russia got considerably limited. Notwithstanding the difficulty, the Bank continued to broaden its involvement in major investment projects on the territory of the Russian Federation and beyond it. Above that, Vnesheconombank not only preserved, but enhanced its prominent role in obtaining foreign capital for the economy of Russia.

It would not be possible to meet these challenges of the current situation, unless we reshaped the staff members' thinking and radically changed their attitude to work-practices. The year of 1998 was marked by a launch of the Bank's 'root-and-branch' transformation programme which is to be continued this year. Its primary objective is to further reveal and develop professional and creative potential of Vnesheconombank.

We continued to develop policies intended to ensure the Bank's information openness and transparency. And it was of real concern to us. With this end in view, Vnesheconombank opened a web site in the Internet. Meetings with rating agencies are now held on a regular basis. Briefings on most pressing issues of economy and finances are becoming a permanent part of the Bank's culture. Independent audit checks were performed by Russian and foreign audit companies in accordance with both Russian and International Accounting Standards. Our counterparties could, thereby, obtain reasonable assurance that the bank they were dealing with was quite reliable and highly professional.

The year of 1999 does not promise to be an easy one. But looking to the future, I remain confident and optimistic. The first half of the year proved that in spite of all the difficulties and hardships, history could not be reversed and the country would not go backwards. Its economy and finances are slowly, but gradually gaining momentum to enter into the third millennium cherishing the ideals of democracy, freedom and genuine human values. That is what we are aspiring for and striving to achieve!

For Vnesheconombank the current year is going to be very special. In November 1999 we are celebrating the 75th anniversary of the Bank's foundation. On this occasion I would like to congratulate all the employees and veterans of the Bank, and wish them new accomplishments, happiness and prosperity.

**ANDREY KOSTIN**

The Chairman of Vnesheconombank

**BOARD OF DIRECTORS**

<b>KOSTIN Andrey Leonidovich</b>	<b>Chairman of the Bank</b>
<b>DMITRIEV Vladimir Aleksandrovich</b>	<b>First Deputy Chairman</b>
<b>KOSOV Nikolay Nikolaevich</b>	<b>First Deputy Chairman</b>
<b>ZABAZNOV Anatoly Pavlovich</b>	<b>Deputy Chairman</b>
<b>ZAVYALOV Igor Nikolaevich</b>	<b>Deputy Chairman</b>
<b>LEVIN Vadim Olegovich</b>	<b>Deputy Chairman</b>
<b>STORCHAK Sergey Anatolievich</b>	<b>Deputy Chairman</b>
<b>AKINSHIN Aleksey Ivanovich</b>	<b>Treasury Director</b>
<b>GRUZINOV Aleksandr Sergeevich</b>	<b>Security Director</b>
<b>LEBEDEV Igor Aleksandrovich</b>	<b>Administrative Director</b>
<b>CHERNUKHIN Vladimir Anatolievich</b>	<b>Credit Director</b>
<b>SHAPRINSKIY Vladimir Dmitrievich</b>	<b>Chief Accountant</b>

## STRUCTURE OF THE BANK

## BOARD OF DIRECTORS

External Debt Department

Accounting Department

Sovereign External Assets Department

Legal Department

Credit Department

Press Office

Treasury Department

Administrative Department

Retail and Corporate Banking Department

Information Technologies Department

International Settlements Department

Security Department

Correspondent Banking Department

Premises Supervision and Maintenance  
Department

Depository Transactions Department



Logistics Support

Planning and Budget Department

Internal Audit Department



**Structure of sovereign foreign debt  
of the Russian Federation (%)**  
(as of December 31, 1998)

-  Foreign debt of the former USSR assumed by the Russian Federation
-  Foreign debt of the Russian Federation



**Growth of sovereign foreign debt of  
the Russian Federation, dynamics (US\$ billion)**  
(as of December 31, respective year)

## 1. VNESHECONOMBANK IN THE SYSTEM OF SOVEREIGN DEBT MANAGEMENT

In his Annual Address to the Federal Assembly B.Eltsin, the President of the Russian Federation, singled out the issue of foreign debt settlement among three major 'threats' that might «have a most adverse effect on the country's economy», the other two threats being an ever-worsening banking system crisis and soaring inflation. As a strategic response to these challenges, Vnesheconombank reinforced its resolve and commitment to perform its function of the Government's agent in managing the sovereign foreign debt.

The financial and banking crisis wiped out all tangible advantages the Government had gained by completing in 1997 a comprehensive restructuring of the former USSR debt. The immediate implication was that the country no longer had access to resources available in international financial markets which could be channelled into foreign debt servicing and redemption. These pressures got merged with a chronic Federal Budget deficit aggravated by payment delays and, in some cases, by interbank clearing system failures. And there developed a situation which in 1997 would have seemed just incredible - in August 1998 Russia stopped repayments on the former USSR debt. Largely as a consequence, in November 1998 the Russian government and Vnesheconombank were forced to appeal to the Paris and London Clubs to negotiate a new restructuring of the formerly rescheduled financial obligations. The aim of these negotiations, in our opinion, should be to agree upon such a schedule and volume of payments that would

allow the Russian government to effectively service its foreign debt. These appeals actually opened up a new page in the 'debt record' of the Russian Federation.

### 1.1. Russia's Debt Servicing and Redemption

The 'new' page in the debt record of the Russian Federation does not mean that the Government gave up its main principles of honouring external financial obligations. As it was agreed with creditors at the very outset of the former USSR debt rescheduling procedure, all the indebtedness under loans and credits obtained after January 1, 1992 is to be serviced in strict compliance with the existing credit agreements. As of December 31, 1998 the sum of 'new' Russian debt amounted to US\$ 52.0 billion, thus increasing by 40% or by US\$ 19.8 billion within the year. The bulk of the increase (US\$ 11.5 billion) arose from placing different bond issues. Partly, these bond issues (about 30% of them) resulted from exchanging the GKO-OFZs. The sum owed to the International Financial Institutions (the IFI) totalling US\$ 26.0 billion, inclusive of the sum owed to the IMF in the amount of US\$ 19.4 billion, is a major portion of this debt. Though the debt owed to the IFI is not recorded as a liability of Vnesheconombank, it shall come within the Bank's strategy, since Russia gives high priority to its relations with the IMF and the World Bank. As a matter of fact, in 1998 Russia fully honoured its obligations to these creditors, with a sum of US\$ 800.0 million being transferred from the Federal Budget.

A considerable proportion within the structure of the 'new' Russian debt is the indebtedness owed under

**Structure of sovereign foreign  
debt of the former USSR  
assumed by  
the Russian Federation (%)  
(as of December 31, 1998)**



under credits obtained from  
governments of foreign states



under credits obtained from foreign  
commercial banks and companies

bond issues (approximately totalling US\$ 16.0 billion) which were placed with private investors from some industrialized nations throughout the period of 1996 to mid-1998. Just as in the case with the IFI, Russia fully met its liabilities under these bond issues, making payments for the sum of US\$ 700.0 million. It should be noted that the Government of the Russian Federation rules out even the slightest possibility of having this category of debt restructured.

Still another category of the 'new' Russian debt comprises liabilities under 'tied' loans obtained by the Ministry of Finance and Vnesheconombank from industrialized nations under sovereign guarantees of the Russian government. The overall volume of these liabilities arising from 368 credit agreements amounts to US\$ 10.0 billion. Similarly, in 1998 Russia fully met its obligations to the creditors, with Vnesheconombank making payments for the sum of US\$ 1.4 billion.

### 1.2. The former USSR Debt Settlement

The financial crisis actually ruined all the positive results which Russia had gained within the framework of a comprehensive restructuring of the former USSR debt owed to the Paris and London Clubs of creditors. A direct consequence of payments suspension was that the aggregate value of that debt resumed growing. Within the year of 1998, its volume increased by US\$ 3.7 billion (partially due to interest capitalisation) and reached US\$ 95.1 billion. It could make even a bigger sum of US\$ 106.2 billion if the indebtedness under internal foreign currency bonds (Minfins) were to be taken into account, since by Federal Law No. 136-FZ the Minfins were referred to the foreign debt category.

