



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

ANNUAL REPORT



1999



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

ANNUAL REPORT



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Ladies and Gentlemen!

I encourage you to devote a few minutes to the following pages where Vnesheconombank's senior managers who are leading the charge on key elements of our strategy will share their views on the Bank's performance in 1999. To begin with, it would be but reasonable to recall the political and economic challenges Russia was faced with on the eve of a new century and a new millennium.

In the wake of the devastating financial crash in August 1998 the greatest immediate danger for Russia was to plunge into oblivion. Against the backdrop of a complicated and fragile political situation in the country economists and market analysts had every ground to predict that.

Remarkably, these predictions never materialised. On the contrary, in 1999 Russia's economy performed better than expected and is well on track for recovery in 2000. Though sometimes the signs of economic growth appeared to be tentative and lacking sustainability, they are nevertheless reflective of greater social stability and political innovation dynamics in the country.

Looking back to the past we now come to realise how fast things developed and the political situation evolved: first, there was a constant reshuffling of the Governments and Prime Ministers followed by stark confrontations throughout the Parliamentary campaign, then, as a result of

the elections, realignment of forces in the country was critically changed. Finally, the first President of Russia, Boris Yeltsin, unexpectedly resigned with a transfer of power to Vladimir Putin, a new Russian President to come to the office. Under those circumstances, it was hard to present a coherent development strategy and a comprehensive economic programme. But demonstrating strong political resolve, we nevertheless succeeded in keeping the situation under control.

The complicated domestic set-up was further aggravated by a no less difficult international environment. Following the default on its foreign debt, Russia was inevitably faced with loss of investors' confidence, growing competitive pressures and, hence, an unfavourable global financial climate.

Notwithstanding all the challenges, Russia still weathered the storm and emerged from the crisis in a position of relative strength with a ray of hope for new positive changes. From a historic perspective, the year 1999 might be viewed as a springboard for Russia's sustained economic growth and future prosperity.

As a specialised state bank, Vnesheconombank was always driven by the strategic priorities of the country's development, as well as by the key objectives set by the Government of the Russian Federation. Therefore, it was invariably seeking to foster the

favourable trends appearing in Russia's economy and to facilitate the country's smooth integration into the global economic community.

By the start of the year under review, Vnesheconombank was among few Russian banks which managed to successfully overcome the financial crisis and its adverse repercussions. Moreover, it gained in-depth market intelligence and perfected its execution capabilities. Mainly as a consequence, last year was a watershed in our drive to generate better economic performance and diversify revenue streams.

Going into 1999, we were dedicated to galvanise all the resources available to rank among Russia's leading banks. Our strategic aim was to attain a bigger share of Russia's banking services market with a tight focus on investing into the real sector of the economy. For our perspective customers, of prime concern were the Bank's credibility, high-profile reputation and its impeccable record. They could also benefit from Vnesheconombank's ability to effect credit and guarantee operations under major international projects against no guarantees issued by the Government, as well as to raise project finance, inclusive of syndicated loans. The Bank's financial capabilities, in combination with the potential of Russia's enterprises, could definitely promote the development of national industry and

enhance the competitiveness of domestic products in global markets. Whenever possible, we encouraged our economic partners to overcome the financial crisis and its after-effects through offering them our market expertise and a wide range of innovative banking services that match the standards of major global financial institutions.

In 1999 the Bank stayed committed to fulfilling its primary function of a debt servicing agent. Acting in close cooperation with the Russian government and the Ministry of Finance, it bolstered its efforts to effectively restructure the Soviet-era debt and to further service the foreign debt of Russia. Seen from this perspective, the agreements reached with the London Club creditors on a significant debt write-off could be regarded as a real breakthrough. The main financial parameters of the agreement were elaborated at the end of 1999 and finalised in February 2000 to be legally completed later on.

The year under review saw an increase in the Bank's business activities with foreign partners in Germany, Italy, Denmark, as well as with export-import banks of China, India, Hungary and the Republic of South Korea. In April 1999, Vnesheconombank's Representative Office resumed operating in China

In 1999, the Bank I am honoured to represent celebrated its 75th anniversary. It should be admit-

ted we have always encouraged staff involvement in the Bank's performance and appreciated commitment to excellence and intellectual strength of our people. Strategically, their professionalism and insightful ideas are a major source of future growth and dynamics.

In Management's opinion it was clearly a good year. We recognise that underpinning our success lie a set of values. As a bank, we aspire to be distinguished by responsible citizenship, integrity, client focus and job dedication. Entering the third millennium with «Shaping the future today» as our slogan, we are holding a fundamentally optimistic view to turn these aspirations into achievements.

Andrey Kostin  
Chairman of Vnesheconombank

**BOARD OF DIRECTORS**

<b>KOSTIN</b> Andrey Leonidovich	Chairman of the Bank
<b>DMITRIEV</b> Vladimir Aleksandrovich	First Deputy Chairman
<b>KOSOV</b> Nikolay Nikolaevich	First Deputy Chairman
<b>ZABAZNOV</b> Anatoly Pavlovich	Deputy Chairman
<b>ZAVYALOV</b> Igor Nikolaevich	Deputy Chairman
<b>LEVIN</b> Vadim Olegovich	Deputy Chairman
<b>SMIRNOV</b> Aleksey Vladimirovich	Deputy Chairman
<b>STORCHAK</b> Sergey Anatolievich	Deputy Chairman – Sovereign Debt Obligations Director
<b>CHERNUKHIN</b> Vladimir Anatolievich	Deputy Finance Minister of the Russian Federation
<b>AKINSHIN</b> Aleksey Ivanovich	Treasury Director
<b>GRUZINOV</b> Aleksandr Sergeevich	Security Director
<b>LEBEDEV</b> Igor Aleksandrovich	Administration and IT Director
<b>NOROV</b> Erkin Rakhmatovich	Strategic Development Director
<b>TITOV</b> Vasily Nikolaevich	Public Relations Director
<b>SHAPRINSKIY</b> Vladimir Dmitrievich	Chief Accountant

## 1. COMMERCIAL ACTIVITIES

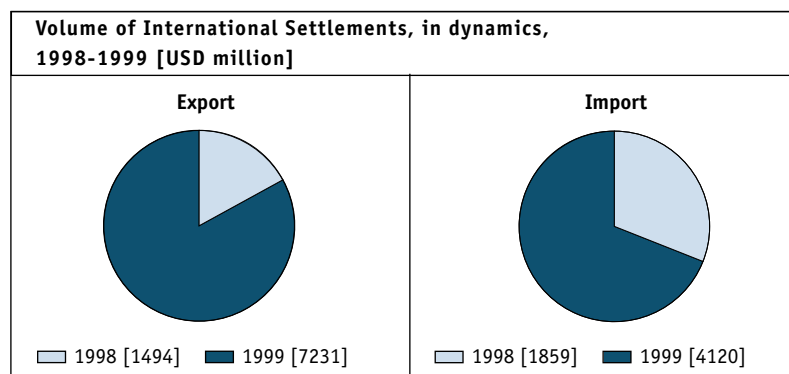
In 1999, Vnesheconombank reinforced its leadership position in most sectors of Russia's banking services industry, considerably improved its high-profile reputation and regained its international status on a much sounder base. As part of its overall strategy, the Bank continued a determined drive to expand its customer base, seeking to offer a wide range of diversified innovative banking services designed to best suit the needs of our customers. Emphasis was placed on upgrading the Bank's technological and organisational culture to ensure seamless service delivery channels.