#### London Club

In 1998 Vnesheconombank continued regularizing its relations with the banks and other financial institutions known as the London Club of the former USSR creditors. In compliance with the terms and conditions of the underlying London Club agreements,

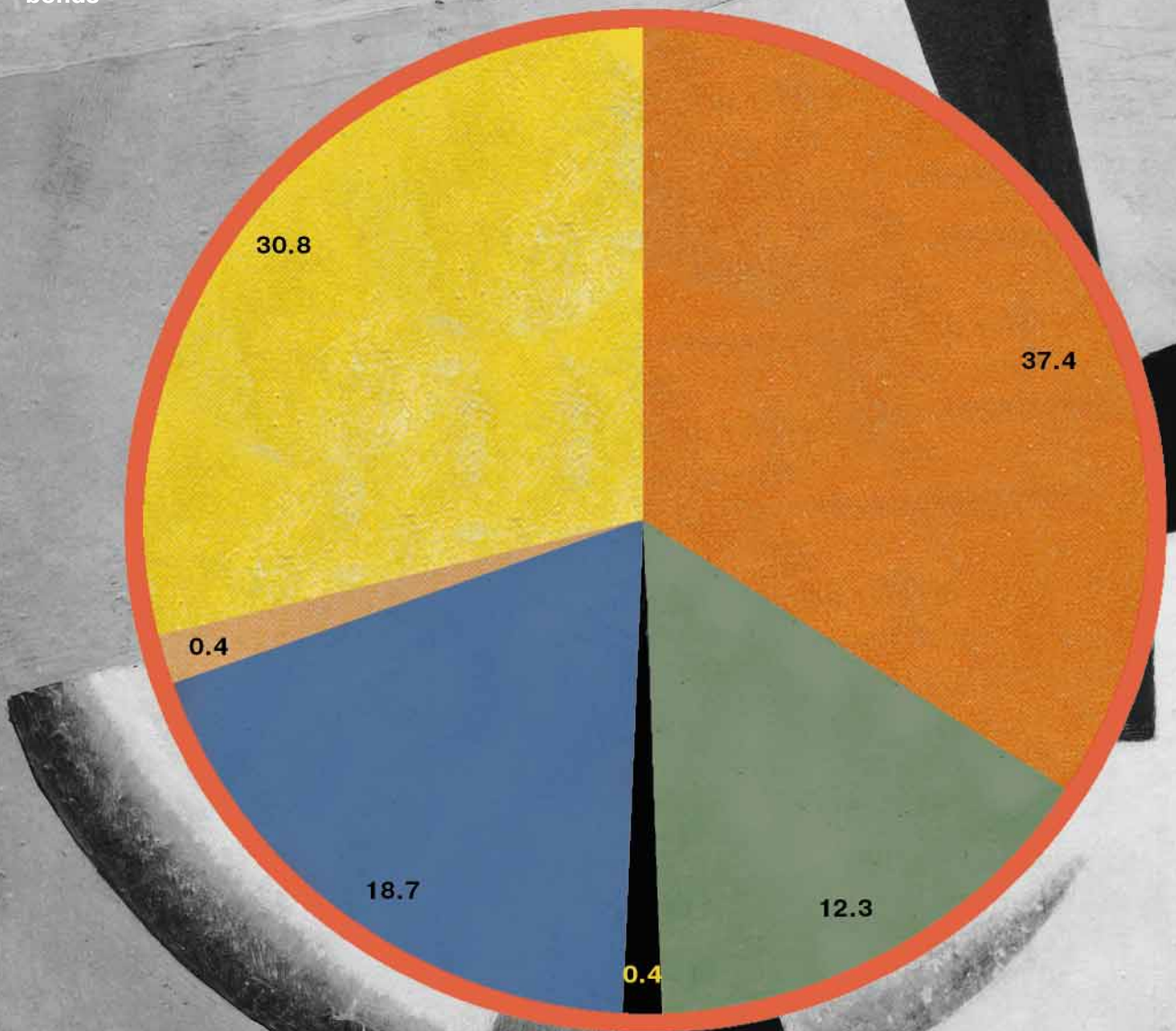
Vnesheconombank made an additional issue and placement of Interest Arrears Notes (IANS) for the sum of US\$ 800.0 million and effected cash interest payments for the sum of US\$ 800.0 million. Besides, it reconciled the claims totalling US\$ 181.5 million held by a number of creditors who joined the underlying agreements later ('Late Joining Creditors'). Also, the claims for the sum of US\$ 150.0 million earlier exchanged for a market instrument known as NIF ('Note Issuing Facility') were settled. It should be highlighted that Vnesheconombank managed to avoid arbitration proceedings stipulated by the underlying London Club agreements in case a dispute and/or a conflict should arise.

The efforts undertaken by Vnesheconombank in that area, its effective association with the Bank of America NT&SA, Dublin, acting as a Restructuring Agency, cooperation with the Emerging Market Trade Association (EMTA), as well as regular contacts with major market operators had an encouraging effect on emergence and promotion of the London Club instruments secondary market. Actually, PRINS and IANS proved to be a very popular segment of the international financial market. In total, the year of 1998 recorded 7191 PRINS assignments for the sum of US\$ 3.5 billion. According to some estimates, the overall volume of trading in these instruments (PRINS plus IANS) exceeded tens of billions of US dollars. In fact, they came second after Brazilian debt trading. It has always been a strategic policy of Vnesheconombank to maintain these instruments' quotations at the highest level possible. Given support of the Government of the Russian Federation, the Bank has the intent and ability to strengthen its presence in this market. In any case, our permanent presence there should be an integral part of the Bank's foreign debt management strategy.

As of December 31, 1998 the indebtedness owed to the London Club, inclusive of the interest overdue (for the sum of US\$ 362.0 million), reached US\$ 29.6 billion. To our regret, the proposal put forward by the Russian party, with the view of settling interest in

**Structure of sovereign foreign debt  
of the Russian Federation (%)**  
(as of December 31, 1998)

- credits obtained from the International Monetary Fund
- credits obtained from the World Bank
- credits obtained from other International Financial Institutions
- credits obtained from governments of foreign states
- credits obtained from foreign banks and companies
- bonds



arrears as of December 2, 1998 through the issuance of IANS in lieu of cash payments, did not win the 95% support vote of the creditors, as required. The decision that followed to grant Russia a six month roll-over period actually got the situation backwards to where we were seven years ago. Nevertheless, we do hope that the experience gained in the course of numerous talks would let the Ministry of Finance and Vnesheconombank, on the one hand, and the London Club with its membership drastically changed, on the other hand, reach mutually acceptable decisions within a reasonable time period.

### **Paris Club**

As of the end of 1998, the former USSR debt owed to the Paris Club creditors was estimated to amount to US\$ 40.0 billion, with US\$ 35.3 billion accounting for the indebtedness already restructured. The governments of industrialized nations are thus holding about 1/3 of foreign liabilities of the Russian government. Together with the debt owed to the IFI, their aggregate proportion would approximate 50%. And since the Paris Club membership provides these creditors with a powerful and efficient debt policy coordinating mechanism, their negotiating position is, obviously, of critical importance in working out the former USSR debt settlement terms that Russia would find acceptable.

In 1998, using the expertise gained, Vnesheconombank assisted the Government of the Russian Federation in seeking and formulating alternative ways to overcome the debt crisis which was evidenced by an ever-increasing amount of payment arrears (with the sum aggregating US\$ 1.3 billion at year-end 1998). Our prime strategic concern was that payments to be effected in redemption and servicing of the foreign debt should not hamper or impede the process of economic recovery in Russia.

### **Other official creditors**

The settlement of indebtedness to other official creditors who did not join the Paris Club was also affected by the crisis. Currently, Vnesheconom-

bank is a party to intergovernmental and interbank agreements with most of these creditors - Bulgaria, Hungary, China, Poland, Slovakia, Oman, Thailand, Turkey, Uruguay, the United Arab Emirates, the Republic of Korea. These agreements stipulate the terms and procedures of handling settlements and payments under the former USSR liabilities. With other creditor-countries - Kuwait, Romania, states-successors to former Yugoslavia - negotiations designed to find adequate debt settlement schemes are coming to an end. One of the schemes offered provides for delivery of Russian hi-tech goods to creditor-countries in debt repayment. That would ensure and facilitate both honouring foreign obligations and rendering support to domestic producers, since Federal funds are being channelled into production of goods to be delivered in debt repayment.

In 1998, a number of decisions were adopted by the Russian government and the Ministry of Finance which considerably enhanced the role of Vnesheconombank in implementing the above mentioned goods schemes. While acting in its traditional function as the Government's agent to service the restructured debt, the Bank now ensures targeted financing of domestic producers with the Federal Budget funds. The overall sum of debt settled by goods deliveries exceeded US\$ 400.0 million. The picture of Vnesheconombank's performance in that respect would not be overall, unless we mentioned that implementing the goods schemes was much more time-and-effort consuming than just effecting cash payments. Full and efficient execution of these schemes would require, first of all, more participants. Besides authorized banks, a great number of other authorized exporters and importers, as well as manufacturers, exchange control and tax authorities are involved in sovereign debt repayment operations. Then, the goods schemes imply a substantial growth in documentation. In addition to payment orders, numerous contracts, invoices, acceptance certificates are required. Nevertheless, these schemes appear to be much more cost-effective, since they provide for addi-

tional budget receipts (e.g. both manufacturers and employees pay Federal and local taxes thus partially offsetting debt servicing costs).

Should the Paris Club creditor-countries accept the goods scheme of debt repayment, as offered by the Ministry of Finance of the Russian Federation, it would obviously facilitate Russia's efforts to overcome the debt crisis.

### **Commercial Creditors**

In 1998 some progress was made in implementing the strategy of settling trade indebtedness owed to foreign suppliers. Reconciliation documents were signed with representatives of the country clubs of commercial creditors from Austria, Great Britain, Italy, Japan as well as with a number of individual creditor-firms. A package of reconciliation documents to be signed later covers debt claims amounting to US\$ 840.0 million, out of US\$ 2.2 billion of commercial indebtedness recorded on Vnesheconombank's books. Still another US\$ 1.8 billion of the debt goes under export-import contracts not recorded on the Bank's books.

The financial crisis accompanied by the debt crisis suspended the process of finalizing definitive documentation that would set out terms and procedures of the former USSR commercial indebtedness settlement. But it is quite obvious that once the Russian government's economic programme is agreed with the IMF, and once new parameters of Russia's foreign debt settlement are accepted by the Paris and London Club creditors, the process will be given a further impetus.

### **Indebtedness under the Minfins**

In compliance with the Federal Law, indebtedness under the Minfins was referred to the category of sovereign foreign debt. This decision only legalized the fact that, firstly, payments on these obligations should be made in currency rather than in roubles, and, secondly, a considerable proportion of the Minfins was held by foreign legal entities.

In 1998, acting in its agency capacity, the Bank made an additional bond issue for the sum of US\$ 180.0 million and thus settled the currency and special accounts 'frozen' earlier. Within a year, Vnesheconombank redeemed bonds for the sum of US\$ 7.2 million and paid coupon for the sum of US\$ 316.0 million getting equal receivables from the Ministry of Finance. It should be noted that after the default by a number of authorized banks on the Minfins servicing and their failure to maintain relevant trading records, the scope of functions and responsibilities of Vnesheconombank was accordingly expanded.

### **Sovereign Foreign Debt in Russia's Economy**

A substantial worsening of macro-economic indicators of the sovereign foreign debt was a direct consequence of the financial crisis. All the ratios, such as debt/GDP, debt/export, debt servicing/export (on schedule) calculated for the end of the year turned into 90%, 203% and 23%, respectively, approximating the ratios which are estimated by the IMF as being 'critically dangerous' for the country's ability to duly service its outstanding debt. But much more threatening is the situation when, in order to make payments scheduled for the year of 1999 on time and in full (US\$ 17.5 billion), the country is expected to transfer almost 90 % of its budget receipts to foreign creditors.

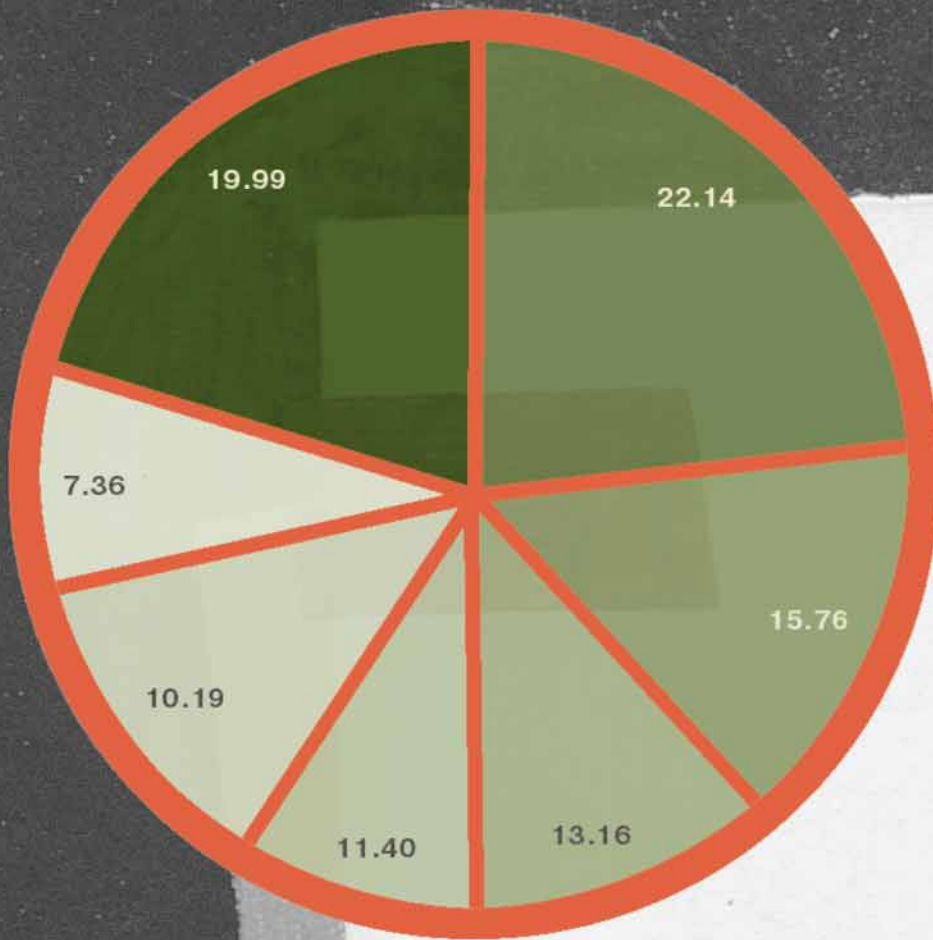
Full redemption and servicing of sovereign foreign debt on schedule would require that within the coming 8-10 years Russia should maintain the surplus of the budget receipts over the budget expenditures at the levels of 6-8% of the GDP per annum, which is at the moment unbearable for its economy (in accordance with Federal Budget Law for 1999 the indicator is deemed to reach 2% at best). The Government of the Russian Federation, therefore, has no other alternative but to seek ways to drastically restructure the former USSR debt, to consistently promote market-oriented reforms, to make domestic products much more competitive, and, finally, to create and effectively utilize a system of active sovereign debt management.

It should be noted that in 1998 Vnesheconombank submitted to the Russian government a number of proposals intended to further improve foreign debt monitoring, with the debt comprising sovereign indebtedness, foreign debt of Federal subjects, that

of municipal entities, as well as of other economic entities of the Russian Federation. The work carried on in that area could be of crucial importance for upgrading the credit rating of Russia.



**Structure of external financial assets of the Russian Federation within countries – not clients of the Paris Club (%)**  
(as of December 31, 1998)



- Cuba
- Syria
- Mongolia
- Afghanistan
- Iraq
- North Korea
- Others

**Structure of external financial assets of the Russian Federation, total (%)**  
(as of December 31, 1998)



- Countries – clients of the Paris Club
- CIS member-countries
- Other debtor-countries

## 2. PARTICIPATION IN THE MANAGEMENT OF RUSSIA'S EXTERNAL FINANCIAL ASSETS



Acting as an agent for the Government of the Russian Federation, Vnesheconombank is actively engaged in Russia's external financial assets management. Its role is not altogether reduced to maintaining records of claims on the debtor-countries, though book keeping and accounting in that respect remain a major function of the Bank. Above that, in 1998, a number of actions were undertaken to evaluate the solvency of the debtor-countries, primarily, of those who have no agreements with the Paris Club and whose outstanding debt tends to grow. Another initiative of the Bank in external financial assets management is aimed at conducting a detailed study and analysis of specific schemes of foreign debt repayment. It implies the use of conventional market instruments and/or innovative ones such as swap operations (debt/export, debt/equity, debt/debt), securitization of debt claims, buy-back operations and some others. Taking into account the permanent pressures and challenges of financial hardships which most of the debtor-countries are going through, these instruments and schemes might facilitate the debt restructuring procedure under agreements to be approved by the Russian government.