### 1.1. International Settlements

Continuing to implement the strategy pledged last year, the Bank has worked intensively to increase the number of Russian companies which call upon us for international settlement services. The success of these efforts is evident in the volume of export operations serviced by Vnesheconombank growing more than four times to reach USD 7,231.0 million, with the volume of import deals having risen from USD 1,859.0 million to USD 4,120.0 million, a rise of 121.6 percent on the previous year. Thus, the Bank now effectively 'supervises' and services about 10 percent of the foreign trade turnover of the Russian Federation.

Through the year, foreign currency export earnings have grown 4.5 times to reach USD 4.6 billion, with payments made

national settlements through cheques just as readily. A chequebook for the Bank has been issued by Bank of New York,



upon our customers' instructions to purchase foreign goods and services increasing more than 5 times to USD 1.4 billion. A sustained growth of 21 percent is seen in settlements that are only feasible through Vnesheconombank. Overall, the Bank's settlement capacity is growing. This is the case with letter of credit transactions to import goods in repayment of state credits extended to India, as well as with similar transactions effected within the framework of intergovernmental arrangements and agreements with China. The pattern of growth was particularly impressive in 1999 with the volume of such deals totalling USD 1.03 billion. Hopefully, in the foreseeable future, these execution capabilities and strategies might be the source of our considerable financial strength.

In the year under review another initiative launched by the Bank was successfully finalised which made it possible to effect inter-

New York, and settlements, as agreed, are to be executed through Vnesheconombank's correspondent account opened and maintained with this Bank. Making such services widely available to its customers, Vnesheconombank would allow them to streamline and effectively manage cash flows.

As a result of 1999, Vnesheconombank has further solidified its position as an exchange control agent. Ultimately, it's the effective performance in this capacity that was driving the growth of both the volume and the scope of operations executed throughout the year. The growth appeared broadly in line with the expectations of the Bank's enhanced customer base. It was also attributable to Vnesheconombank's compliance with the new federal laws and the regulations of the Central Bank of Russia (CBR) enacted that year, «On Foreign Currency Regulation and Currency Control» Law, in





particular. Thus, in response to the new time limits set for closing current operations (cut from 180 days to 90), the Bank moved quickly and re-issued all passports of deals allowing better turnover and increased flexibility. Above that, a considerable rise in the scope of currency control operations stemmed from an interplay of new regulations for foreign currency purchasing in the domestic market and new procedures introduced for forex operations registering. The pattern of growth (more than 25 times) was particularly impressive in passports of re-export deals. The approach developed by Vnesheconombank to exercise an effective control over such deals combined with the software of the State Customs Committee later served as a basis for a corresponding legislative act issued by the CBR. With respect to export deals serviced by Vnesheconombank, the growth achieved there was 2.5 times compared with 1998. On the whole, the Bank issued 1,295 passports of deals for the sum of about USD 11.0 billion. Actually, Vnesheconombank is currently reported to supervise most machinery exports from Russia. The market share attained by the Bank in international settlements is solidly underpinned by the ongoing and mutually reinforcing relationship with Russian and foreign commercial banks. Having a very extensive nation-wide correspondent network, Vnesheconombank serves its customers and partners in all

industrialised regions of Russia and abroad through 236 nostro and 961 loro accounts (as of December 31, 1999). Of special note is the fact that the Bank has established 239 loro accounts for 176 national banks, while maintaining only 35 nostro accounts with 12 banks. Such disproportion is only reflective of an ever-growing demand for international settlements services offered by Vnesheconombank to both exporters and importers, as well as to its partners in the banking industry. This is also a reflection of the fact that the Bank has no unsettled sums arising from non-payments on its accounts which sets it apart from most of other Russian banks. Structurally, Vnesheconombank's nostro accounts are opened in roubles or major convertible currencies both with state banks such as the CBR, Vneshtorgbank, Savings Bank (Sberbank), and with Russian banks with foreign capital participation. Besides, operating with a tight focus on what works best for our clients and partners, the Bank has established accounts and set limits to effect custody, foreign exchange and documentary operations, as well as securities trading with 29 Russian banks. A most impressive growth is seen in relations with Vneshtorgbank, Sberbank, Moscow International Bank, Gazprombank, National Reserve Bank, Deutsche Bank AG, Bank Austria-Creditanstalt (Russia), ING Bank EuroAsia, ABN AMRO

Bank and Mosnarbank. Vnesheconombank's correspondent network in the Commonwealth of Independent States (the CIS) and in the Baltic States is predominantly based on central (national) banks of those countries or on commercial banks which are legal successors to former affiliates of Vnesheconombank (Belvnesheconombank in Minsk, Joint Bank of Georgia in Tbilisi, Tadjikvnesheconombank in Dushanbe, Bank Turan Alem in Astana and others).

In 1999 Vnesheconombank considerably reshaped and upgraded its correspondent network with industrialised nations both in size and approach. Presently, we are awarded with stable and co-operative relations maintained with 516 banks in Western Europe, North America, Japan, Australia and New Zealand, including 35 leading financial institutions of the world that have become strategic partners of our Bank. As of January 1, 2000, the number of Vnesheconombank's correspondent accounts totalled 555. Prime concern was the improvement of the Bank's performance in Euro accounts combined with a determined drive to benefit from the experience of the European Union member-countries. All in all, at the beginning of 2000 there were 7 Euro accounts opened with major banks of these countries, including Deutsche Bank AG, Frankfurt, BNP, Paris, Bank Austria-Creditanstalt Int, Vienna, and others.

Striving to add another dimension to the development of its correspondent network, Vnesheconombank encouraged further relations with banks of developing countries and those of the emerging market. The main objective was to provide for settlements in clearing, accounting or soft currencies under inter-governmental agreements. Thus, as of the beginning of 2000, there were 226 accounts established with 1,209 banks of these countries. Strategically, top priority was given to developing relations with China and India. To take some examples, a joint decision was made by Vnesheconombank and the Bank of China to effect settlements under new contracts through special account No.16. Or, driven by customer needs, a new settlement procedure with Deutsche Bank, New Delhi, was agreed and an Indian Rupee-denominated nostro account was opened, which offered our customers an extensive array of clearing and settlement services, including hard currency exchange. Operating through this account the Bank's cus-

tomers can now effect operations in their national currency which we consider a real breakthrough in our relations with India. Similar approaches are being developed to apply to national currencies of some other countries, in particular Algeria and Guinea.

### 1.2. Internal Settlements

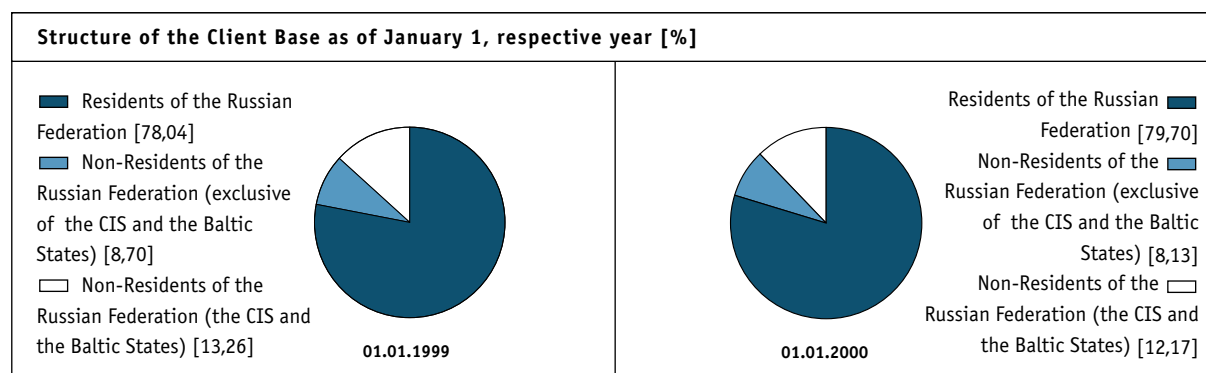
Mainly as a consequence of Vnesheconombank's position in the Russian banking system being markedly solidified, 1999 saw a rapid and sustained growth in rouble-denominated operations. Over the year the number of such operations reached 60,000, with the number of rouble accounts maintained by the Bank increasing 1.5 times to 383. Debit turnover in these accounts made RBS 53.9 billion, while credit turnover was RBS 55.9 billion.

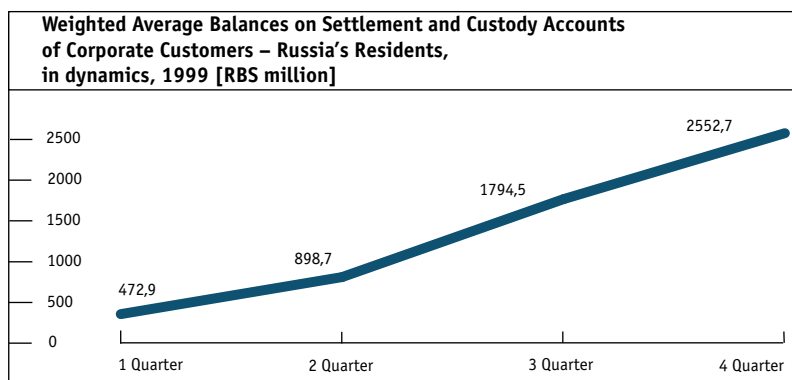
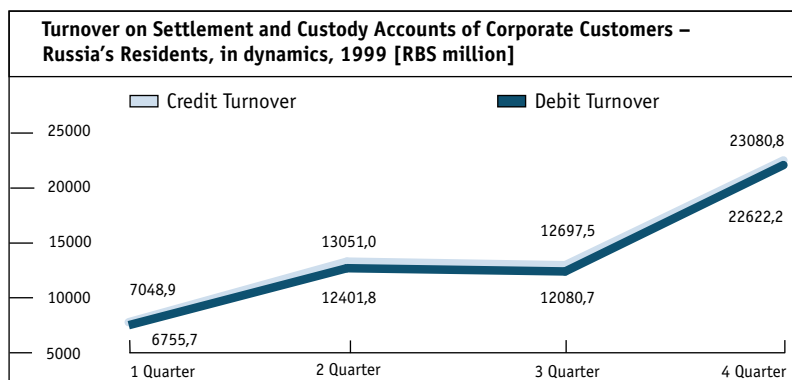
The dynamics of rouble operations effected by the Bank throughout the year is another evidence of its actual transition from being a specialised lending institution of Russia to a most universal and diversified bank. Even stripped of its affiliates

which were assigned in 1992 to Vneshtorgbank, Vnesheconombank had the financial strength, the reputation and the people to succeed in providing its customers with a most extensive range of banking products and services. Eventually, the Bank became a reliable partner of major Russian enterprises in effecting settlements with their suppliers, in transferring tax payments and other charges. Consistently demonstrating exemplary professional standards and accommodating customers with high quality services, Vnesheconombank offers them most favourable and competitive fee rates. With respect to regular customers, the Bank applies individually tailored fee rates for the services rendered.

### 1.3. Customer Base Expansion, Perfecting the Arrangement and Profile of Customer Service

In 1999, identifying various customer needs Vnesheconombank made a concerted effort to improve and facilitate customer service. Throughout the year, 594 rouble- and currency-denominated accounts for 134



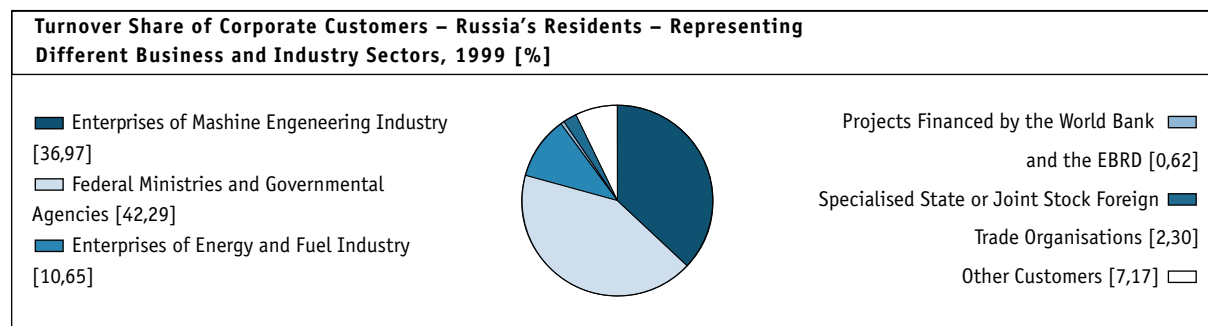


new customers were opened. Overall, as of January 1, 2000, cash and settlement services were being offered to 2,343 customers with 5,099 accounts opened, inclusive of settlement, current and deposit ones, though the ratio between residents and non-residents of the Russian Federation was practically unchanged. Actually, the biggest proportion (79.7 percent) of the Bank’s customer

base comprises legal entities which are residents of the Russian Federation (1,647 to be more exact). Vnesheconombank’s Custody Department, acting as an authorised federal custodian of the Russian Government, also offers its 2,673 customers a full spectrum of custody services in all types of securities. Currently, such accounts number 6,000. In light of the customer base expansion, the weighted average

balances on customers’ accounts grew 2.6 times against the previous year.