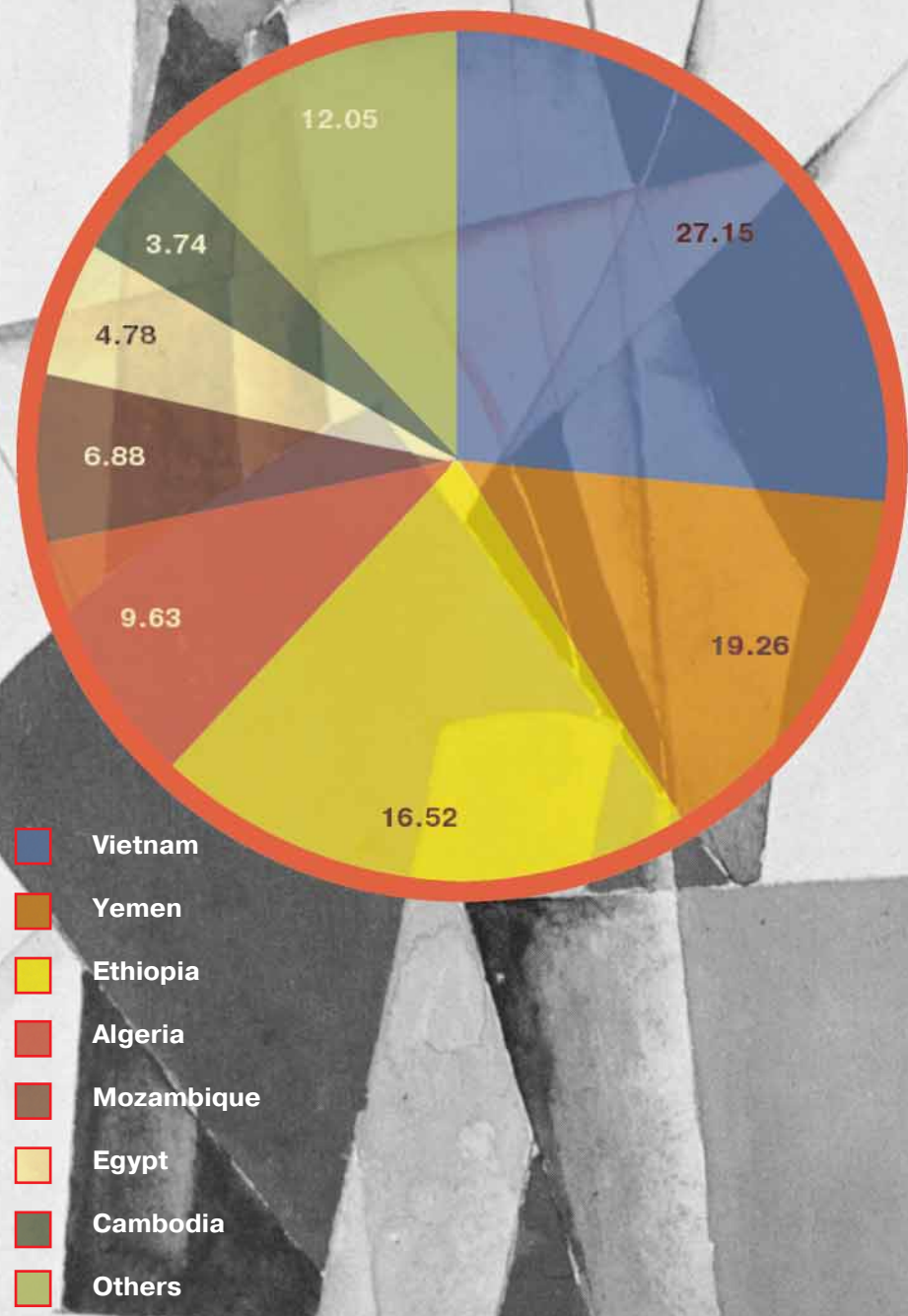
As of December 31, 1998, the overall amount of debt claims registered on Vnesheconombank's books and owed to Russia by foreign states under credits granted earlier (prior to a front discount stipulated by Russia's full-fledged membership of the Paris Club) was estimated to exceed US\$ 131.1 billion, with US\$ 93.2

billion comprising the arrears. The debt was supported by tens of thousands of relevant documents, some of them being 20 or even 30 years old. While reconciling the claims, authorized banks, however, recognized the correctness of the data recorded by Vnesheconombank. That was another evidence of the Bank's professionalism and top level performance. It is all the more disappointing that having reconciled the claims, some of the states would not make payments to Russia though they continued repaying debt owed to other creditors. Consequently, Vnesheconombank stepped up its efforts representing Russia's official negotiating position at Paris Club meetings. This would enable the Bank to make the best use of the Club's membership, its established mechanisms and procedures to put financial and economic pressure on the debtor-countries.

The 1998 results show that the steps undertaken by Russia are beginning to bear fruit. Thus, with the participation of Vnesheconombank, intergovernmental negotiations with 12 debtor-countries were held. New terms of debt settlement were agreed upon and texts of relevant agreements were initialled by five of these countries - Mozambique, Yemen, Tanzania, Madagascar and Mali. Taking the lead, Vnesheconombank has drafted and finalized interbank arrangements to record and settle the restructured debt. Once the underlying intergovernmental agreements are signed, the arrangements will be subject to negotiation.

In 1998, as part of its on-going evolution, the Bank conducted tenders for the sale of funds in national, clearing and other soft currencies. In particular, 49

**Structure of external financial assets of the Russian Federation within countries-clients of the Paris Club (%)**  
(as of December 31, 1998)



tenders in Indian rupees were held with INR 24.7 billion being utilized, up about 17% as compared with the previous year. The Federal Budget receipts from the tenders were estimated to approximate RBS 1.4 billion and US\$ 562.9 million. Besides, tenders for the sale of priority rights to buy goods in repayment of debt owed to Russia by Mongolia, Morocco and other

states were also held.

On the whole, in 1998, as a result of operations with Russia's assets, Vnesheconombank transferred more than US\$ 900.0 million to the Federal Budget, which was 3.5 times more than in 1994 - a benchmark year in reshaping the system of Russia's external financial assets management.

### 3. INTERNATIONAL SETTLEMENTS

**B**eing a specialized state bank of the Russian Federation, Vnesheconombank has over the years assumed strategic responsibility for servicing export-import operations. Top priority is given to centralized operations performed in the interest and at the expense of the Government. That requires further excellence and efficiency in conducting international settlements. In 1998, amid the on-going financial and banking crisis, Vnesheconombank experienced consistent demand for its services and, as a result, was able to expand its own commercial activity. Consequently, the volume of currency control documentation processed by the Bank was estimated, when averaged, to have increased by 70%, about 56.5% of these were accounted for by export operations, and 83.9% - by import operations. During the same period, payments made under intergovernmental agreements (Import Letters of Credit) only grew by 21.5%, which is another evidence of Vnesheconombank's expanded presence in this market of banking services in Russia.

Having successfully developed correspondent relations with as many as 520 banks in almost all major countries and regions of the world, Vnesheconombank is now prepared to transfer payments in any currency to every spot on the globe. To achieve that, the Bank would use its most sophisticated computer and banking technologies, as well as all modern means of communication. But should a need arise, the Bank would readily provide its customers with

individual settlement profiles and schemes. To illustrate the point, let us consider the situation following 17 August, when the banking system collapsed overnight and the payments mechanism actually failed. In those circumstances, Vnesheconombank developed and introduced special settlement schemes to reduce commercial risks, thus putting aside standard payment instructions and switching over to new payment routes tailored to an individual customer's request. The Bank would also provide consulting and advisory services as to the most effective payment route to follow. Suffice it to say, these innovations in international settlements never caused any failures, hitches or delays.

In 1998, Vnesheconombank was striving to ensure its leadership in such a specific area of international settlements as effecting payments in national, clearing and other soft currencies. A number of underlying banking arrangements were signed with the Bank of China on handling settlements and on consolidating balances in clearing Swiss Francs, as well as with the Reserve Bank of India on changing settlement procedure with regard to Indian goods deliveries along the debt repayment route. Besides, a tentative agreement was achieved to open Vnesheconombank's consolidated 'escrow' account with the Reserve Bank of India. The account is supposed to accumulate rupee funds credited to it in payment for Russian goods delivered under commercial contracts.

While spotting changes in the world and adequately responding to them, Vnesheconombank continued its drive to prepare and launch a comprehensive programme of settlements in Euros in order to repay Rus-

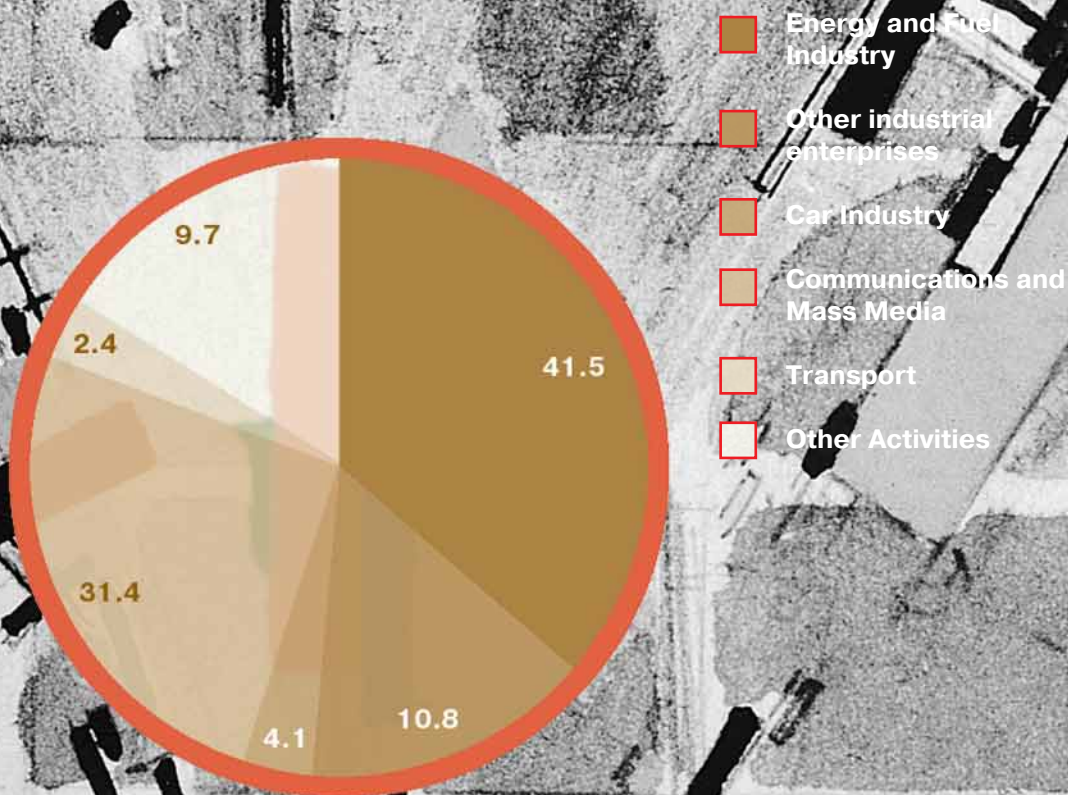
sia's debt owed to the European Community countries. To this end, Euro-denominated correspondent accounts with a number of foreign and Russian banks were opened. A settlement procedure under credits obtained from the EC countries for the transitional period (till the year of 2002) was agreed upon.