Clearly, a substantial rise in weighted average balances on customers’ accounts achieved throughout the year was primarily and predominantly due to a considerable growth in the Bank’s customer base. It is also a confirmation of the Bank’s aspiration and ability to adapt to an ever-evolving and increasingly complex financial environment. This year, seeking to generate better financial performance, we won mandates from very demanding clients. Now we proudly count among our corporate customers such leading corporations and firms as Komsomolsk-na-Amur aircraft industrial amalgamation, Social Insurance Fund of the Russian Federation, PROMEXPORT state unitary enterprise, MAPO military-industrial complex, ANTEY GROUP industrial company, SOKOL state aircraft works in Nijny Novgorod, URAL-VAGONZAVOD state industrial amalgamation, and some others. These enterprises come within the group of our prime rate or VIP customers whose operations account for 80 percent of the



aggregate turnover in the Bank's customers' accounts.

As a rule, customers call upon us for a range of services, from international and internal settlements and custody services, to strategic advice. Admittedly, they are seeking to benefit from the Bank's in-depth expertise, high professionalism and meticulous execution capabilities. The Bank's Management recognises that when dealing with customers it is important to command their confidence and trust through understanding, guidance and advice, and by anticipating their long-term needs. Service performance and customer satisfaction are continuously monitored.

In 1999, the Bank was also firmly committed to bolstering its resource base. Customers whose weighted average balances on the accounts totalled USD 1.0 million or less made a considerable contribution in that respect. The trend might be viewed as a positive and promising signal since it reduces excessive dependence on a relatively small group of major clients. To enhance our results, some of Vnesheconombank's long-standing partners effected additional internal corporate settlements through the Bank for the sum of USD 3.1 billion. This year, to further improve the Bank's competitiveness and facilitate service delivery channels we devised and launched our own credit note programme. The system compares favourably

with those available in the market and will help us better serve our clients and accommodate business expansion. Immediately some of our customers such as Kurgan and Tula machinery works, as well as RATEP joint stock company took full advantage of the attractive opportunities it offered. Actually, this programme is only part of the Bank's effort aimed at expanding the whole spectrum of services provided as well as upgrading the customer service culture. At Vnesheconombank, we operate with a tight focus on updating the services available to our customers by offering individual solutions to our clients' unique requirements while galvanising resources around their needs.

To serve a growing list of clients, just as before, Vnesheconombank was striving to provide comprehensive services both in roubles and foreign currency, as well as in securities and other valuables. The Bank was effectively engaged in safekeeping, maintaining applicable records and exercising due control over its customers' account movements. Throughout the year the Bank delivered to its customers 71,938 MinFin bonds, accepted 32,811 MinFins for safekeeping, and 57,206 coupons and bonds for redemption. Moreover, it effected an expert evaluation of 443 MinFins.

Strategically, all our activities were driven by the dual goal of serving our customers and building lasting business relationships. The year under review was also

marked by major developments in depository and custody services offered by Vnesheconombank. Since mid-1999 when a Custodian Department was set up within the Bank's organisational structure the number of its depositors increased to 104 by the end of the year, among them such leading Russian banks, investment companies and enterprises as MDM-Bank, Vozrojdenye Bank, Sovfintrade, Eurofinance, All-Russia Bank for Reconstruction and Development, Gazexport, Tyumen Oil Company and others, with the aggregate amount of assets held in custody reaching USD 1.5 billion and the number of accounts increasing 4 times. Besides safekeeping and maintaining the applicable records, the Bank executes settlements of securities' delivery/receipt on a free of or against payment basis, collateral operations, blocking of securities' positions on a depositor's instruction, etc. A new automated system of record keeping has been developed and put in place to meet the applicable international safety standards and to ensure the highest level of confidence in security of safe custody. Overall, the system enabled us to deliver efficient transactions and win a bigger market share by way of further innovation and meticulous execution. In all its operations the Bank strikes a careful balance between its own interests and those of its customers. To achieve competitive edge, Vnesheconombank's Custodian

Department has established correspondence relationship with leading depositories of Russia and opened accounts with the Cedel International Clearing Centre giving its customers the freedom to execute transactions in Eurobonds and other foreign securities. The Bank has made adequate arrangements for the protection of customers' certificates including opening a special vault certified in full compliance with Russian and International Safety Standards. In the fourth quarter of 1999 Vnesheconombank issued a new Fee Schedule for its custody services with much lower rates against those charged by other Russian or foreign depositories for similar operations. In the near future the Bank will begin several new initiatives to constantly update the services available to its customers, including the acceptance of Russian issuers' corporate securities which we believe will be a major source of future growth. The Bank will also endeavour to enter into correspondence relationships with depositories of the CIS to launch securities trading in their markets.

1999 has also seen a focus on developing Vnesheconombank's strategic partnership with international financial institutions, primarily with the International Bank for Reconstruction and Development (the World Bank) and European Bank for Reconstruction and Development (the EBRD). As a result, Vnesheconombank has become one of

the 'participating banks' to act as a financial agent under the Loan Agreement to finance the Environment Management project. As agreed with the World Bank Treasury, new terms and conditions to open and maintain the World Bank's rouble-denominated correspondent account with Vnesheconombank were applied to service credits obtained by Russian borrowers. Besides, Vnesheconombank was designated an agent-bank to maintain a relative account and effect compensation payments made by the World Bank within the ozone-depleting substances phase-out project.

In the context of Vnesheconombank's operations with the EBRD, top priority is given to joint financing of investment projects. Currently, Vnesheconombank is engaged in selecting respective projects and credit recipients assisting the latter to elaborate documentation required by the EBRD. In that respect, the Bank's in-depth expertise in project feasibility study and expert evaluation should be expressly noted. Our unique experience enables our clients to obtain access to relatively cheap credits provided by international development banks. In 1999, for example, the Bank carried out expert evaluations of a number of investment projects financed by the World Bank and the EBRD, such as 'Environment Protection' in PLASTCARD joint stock company, in Volgograd, 'Building of Facilities to Utilize Industrial Waste' in the Egorievsk

district of the Moscow region, 'Starting the Production of New Pharmaceuticals' by Orlovskaya Pharmaceutical Company, 'Reconstruction of 'Budapest' Hotel Complex' and some others. Besides, some projects financed by foreign creditors under the guarantees of the Government of the Russian Federation were subject to expert evaluation. These were projects implemented by Moscow Endocrine Pharmaceuticals Plant, GLAVGOSSVYAZNADZOR of Russia, ROSTERMINALUGOL company, TYAJPROMEXPORT state enterprise.

In some cases, upon its customers' request, Vnesheconombank made a careful examination of cash flows reflecting their industrial and commercial activities. The results of the examination not only revealed considerable reserves and opportunities, but also served as a primary vehicle to grant them credits or issue guarantees in favour of them. Furthermore, financial schemes designed to minimise costs for customers were worked out, they cover such operations as using Vnesheconombank's credit notes, as well as leasing. By the way, being one of the EUROLEASING company founders, the Bank fully benefits from the services it provides.

No matter how important the above services might be, it is the Bank's unique opportunity to extend credits to the real sector of economy and to guarantee foreign exports that underlies its competitive strength.



#### 1.4. Credit and Guarantee Operations

Substantial progress has been made in implementing the strategy of achieving a major profitable presence in the banking areas we have targeted, in particular, credit and guarantee operations. Thus, in the year under review Vnesheconombank extended a number of major medium-term commercial credits for the sum of USD 400 million. Among our borrowers were joint stock companies ORT (Public Service Television of Russia), VGTRK (All-Russia State Television and Radio Broadcasting Company), Gazprom and Sibneft companies, ZVEZDA-STRELA state enterprise, MAPO military-industrial complex and ROSVOORUDZENYE state company. In the context of 1999 business priorities the structure of the Bank's credit portfolio was radically changed with the proportion of mass media investment rising from 31 to 44 percent within the overall volume of credits extended. On the contrary, investment into energy and fuel industries dropped from 42 to 25 percent while the proportion of the Bank's investment into

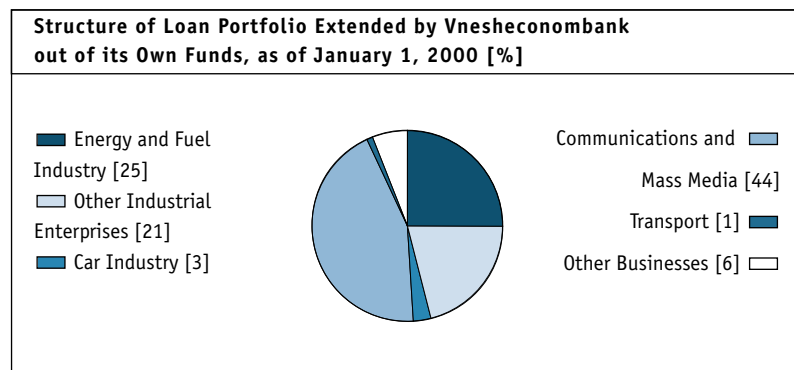
machine engineering remained relatively stable.

Actually, the pattern of credit portfolio growth was seriously impeded by the absence of effective demand. In most cases credits were made conditional on reliable collateral being pledged by the borrower to reduce the Bank's credit exposure. As a rule, liquid property, guarantees by major banks or assignment of rights to export earnings under foreign contracts were deemed as appropriate underlying security. In light of this, ongoing credit exposure was continuously monitored. Now that lots of new customers turned to the Bank for cash and settlement services it became feasible to issue guarantees without 100 percent currency coverage, with future export earnings taken into account. In doing so the Bank proceeded from the detailed analysis of a prospective borrower's rating and repayment capability and the actual volume of transactions effected.

Vnesheconombank's tough requirements with regard to the coverage offered helped us to considerably upgrade the quality of the

credit portfolio. The year 1999 saw the repayment of credits for the sum of USD 305.36 million and RBS 342.93 million, inclusive of interest totalling USD 25.49 million and RBS 188.81 million, respectively. When and where appropriate, to recover outstanding debts Vnesheconombank would participate in numerous arbitration proceedings. As a result, the Bank recovered USD 44.7 million from the Media-MOST company under the writ issued in Vnesheconombank's favour. Now, the Bank has to resort to a much tougher and conservative lending policy, although Management admits that these practices are an exception rather than a rule. Wherever possible the Bank seeks and favours an out-of-court settlement. With this end in view, the Bank's representatives actively participated in numerous meetings and conferences held by the Creditors Commission, the Board of Directors and the Commission on Transformation of the Kamaz Plant. Largely as a consequence, new financial credit repayment schemes as well as other issues relating to the novation arrangement were elaborated.

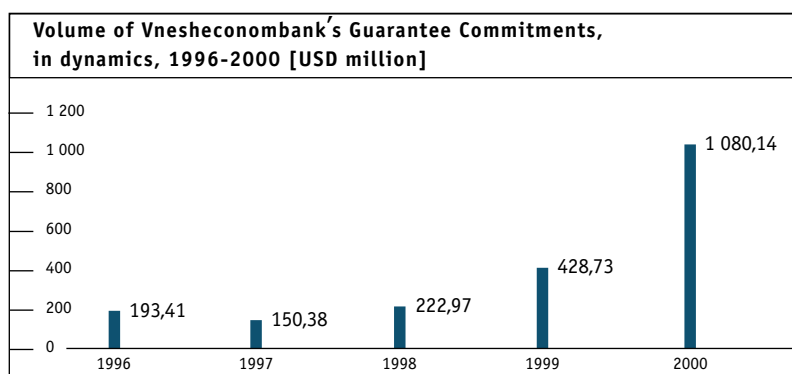
In 1999, most of Management's attention was invariably devoted to stepping up guarantee operations. As of December 31, 1999, 163 guarantees for the sum of USD 1,080.14 million were recorded on the Bank's books, the number of effective guarantees rising 2.5 times (3.3 times





in RBS) within a year. In its turn, the Bank issued guarantees for the sum of USD 849.5 million (RBS 22.9 billion) which is actually 5.6 times more than in 1998 (USD 152.0 million). The growth

Design Bureau and other enterprises of Russia. Guarantees in favour of companies and firms of China, Iraq, Iran, France, India and other countries were issued as well.



in the volume of the Bank's guarantees is additional evidence of the Bank's success in restructuring guarantees formerly issued by Russia's so-called problem banks in favour of numerous Chinese importers. It enabled Vnesheconombank to resume suspended settlements for goods delivered or services provided and, thus, to generate more export earnings for the country. Within the overall spectrum of the Bank's guarantees, the proportion of those for return of advances makes up 77 percent, performance bonds – 19 percent, customs and tender guarantees – 4 percent. These operations are intended to facilitate performance of our major corporate customers such as ROSVOORUDZENYE and TECHNOPROMEXPORT state companies, ATOMSTROYEXPORT joint stock company, MACHINIMPORT amalgamation, PRIBOROSTROYENIYE Equipment

### 1.5. Operations in Financial and Money Markets

Trading remains an important complement to our client-focused activities. In 1999, the Bank was dedicated to enhancing liquidity and reducing its risk profile at all times and continued its drive to improve the quality of its assets portfolio by having it further diversified. The year witnessed a 2.7 time increase in the nominal value of its assets portfolio reaching USD 7.1 billion with equally marked changes in its structure. We considerably adjusted our portfolio mix with the proportion of Russia's currency-denominated government bonds rising 3.6 times, while rouble-denominated interbank deposits grew more than 15 times. A major factor positively impacting the changes both in the volume and structure of the assets portfolio was a favourably competitive market

environment for government bonds denominated in foreign currency, especially for MinFins. Further growth of these instruments' share in the Bank's investment and trading portfolios could be accounted for by Vnesheconombank's strategic focus on this segment of the financial market. Unlike this trend, investment into rouble-denominated bonds fell by 61.8 percent as a result of the novation process and gradual redemption of some tranches. Given the low liquidity levels of these instruments and the unclear economic outlook for the market, the Bank would abstain from reinvesting funds into these instruments.