It is worthwhile noting that during the year, despite the ever-worsening situation with international settlements and the accompanying risks, the Bank would not charge higher fees and commissions for the services rendered. On the contrary, it became a prevailing practice to reduce tariff charges on certain operations and to match the Bank's rewards with the indi-

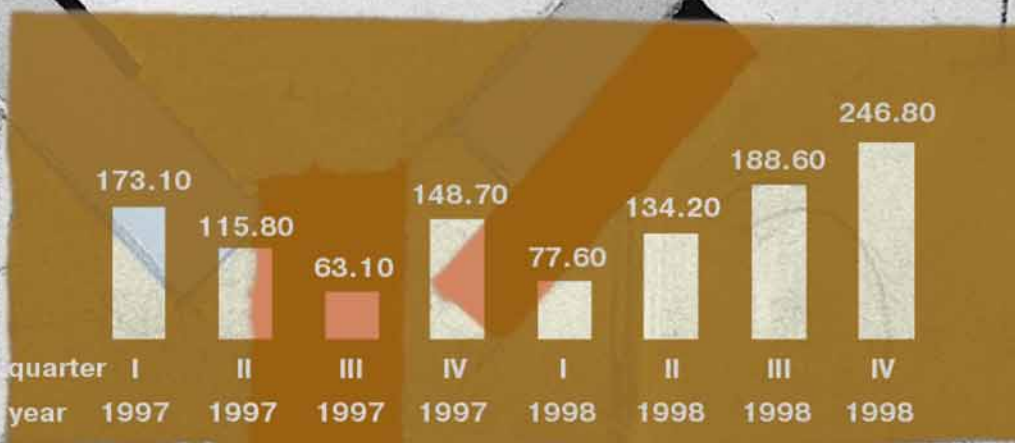
vidual customer's record. As before, international settlements under centralized operations were conducted by Vnesheconombank free of charge.

In the post-crisis period, the role of the Bank as a major state institution designed to ensure efficient foreign currency control was substantially enhanced. Thus, in 1998, through the accounts opened by Russian exporters with Vnesheconombank, export earnings exceeding the sum of US\$ 1.0 billion were channelled into the country. Proceeding from the strategic perspective, the Bank would continue to assist the Government of the Russian Federation in its fight against illegal capital flight.

**Structure of loan portfolio extended by Vnesheconombank out of its own funds, (US\$ million) (as of January 1, 1999)**



**Loan portfolio extended by Vnesheconombank out of its own funds, dynamics (US\$ million)**



#### 4. INVESTMENT ACTIVITY

**T**hough, admittedly, there are very few reliable and solvent borrowers in Russia, Vnesheconombank would be providing finances for the real sector of Russia's economy. The financial and economic crisis of August 1998 did not change the Bank's position on the issue. Notwithstanding all the difficulties, most of the Management's attention was invariably devoted to further servicing and utilizing 'tied' loans, obtained from industrialized nations under guarantees and comfort letters of the Russian government. In 1998, implementing intergovernmental arrangements, 42 loan agreements for the sum of US\$ 1.2 billion with banking institutions of Germany, Italy, the USA, France, Great Britain, Turkey, Finland and Norway were signed. In fact, the above figures are somewhat lower than those of a year earlier. But it should be borne in mind that, firstly, these borrowings actually equalled 100% of Russia's Federal Development Budget and, secondly, the decrease in the borrowings came within the overall strategy of the Government to reduce the volume of 'tied' loans. Besides, with the financial crisis continuing to impact, a number of Export Credit Guarantee Agencies suspended providing coverage under some loan agreements signed or to be signed. It is against this background that our results are to be seen.

In this situation, difficult as it was, Vnesheconombank worked intensively to obtain investment credits with no guarantees from the Russian government entering into direct agreements with state Export Credit Guar-

antee Agencies of industrialized nations.

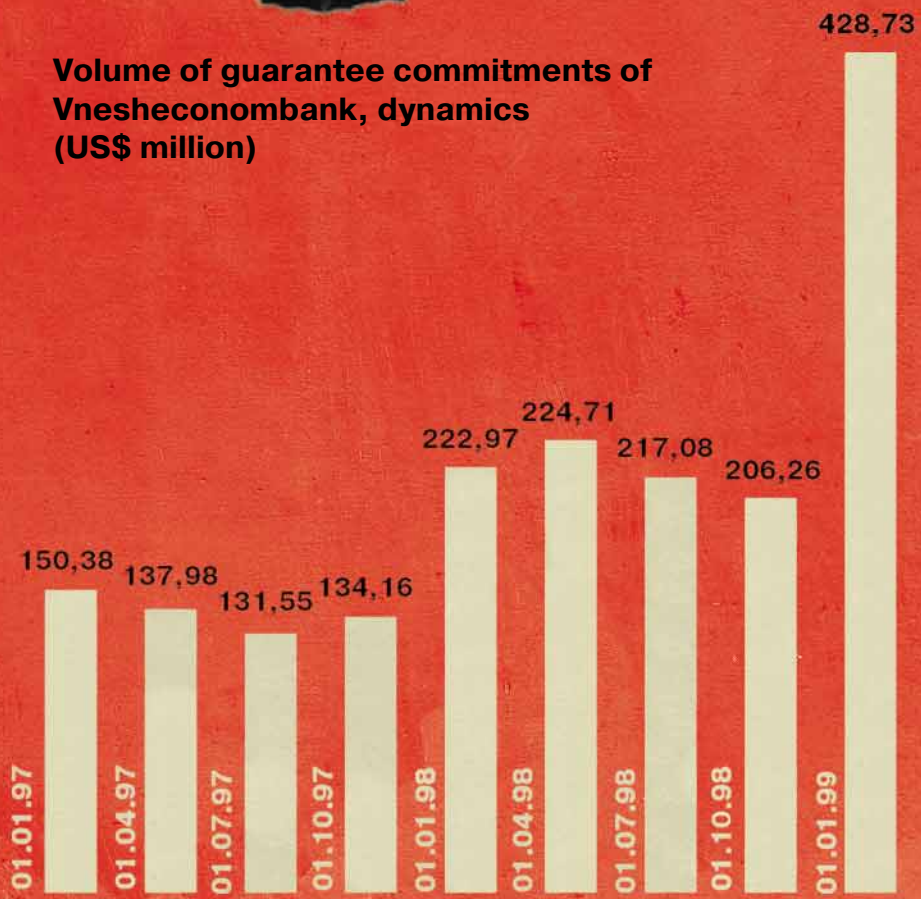
Thus, throughout the year of 1998 and the start of 1999 a number of agreements on insuring credits raised by Vnesheconombank were signed with Finish Guarantee Board (Finvera), Export Credit Guarantee Department of Great Britain (ECGD), State Insurance Agency of Italy (SACE), Export-Import Banks of the USA and Hungary. Credit agreements were also signed with Bayerische Hypo- and Vereinsbank, Germany and Vediobank, Italy. Moreover, striving to diversify its resources of investment project financing, the Bank carried on consultations with Export-Import Banks of China and India, forwarded proposals on cooperation to Export-Import Bank of Japan, COFACE (French Foreign Trade Insurance Company) and to a number of other financial institutions all over the world.

It was for the first time since 1991, that in 1998 Vnesheconombank succeeded in obtaining a syndicated loan to finance a satellite TV project.

In the context of Vnesheconombank's contribution to the real sector of Russia's economy, two other directions of the Bank's investment activity were of primary concern. The Bank continued to finance manufacturing of Russian goods and their delivery to some countries, first, in repayment of the former USSR debt, and, second, in order to utilize Russia's state loans extended to foreign countries. Regrettably, the ability of the Government to timely finance domestic producers was severely restricted by the budget crisis, the extension of state credits, for example, was reduced by more than 50%. But, on the other hand, the desire and intent to make the best use of the



**Volume of guarantee commitments of  
Vnesheconombank, dynamics  
(US\$ million)**



resources available got all the financial flows better managed and streamlined. In addition to the Bank's responsibility for foreign operations (keeping records of foreign debt repayment and credit utilization), the Ministry of Finance authorized Vnesheconombank to carry on domestic operations related to financing enterprises which would manufacture goods to be exported.

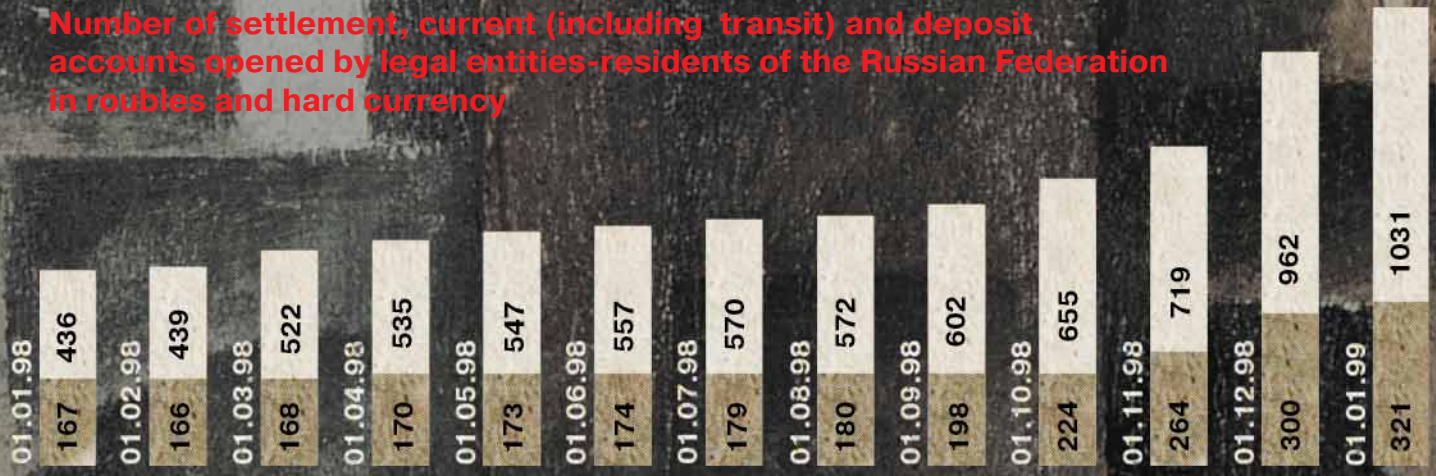
Thus, in 1998 Vnesheconombank financed, through its accounts, the manufacture and export of goods made by major Russian 'city-forming' enterprises, such as 'Equipment Design Bureau' (the city of Tula), 'Metrovagonmash' (the city of Mitischi), 'Arzamass Engineering Plant' (the city of Arzamass). And the Bank's responsibilities in that respect are not limited to the function of an intermediary between the Ministry of Finance and an enterprise. Now Vnesheconombank assists exporters to define financial terms underlying their contracts and then provides them with an extensive range of banking services.

In conjunction with its capacity of the Government's agent in implementing investment projects, Vnesheconombank is also actively engaged in conducting its own lending operations to finance the real sector of economy, as well as in issuing guarantees (on return of advances, on performance of contractual obligations and others). In 1998, the Bank, using its own funds, extended 13 currency-denominated loans, for the sum approximating US\$ 550.0 million, and 2 rouble-denominated loans for the sum of RBS 84.6 million. And the number of loan applications was by far greater. To our regret, in most cases loan applicants lacked creditworthiness we expected or

the projects advocated by them were, in Management's opinion, not cost-effective or rewarding. Last year, as the agent for the Government, Vnesheconombank was forced to participate in numerous arbitration proceedings and, as a result, the Bank got back US\$ 206.9 million under 10 writs issued in its favour. Now, the Bank has to resort to a much tougher and conservative lending policy.

Similar approaches are practised with respect to issuing guarantees. As of December 31, 1998, 120 guarantees for the sum of US\$ 428.5 million were issued and recorded on the Bank's books, their number rising by 90% within a year. It is a recognition of the Bank's increasing role in the market. In fact, there is also a considerable growth in guarantee applications since, unlike Russian commercial banks, Vnesheconombank issues guarantees which are accepted by foreign banks without demand for an immediate transfer of the coverage. It makes the financing facilities offered by the Bank much more profitable for its customers. The Bank's flexible policy with regard to the security provided also enhances its reputation and efficiency as a guarantee issuer. Our customers find it very attractive that the Bank, alongside with a commonly used guarantee deposit, would be prepared to accept liquid securities and export earnings as a pledge. Among our major corporate customers are: 'Rosvoorudzenye', 'Technopromexport', 'Machinimport', 'Tyajpromexport', 'Atomstroieexport'. Besides, Vnesheconombank provided coverage for deliveries to the regions traditionally considered by the world banking community as 'high risk' areas, they included Pakistan, Iran, Algeria and Turkey.

**Number of settlement, current (including transit) and deposit accounts opened by legal entities-residents of the Russian Federation in roubles and hard currency**



■ Currency accounts  
■ Rouble accounts

**Balances on settlement, current (including transit) and deposit accounts opened by legal entities-residents of the Russian Federation in roubles and hard currency (US\$ mln equivalent)**



## 5. BANKING SERVICES DEVELOPMENT



urged by the financial crisis Vnesheconombank resolutely sought to further expand its corporate customer base. Over the year under review, a wide spectrum of operational services was offered to 167 new customers,

the number of legal entities reaching 4998, inclusive of 378 non-residents. There was a considerable growth in the number of current rouble-denominated and deposit accounts by 500 units (a 15.2% increase), while the balances on rouble accounts increased by more than 400%. The balances on foreign currency accounts rose by more than 430%.

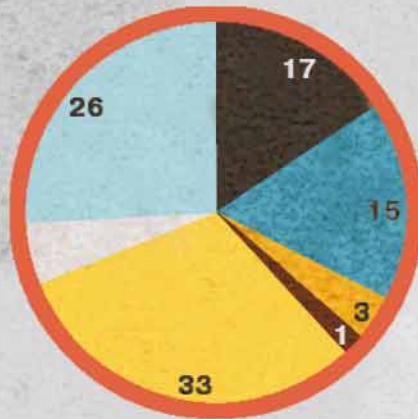
The Bank recognizes that its customer servicing activities are not only limited to accounts maintenance, provision of cash and settlement services, execution of guarantee and lending operations featured above. Vnesheconombank is striving to offer high quality consulting and advisory services, to create and develop customer-tailored financial profiles to facilitate settlements in clearing and soft currencies. We believe that Vnesheconombank is most competitive, if not unsurpassed, in this line of business.

At the same time, in Management's opinion, there is still much to be done to facilitate customer-related services. The work in that respect is carried on along three main directions: first, through innovative development of banking products and technologies (issuing the Bank's own Notes, developing Note crediting, launching the issuance of Deposit Certificates and plastic cards of Vnesheconombank, etc.); then,

through enhancing the range and quality of services offered, developing service delivery channels (opening a new Customer Service Office, switching over to the 'Bank-Customer' remote banking software package, etc.) and, finally, through facilitating the decision-making procedure with respect to 'Bank-Customer' relationship (introducing an automated 'Customer Profile' data base, working out customer evaluation criteria, pursuing a flexible tariff policy, etc.). A substantial expansion of the customer base, as well as new requirements arising from the Bank's intensive activity within the framework of the London and Paris Clubs made Vnesheconombank build up its efforts to provide high quality IT services, thus creating an adequate information and technology environment to ensure the Bank's strategic efficiency. New sophisticated technologies were introduced to implement and promote such banking products and operations as currency and rouble position monitoring system, trust management, London Club and commercial indebtedness record maintaining, and some others. New methods and means to facilitate Vnesheconombank's Consolidated Balance Sheet reporting were effectively applied.

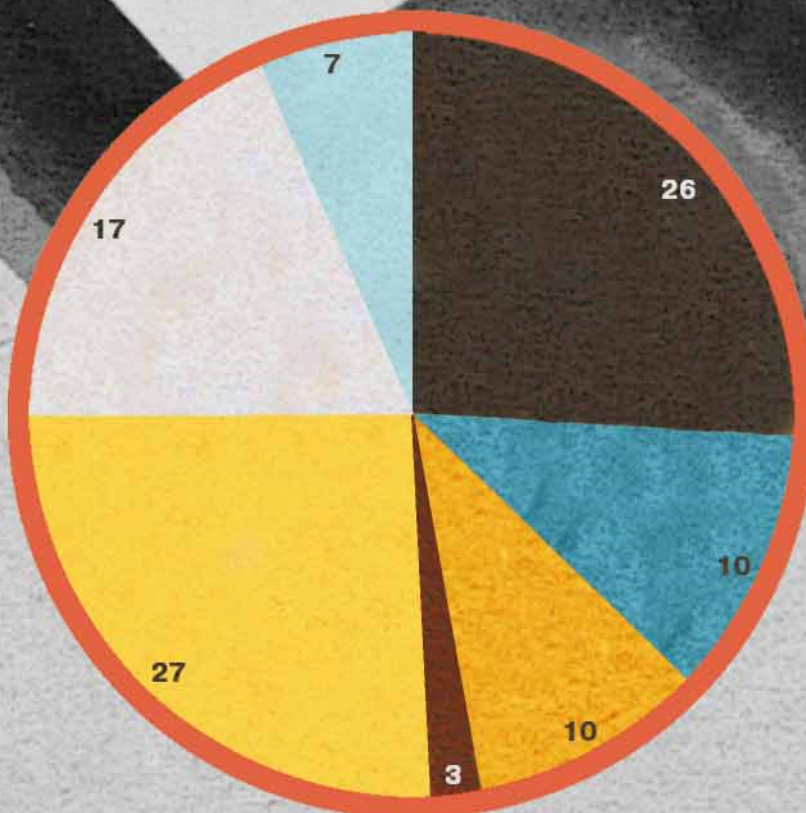
To upgrade the Bank's overall soft- and hardware system, all users of the automated information system were switched over from the obsolete MS DOS environment to the advanced OC UNIX one. All the modules are now operating in DBMS ORACLE 7.3, which would ensure the system's operability beyond the year of 2000. In independent auditors' opinion, Vnesheconombank maintains high operational and technological level of efficiency.