In 1999, the Bank bolstered efforts to raise resources in the interbank market with the volume of funds obtained approximating RBS 81.02 billion, which is 11 times more compared with the previous year. At the same time the volume of interbank deposits placed by the Bank totalled RBS 321.6 billion. In 1998 there was a certain shift in the correlation of deposit currencies, with preference given to rouble-denominated interbank credits. The trend in the operations of Vnesheconombank is directly reflective of the overall state-of-the-art of Russia's financial market and of the Bank's aspiration to adjust its present day policies to the actual financial set up.

1999 saw a considerable expansion of the group of the Bank's

counterparties operating in Russia's financial markets. With a view to improve current liquidity levels and enhance efficient arbitrage operations, most of Vnesheconombank's activities were no longer restricted to operations with such major state banks as the CBR, the Sberbank and Vneshtorgbank, as well as with 9 resident-banks with foreign participation. Presently the Bank deals with 22 banks while the total sum of limits set (translated into USD) grew up to USD 238.5 million, without limits set on operations with the CBR taken into consideration. In the year ended December 31, 1999, our money market activities also comprised conversion operations. The volume of these operations effected under clients' instructions alone reached RBS 100.0 billion which accounted for an 80 percent increase on the previous year. Starting from August 1999 the Bank resumed arbitrage operations executed in freely convertible currencies with the volume reaching RBS 16.5 billion. Another initiative launched in 1999 was dollar-against-rouble

overnight swap operations with the overall volume of operations amounting to RBS 1.64 billion. Aiming to partly offset market volatility and to achieve a good spread of risks, we diversified our securities portfolio in foreign currencies. Towards the end of 1999 it consisted of 39.4 percent of MinFins, 34.7 percent of foreign issuers' A-AAA rating bonds and 25.9 percent of other financial instruments. Actually, foreign issuers' bonds were used to provide for current liquidity and to hedge risk exposures associated with other, more risky types of foreign currency securities comprising the portfolio. Though, trading in currency-denominated Russian securities, as well as Ukrainian MinFins and CSFB credit notes appeared to produce the highest yield, as a matter of fact, Vnesheconombank became a major MinFin bonds market maker and an active participant in the secondary market of Russia's Eurobonds quoting stable prices for these instruments through REUTERS and BLOOMERG global information systems, as well as the INTERNET. Making the best

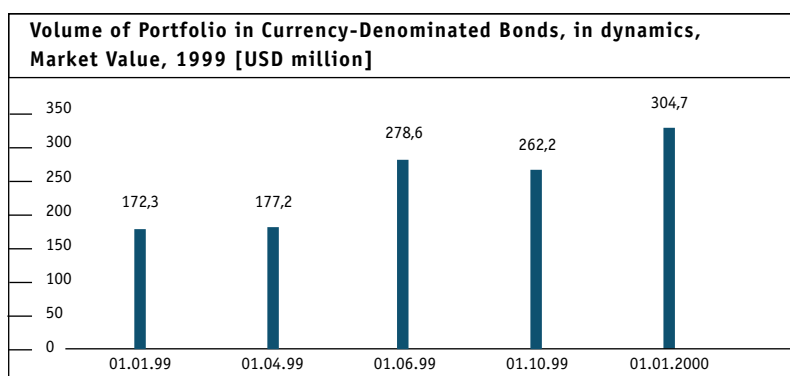
use of direct communication lines provided by such brokerage houses as Tradition, London and Tullet & Tokio, London to handle Russia's Eurobonds, Vnesheconombank gained access to global financial markets. Eventually, it enabled the Bank to effect 'switch' operations in favour of Russian and foreign counterparties with no credit lines opened on each other. Overall, the volume of deals made in foreign currency bonds approximated USD 6,520.0 million, inclusive of MinFin deals for the sum of USD 4,783.0 million. Notwithstanding the low liquidity level and unfavourable market environment, the Bank's relentless energies were devoted to operations on the OTC and corporate stock markets. The volume of respective deals totalled RBS 5.6 billion. On the whole, as of 1999 year-end the market value of Vnesheconombank's corporate stock portfolio equalled RBS 149.1 million. To ensure better efficiency and profitability in securities trading the Bank joined the Russian Trading System and launched its own credit note programme.

**STRUCTURE OF VNESHCONOMBANK'S OWN ASSETS NOT RELATING TO CENTRALISED OPERATIONS AS OF JANUARY 1, RESPECTIVE YEAR**

	1999 r.		2000 r.	
	USD million	%	USD million	%
Loan to the Ministry of Finance	2077,3	78,79	6389,3	90,23
Interbank Rouble-Denominated Deposits	7,9	0,30	122,6	1,73
Interbank Currency-Denominated Deposits	115,0	4,36	120,9	1,71
Rouble-Denominated Government Bonds	235,1	8,92	89,8	1,27
Currency-Denominated Government Bonds	55,3	2,10	198,8	2,81
Foreign Issuers' Bonds	117,0	4,44	128,7	1,82
Corporate Shares and Notes	29,0	1,10	30,7	0,43
<b>Total</b>	<b>2636,6</b>	<b>100,00</b>	<b>7080,8</b>	<b>100,00</b>

Thus, credit notes for the sum of RBS 1.2 billion and USD 10.04 million were issued. The funds raised were placed on the inter-bank market through numerous Repo transactions and were also used to ensure the Bank's current liquidity level.

Looking to the future, Management recognises that active operations in financial and money markets will continue to enhance our results and drive the growth of our business. This optimism is grounded in careful market analysis.



## 2. AGENT FOR THE GOVERNMENT OF THE RUSSIAN FEDERATION

What sets Vnesheconombank apart from any other lending institution of Russia is the fact that the Bank is authorised to perform operations ensuring foreign obligations issued or guaranteed by the Russian government. These operations, forming the so called agency component in the Bank's business, alongside its commercial activities, primarily comprise sovereign foreign debt servicing and redemption, raising foreign credits, providing state loans, and some others. It's the effective outcome of the commercial performance that allowed the Bank to considerably develop its agent's functions which will remain the core of Vnesheconombank' strategy for the years to come.