**Structure of Vnesheconombank's own assets not relating to centralized operations (%)**  
(as of January 1, 1998)



- NOSTRO accounts
- Interbank credits
- Loans to Customers
- Other Fund Placements
- Securities Investments
- Settlements with the Ministry of Finance
- Settlements with Debtors and other Assets

**Structure of Vnesheconombank's own assets not relating to centralized operations (%)**  
(as of January 1, 1999)



## 6. OPERATIONS ON MONEY AND FINANCIAL MARKETS

The 1998 crisis and its after-effects compelled Vnesheconombank to radically reshape its policies and readjust its approaches towards operations performed in both domestic and foreign financial markets. If prior to September 1998 most of depository and forex operations of the Bank were conducted with major Russian commercial banks, by the end of the year they were restricted to the Bank of Russia, Savings Bank and Vneshtorgbank, as well as to 9 resident-banks with foreign participation, such as ABN-AMRO Bank, BNP-Dresdner Bank, Bank of Austria, Kreditanschtalt, Moscow International Bank and others. To reduce risks in dealings with banks-counterparties the state securities portfolio was primarily consolidated with the sole dealer, that was Vneshtorgbank of Russia. Operating in an objectively adverse environment, Vnesheconombank continued to meet its obligations and effect settlements under foreign currency-denominated securities. That enabled the Bank to maintain credit line facilities provided by its Western counterparties.

In this context the structure of the assets portfolio of the Bank underwent a dramatic change. On the one hand, there was a sharp drop in the quotations of Russian securities. On the other hand, the volume of lending operations considerably increased, predominantly due to the extension of credit to the Ministry of Finance out of funds of the Central Bank in compliance with the Federal Law. The portion of rouble-denominated securities reduced 6.2 times (the portion of investment into

the GKO-OFZs - 6.3 times), the portion of Russian foreign currency-denominated securities reduced by 60%, and investment into foreign issuers' bonds - by 70%. At the same time investment into interbank deposits and credits grew by 180%. These trends in the operations of Vnesheconombank are directly reflective of the overall state-of-the-art of the Russian financial market and of the Bank's aspiration to adjust its present day policies to the actual financial set-up.

A sharp decline in the Russian debt instruments' quotations and freezing of the GKO market (with a subsequent restructuring) brought about a plunge in the value of these securities portfolio which was partially offset by a rising value of foreign issuers' securities. This also caused the yield on the GKO-OFZs to drop down to 8.3% per annum partially offset by a growing yield from forex arbitration operations and a higher yield on the foreign issuers' bonds. The yield from operations with Russian corporate stocks was also relatively high, with the volume of these operations increasing 2.5 times and the average yield reaching 54.9% per annum. Top priority was given to operations with the stocks of such leading Russian companies as 'Gazprom', 'Lukoil', 'United Energy System', 'Mosenrgo' and some others.

In 1999, Vnesheconombank has continued its drive to improve the quality of its assets portfolio, in particular, by having its securities portfolio diversified. The Bank is dedicated to enhance liquidity and reduce risks. Besides, there is a noticeable surge in the volume of trading debt notes of the Russian Federation, foreign issuers' bonds, corporate stocks and bills, with a focus placed on the interests of a client.

## 7. COOPERATION WITH CIS COUNTRIES



Under the instructions of the Government of the Russian Federation Vnesheconombank was authorized to service and repay the state credits extended to CIS countries, and in 1998 the Bank completed the registration procedure of all these transactions.

Interbank agreements with Armenia, Bellorussia, Khirgizia and Tadjikistan were agreed upon and signed. The drafts of interbank agreements with Georgia, Moldova and Uzbekistan are being thoroughly studied and analysed by authorized banks and Ministries of Finance of the above states. As of January 1, 1999, the overall sum of CIS countries' indebtedness under credits extended by Russia reached US\$ 6.4 billion.

At the moment Vnesheconombank maintains records of all the debt by CIS countries, exclusive of Azerbaijan and Turkmenistan.

Despite the fact that in 1998 CIS countries repaid debt owed to Russia for the sum of US\$ 30.0 million, the issue of getting financial relations within the CIS regularized and streamlined is quite pressing. While servicing the debt owed to other foreign creditors, some states would not honour their obligations towards Russia. The volume of past due payments (approximating US\$ 1.5 billion) is great enough. And appeals made to the Russian government for a new restructuring of the debt are still numerous.

To find most favourable ways of settling debt liabilities of CIS countries, Vnesheconombank initiated detailed analyses and reports on the financial standing of Khirgizia, Tadjikistan and Uzbekistan. The solvency of these countries, as well as the obligations assumed by

Russia within the Paris Club agreements were to be taken into account. This specific line of Vnesheconombank's activity is supposed to be expanded.

With the focus placed on resolving the 'old' issues, Vnesheconombank is currently dedicated to promotion of new trade and economic relations. In this context, state credits to CIS countries are of paramount importance, with the Bank playing a significant role. In 1998, state loans for the sum RBS 830.0 million were extended. The loans could hardly be considered sufficient, since the CIS territory is a most secure and well-guaranteed market for Russian engineering goods. Russia should, therefore, restore its technological relations and cooperation with CIS countries. We are absolutely convinced that it is the system of state loans to CIS countries that would in the long term ensure Russia's economic strategy.

But under the circumstances, when the 'old' debt is not being properly serviced, it would be most embarrassing for the Government to request that the Federal Assembly approve of further loans to CIS countries. In Management's opinion, the Bank could play a major role in exercising efficient control over targeted utilization of state loans granted to finance export deliveries to CIS countries. With this idea in view, the Bank undertook some resolute steps to switch over to generally accepted principles of making settlements with borrowers from CIS countries. These principles imply that the loan is to be drawn down against the actual delivery of export goods rather than against payment made to the goods manufacturer.

Besides, in its policies towards CIS countries, the Banks proceeds from the belief that granting state credits is a starting point for promoting interbank

cooperation and participating in investment projects on the territories of these states. In that respect, the Bank is well positioned and has enough strength to ensure effective commercial goods exchange within

CIS countries and offer a wide spectrum of banking services to Russian enterprises and firms operating in that area.



## 8. REPRESENTATIVE OFFICES

The capacity of Vnesheconombank acting as the Government's agent in ensuring its centralized foreign economic operations had a certain imprint on the Bank's regional policy. For a long time the emphasis was placed on opening Representative Offices in industrialized Western countries, that is closer to credit sources available. But under the debt crisis pressures, this policy had to be basically readjusted.

In 1998, Vnesheconombank appeared to be the only financial institution of Russia that was authorized by the Banking Supervision Authorities of China to open a Representative Office in Beijing. It was another recognition of the Bank's significant role in promoting Russia-China relations. Besides, Vnesheconombank's East-oriented policy was evidenced by the fact that decisions were made to reopen its Representative Office in Egypt and to start operating a new one in South Africa.

Under local and Russian legislations, Vnesheconombank's Representative Offices have no powers to conduct their own financial operations. But their performance might be of great importance in ensuring implementation of intergovernmental treaties and agreements. In addition, the Bank could always provide consulting and advisory services on trade and financial cooperation with Russia, on the whole, and Vnesheconombank, in particular. In future, even a greater role for the Bank in this line of business is envisaged.

### ADDRESSES OF REPRESENTATIVE OFFICES:

#### 1. USA, New York

527 Madison Avenue, New York, NY 10022, USA  
phone: (1-212) 421 86 60, fax: (1-212) 421 86 77

#### 2. Italy, Milano

Piazzale Principessa, Clotielde, 8-20121 Milano, Italy  
phone: (3902) 653 62 52, fax: (3902) 655 16 97

#### 3. Hungary, Budapest

Trade Centre, 1052, Budapest, Vaci u. 19-21  
phone: (316) 318 6978, fax: (316) 266 2786

#### 4. Egypt, Cairo

8, Midan El Sad El Ali, Dokki, Cairo, Egypt  
phone: (20-2) 337 10 40, fax: (20-2) 337 10 40

#### 5. China, Beijing

20 ACITIC Building, 19, Jianguomenwai daijie, Beijing, P.R., China, 100004  
phone: (8610) 6592 8905, fax: (8610) 8592 890

#### 6. India, Mumbai

11, World Trade Centre, Cuffe Parade, Mumbai - 4000 005, India  
phone: (91 22) 218 2705, fax: (91 22) 218 5845

## 9. PUBLIC AND SOCIAL ACTIVITY

Vnesheconombank's special status of a state bank has predetermined its public and social activity. The fact that the Bank traditionally participates in financing major and socially important projects does not necessarily mean

its preoccupation with projects which are widely advertised by mass media and are, thereby, always in the limelight.