### 2.1. Sovereign Foreign Debt Management

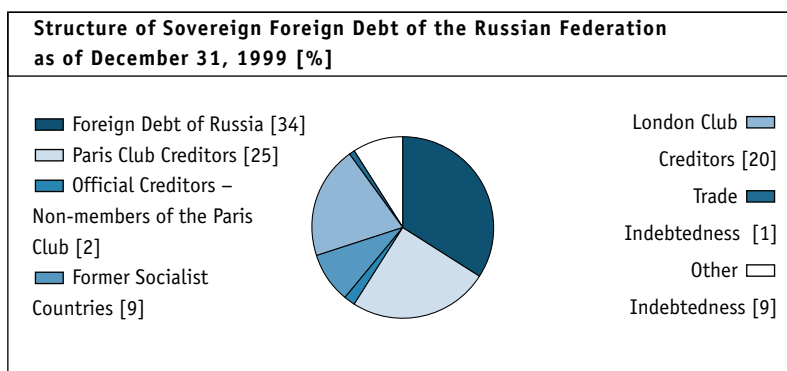
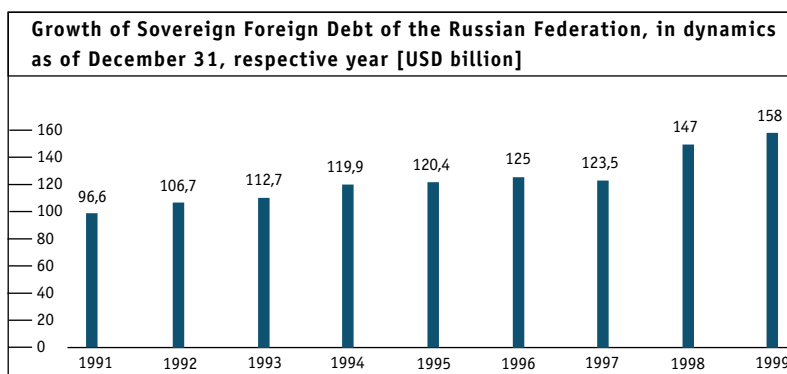
As of December 31, 1999 the sovereign foreign debt of Russia is estimated to total USD 158.0 billion. Its structure and dynamics are reflected in the diagrams.

After August 1998, when Russia defaulted on its obligations arising from the former USSR debts, the issue of servicing and redeeming the 'new Russian debt' timely and in full acquired a political dimension, which then receded only slightly as a result of surging oil prices and their soothing effect on Russia's finances. In

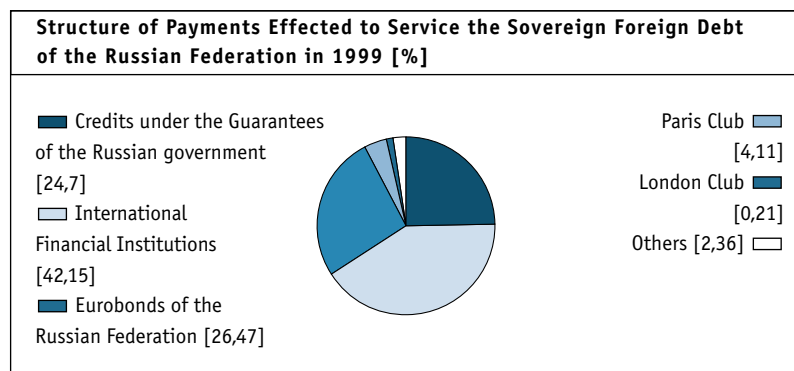
response to the decidedly tough challenge, the Bank, acting in its agency capacity, meticulously executed all operations to address the issue. Neither the Government of the Russian Federation, nor foreign creditors showed any discontent with its activities. Thus, Vnesheconombank transferred USD 6.2 billion to meet payments on debt principal for the sum of USD 3.7 billion and on interest - USD 2.5 billion. Timely and full payments were made to meet obligations under banking (tied) and financial (untied) credits obtained after January 1, 1992, and under credits provided by such international financial institutions as the International Monetary Fund, the World Bank, the EBRD, Nordic Investment Bank, as well as under

Eurobonds issued by the Russian Federation.

Concurrently, Vnesheconombank acted as the debt manager in the process of Soviet-era debt reconciliation between the individual participating creditor countries and the Russian government, and kept applicable records of the indebtedness. As of December 31, 1999, this sum approximated USD 2,352.0 million, with indebtedness owed to the London Club creditors amounting to USD 2,078.1 million and to other official creditors - non-members of the Paris Club reaching USD 273.9 million. As to overdue payments on credits provided by the Paris Club creditors-countries, they are considered restructured or settled under the Multilateral Protocol signed on August 1, 1999.







It is worth noting that before the above protocol was finalised, Vnesheconombank worked in close collaboration with the Ministry of Finance. Upon the request of the Paris Club's Secretariat, Vnesheconombank worked out special schedules and the relating documentation listing all indebtedness owed to the Paris Club member-countries with the amounts eligible for restructuring. When compared, the parties revealed a complete match between the data generated by Vnesheconombank and those by the creditors, which was another proof of the Bank's highest professional ethics. All in all, payments, both due and overdue, for the sum of USD 8.2 billion were recognised as eligible for restructuring. The Bank's executives participated in elaborating the Government's approach to the restructuring terms and conditions. A number of analytical reviews and reports were submitted reflecting concrete proposals and recommendations.

As a follow-up of the Multilateral Protocol of August 1, 1999, Vnesheconombank carefully studied and offered its expert

judgement on drafts of bilateral intergovernmental agreements with Germany, France, Canada (Wheat Committee) and Spain, it also participated in negotiations with creditors representing these countries. Similar bilateral agreements to be signed with Australia, Austria and Portugal were reviewed and evaluated upon request of the Ministry of Finance.

Regrettably, the progress eventually made in finalising bilateral agreements with individual participating countries was sometimes slow, painful and inadequate. The negotiations were often impeded by the absence of an effective consensus on the way ahead. Biding their time, the creditors were slow in both proposal submission and debt item reconciliation. On those rare occasions when the parties actually reached the negotiation phase, new and much tougher terms and conditions put forward by the Club members surfaced (as was the case with moratorium interest rates). Sometimes the parties disagreed on indebtedness items eligible for reconciliation, occasionally their amounts

remained a sticking point, debt talks were continuing with no sign of what the outcome might be. Mainly as a consequence, it took much more time and concerted effort to complete the restructuring process. From time to time the parties had to reconsider issues which seemed to have been settled earlier. Though differences might continue to exist, we are striving to achieve a long-term and comprehensive restructuring agreement. But the aspiration to achieve that should not prevail over the aspiration to agree acceptable terms.