We do not view our charity programmes as being intended to improve the Bank's corporate image, but rather as a response to a plea for help. It is no secret that the Government does not have sufficient funds to finance educational, health-care and cultural programmes. And we consider it to be our public duty to actively participate in projects that would promote them.

A special Commission on Charitable and Public Activities was set up to deal with the issues and respond to the needs.

On the whole, Vnesheconombank's charity and sponsorship-oriented activity implies the following:

- a conceptual approach to the selection of projects;
- orientation towards humanitarian issues;
- financial assistance for projects designed to restore and support social gains and cultural traditions.

In November 1998, with the participation of Vnesheconombank, a Charitable Reserve Fund was set up so that along with other state institutions it could financially support All-Russia projects and initiatives in the sphere of art, science, education and environment protection. Bids for financing perspective projects, on a tender basis, would be accepted and stud-

ied, grants and prizes are supposed to be awarded. In our opinion, the results of 1998 are quite rewarding. Thus, Vnesheconombank participated in financing many projects launched by different funds and associations. Among most successful of them are:

- 'Stars of the World to Children' concert organised in the Cathedral Square in Moscow under the patronage of International Charity Fund;
- a few programmes Yuri Bashmet's International Charity Fund initiated, with 'White Nights in St. Petersburg's musical festival being one of them;
- a special charitable programme for Russian regions to celebrate the 200th anniversary of Pushkin's birthday organised by the National Fund of Russian Culture;
- participation in the programmes launched by the Russian Fund of Culture, including support for the 'Friends of the Mariinsky Theatre' Club.

Vnesheconombank was whole-heartedly supporting the 'Heritage' Regional Public Cultural Fund, the 'Nature and Children' Fund, the 'Law and Order Assistance' Fund, the 'Sound Health and Spiritual Values For the Nation' Inter-regional Public Charitable Fund, the 'Support for Invalid and Disabled Children' Moscow Public Organization, All-Russia 'Invalid and Disabled People' Society, the Russian Association of Victims of Political Repression.

In view of a long-standing relationship some of our friends have become very special to us. The 'Studio of Peter Fomenko' theatre comes top of the list. The audience is downright fascinated by the way its productions are staged and presented. They admire the way the young actors play. Vnesheconombank is financing reconstruction of a building to house the

theatre. Hopefully, it will be inaugurated before long.

The Bank renders support to the 'Pushkin Fine Arts' Museum, which is also regarded to be the Bank's dear old friend. Every project implemented by the Museum becomes a bright and prominent event in

the cultural life of the country.

In fact, all the projects sponsored by the Bank throughout the last year comprise an independent social programme which is a continuity to the old Russian tradition of patronizing Arts.

## 10. FINANCIAL RECORDS



As financial records for the year of 1998 show, Vnesheconombank stood the test of the crisis and managed to maintain its financial stability.

In the year under review, the Bank made substantial progress in implementing the strategy of a balanced growth and diversification of its assets. Simultaneously, the Bank's capital base was expanded and perfected. The current structure of its assets and liabilities reflects the Management's carefully-judged approach towards financial risks assessment and evidences the Bank's preference for financial instruments with a satisfactory yield level. Due to a sharp drop in securities' quotations, their proportion in the Bank's assets reduced by 80% as compared with the previous year. Against this, 1998 recorded a 60% increase of investment into a more profitable commercial lending sector, while a big enough proportion of high liquidity assets (46%) was maintained at 1997

level. There was also a sustained growth in the volume of funds obtained from the Bank's corporate customers.

An independent audit check was conducted by the «Auditservice» firm. It analysed the financial reports prepared by the Bank in accordance with the Russian accounting legislation and confirmed the accuracy and validity of its Balance Sheet, Profit and Loss Account.

The financial reports for 1998 prepared in accordance with International Accounting Standards were submitted for auditing to 'Ernst & Young (CIS) Ltd', an independent audit company. Their opinion was also favourable stating that the reports gave a true and fair picture of financial standing of the Bank as of December 31, 1998.

On request, Press Office of Vnesheconombank can provide full sets of the financial reports, as well as the respective audit companies' opinions presented in accordance with Russian and/or International Accounting Standards.

**Balance Sheet, as of January 1, 1999****(In millions of US dollars)****ASSETS**

1	Cash and cash equivalents	339
2	Trading account assets	148
3	Due from other banks, net	481
4	Commercial loans and advances, net	205
5	Securities available for sale	495
6	Receivable from the Russian government under London Club	29,670
7	Due to London Club creditors	(29,670)
8	Due from the Russian government	86
9	Other assets, net	96
	<b>Total assets</b>	<b>1,850</b>

(In millions of US dollars)

**LIABILITIES AND RUSSIAN GOVERNMENT EQUITY**

1	Due to other banks	203
2	Securities sold under agreements to repurchase	41
3	Due to the Russian government and the Central Bank of Russia	1,159
4	Amounts owed to customers	294
5	Other liabilities	69
	<b>Total liabilities</b>	<b>1,766</b>
	Russian government equity	84
	<b>Total liabilities and Russian government equity</b>	<b>1,850</b>

## 11. OUTLOOK FOR THE YEAR OF 1999

**W**hen planning its activities for the year of 1999, the Bank proceeds from strategic perspectives of the country's development specified by President B. Eltsin in his Annual Address to the Federal Assembly of the Russian Federation, as well as from the guidelines defined for Vnesheconombank by the Russian government. The Board of Directors closely coordinates its work with the President's Administration, the Government of the Russian Federation, and the Ministry of Finance. The Bank is resolutely focusing on active participation in negotiations on the former USSR debt restructuring issues. Emphasis is also placed on further servicing and repayment of Russia's debt. To achieve these objectives, Vnesheconombank is committed to maintain regular contacts with the London and Paris Clubs, as well as with other creditors and international financial institutions. As before, the Bank's principal activity will be serving in an agency capacity for the Russian government to ensure its foreign economic operations.

Together with the Ministry of Finance of the Russian Federation Vnesheconombank is striving to create an adequate organisational, administrative and regulatory environment and prerequisites for a smooth transition to a unified system of sovereign debt management. The immediate task in this direction closely supervised by the World Bank is to get information flows on issues of borrowing and debt repayment properly streamlined and regularized. That will also include debt owed by the Federal subjects and municipal entities of the Russian Federation.

In its accounting and credit policy, Vnesheconombank is dedicated to support favourable trends and tendencies appearing primarily in the real economy sector. As seen by the Bank's Board of Directors, the main goal is to search ways of obtaining resources to directly invest into the key areas of Russia's economy. Vnesheconombank would continue to increase its activities in raising export credits and credit guarantees by major Western countries. In conjunction with these activities, the Bank intends to promote its business relations with Export-Import banks of China, India, the Republic of Korea and Hungary. To enhance these opportunities, it is envisaged to open Vnesheconombank's representative offices in China and the Republic of South Africa, and to resume operating the Bank's office in Egypt.

In the domestic market the overriding task for the Bank is to expand its customer base beyond enterprises which are predominantly concentrated in Moscow and in Central European region. To win its share of the market opportunities, Vnesheconombank is seeking ways of diversifying business contacts with major corporate customers from the South of Russia, the Urals and Western Siberia with a thrust on getting financial risks minimized and effectively managed. To meet these challenges, the Bank launched an overhaul and transformation of its core businesses aimed at strengthening its planning and budgeting principles, developing an adequate internal system of risk assessment, and upgrading internal audit operations. The basic transformation concept was set out by the Board of Directors with major international consulting companies being engaged in the process.

Looking to the future, Vnesheconombank recognizes

that the peak of financial and economic crisis is already past history, and the country is entering a new stage of economic upturn and gradual recovery. Under the circumstances, the Bank would consis-

tently promote these favourable and encouraging trends, thus advocating a market-oriented economy and the country's integration into the world economic and financial system.



In design and illustration the works by following Russian artists of the beginning of the XX century are used:



D. Sagoskin  
Construction  
Canvas, wood, oil,  
Records, brass 60x48.5  
1921-1922



M. Minkov  
Newspaper  
Canvas, oil  
71x71  
1918



I. Klun  
Construction  
Canvas, oil  
End of the 1910s



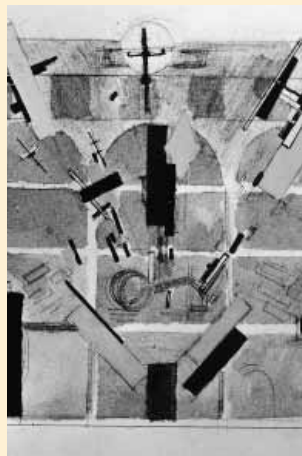
I. Klun  
Suprematism  
Canvas, oil  
1916-1918



A. Rodchenko  
Superficie sferica  
Canvas, oil  
76x76  
1918



E. Ermolaeva  
Project of the building  
design (Vitebsk)



A. Morgunov  
Composition #1  
Canvas, oil  
71x62  
Near 1915



Unknown artist  
Abstract  
Plywood, oil, metal  
36-34  
End-1910s - start- 1920s



M. Larionov  
Composition  
Paper, pushuar  
48x24  
1916(?)

VNESHECONOMBANK  
9, Academic Sakharov Avenue,  
Moscow, 103810, Russian Federation