When the Paris Club debt repayments were suspended, the Russian government abiding by the principle of comparable treatment of all creditors of the former Soviet Union had to reconsider the procedures and terms set out for the restructuring of Soviet-era debt owed to official creditors - non-members of the Paris Club. Redemption of this debt category was, and still is partly made through deliveries of goods. But following the country's devastating financial crash in August 1998, the manufacturing of such goods was severely hampered and their supplies were reduced. As a result, the debt repayments effected through goods deliveries in 1999 reached USD 402.2 million, a 2.0-2.5 times decrease on the previous year.

In the year under review, Vnesheconombank actively participated in negotiations aimed at reconsidering and/or working out terms and conditions of debt

redemption with authorized representative of the Republic of South Korea, Slovakia, the Czech Republic, the United Arab Emirates, Romania, the Union Republic of Yugoslavia, Croatia and Slovenia. An innovative redemption scheme was developed and proposed to our creditors with respect to this debt category. It envisaged the so-called 'mixed financing' when a creditor only makes a partial payment for the goods delivery, in an advance form, as a rule. This scheme was already applied to redeem indebtedness owed to the Republic of South Korea and United Arab Emirates. The People's Republic of China and Kuwait also agreed to accept the approach in settling the debt. A similar proposal was forwarded to relevant authorities of Thailand and Turkey.

Nowhere was the value of our approach more apparent than in our advisory services. The expertise gained in goods deliveries along debt repayment routes made the Bank's competence more widely available to its customers. Thus, Russian exporters called upon us to get assistance in stipulating payment terms and conditions of contracts to be signed within the framework of intergovernmental agreements. More importantly, Vnesheconombank helped develop and introduce a tentative procedure of the compensation for foreign contractors' expenses arising from integration projects construction in the years of 1997-1999. This document being accepted would

greatly contribute to addressing a long-standing issue of settlements related to integration projects already put into operation, thus facilitating the final phase of the Yamburg agreements.

Of special note is Vnesheconombank's relationship with the London Club of commercial creditors. As of December 31, 1999, the overall Soviet-era debt owed to the London Club totalled USD 29.0 billion, inclusive of USD 22.2 billion of restructured loans and USD 6.8 billion of interest notes. Suspension of payments on the instruments posed a dilemma for every individual London Club creditor either to demand an acceleration of the debt or else to start negotiations on a new debt restructuring scheme. Clearly, the debt acceleration scenario would not suit the Government of the Russian Federation or Vnesheconombank, as its paying agent. That accounted for the utmost consideration given by the Bank to the forthcoming voting by London Club creditors. In light of this, regular contacts with the major debt holders, particularly US portfolio investors, were actively maintained. More importantly, numerous consultations were held with the representatives of different creditor-groups as well as with leading secondary market operators. Actually, these moves prevented creating an agency alternative to the London Club Advisory Committee which might practice a much tougher approach to Vnesheconombank's debt restructuring. As a result,

the required majority of the debt holders (83%) abstained from accelerating the debt repayment and decided to enter into negotiations with the Bank and the Russian government to discuss possible restructuring options which would suit all the parties concerned.

Overall, throughout 1999, the Ministry of Finance, being Russia's chief debt negotiator, held ten rounds of talks with the London Club Advisory Committee. Vnesheconombank actively participated in the negotiating process. In February 2000, a compromise decision, formerly initiated and advocated by Vnesheconombank, among other proposals, was reached. Principally, any debt reduction was contingent on Russia's agreement to upgrade the Soviet-era debt to the status of sovereign Russian debt. Thus, an easier payment schedule was agreed in exchange for awarding the debt a more senior status, with the Eurobonds (for PRINs and IANs) being issued at a considerable discount. Finally, Moscow and the London Club of commercial creditors reached a landmark debt accord to reduce the Soviet-era debt by about 36.5 percent and to stretch repayments of most of the remainder over 30 years. The Eurobonds will have an extended grace period of seven years and, partially, below-market interest rates varying from 2.25% to 7.5%.

In 1999, the Bank went ahead with its effort to further match and reconcile commercial indebted-

edness. Suffice it to say, throughout the year approximately 1,000 debt claims from 795 foreign creditors for the sum of USD 230.1 million were submitted with only 40.2 percent of them being recorded on the Bank's books. All the accompanying documentation was properly sorted out and processed. Actually, Russian importers confirmed the Bank's data for the amount of USD 132.7 million.

Vnesheconombank's estimates show the overall sum of outstanding commercial indebtedness to be reconciled as totalling USD 4.0-4.5 billion. Within its structure comes USD 1.98 billion worth of liabilities recorded on the Bank's books, about USD 1.0 billion worth of liabilities over the Bank's open accounts, with the Ministry of Trade being responsible for the reconciliation process, and USD 2.0 billion worth of interest accrued under the terms of underlying contracts. Should an arrangement to have debts of this category exchanged for Eurobonds be applied, accompanied by a partial debt write-off, it would enable us to substantially curtail the debt servicing costs and spare Russia's economy extra strain.

To Management's regret, the reconciliation process was somewhat impeded by certain unfavourable developments which considerably complicated the job of the Bank's officers. First, there was a rise in the number of debt claims submitted while the accompanying documentation needed to confirm the relevant data was poorly

prepared. Naturally, it entailed more correspondence with the workload and pressures on the Bank expanding accordingly. Second, some country clubs and individual members actively showed growing resentment with the way restructuring proceeded. To further aggravate things, one of the major clubs headed by Deutsche Bank, London (actually, a 29 percent debt claims holder) just disintegrated. Certainly, it created predicaments for the Bank and the need to make appropriate explanations.

In the year under review, the role of Vnesheconombank in managing currency-denominated internal debt was considerably enhanced. As a general payment agent of the Russian Ministry of Finance, the Bank was to redeem in May 1999 the III tranche MinFins and to effect coupon payments on the III-VII tranche MinFins. Unfortunately, the redemption of the MinFins was also adversely hit by the crisis, with the III tranche MinFins being subject to further rescheduling. In light of this, the Bank forwarded the III tranche MinFins holders a respective address by the Ministry of Finance and proposed that these securities be held with the Bank on a free of charge basis.

At the same time coupon payments on all other outstanding tranches of MinFins were predominantly consolidated with Vnesheconombank which now acts as a principal payment agent without costly mediation of other banks

(formerly they were responsible for almost 75% of all coupon payments). Within a year the Bank serviced 1,500 holders of these securities with as much as USD 314.29 million being transferred to them.

According to the Russian Government's Decree No. 1306 dated November 29, 1999 the Bank is expressly authorised to act in an agency capacity for the Ministry of Finance in the novation of the III tranche MinFins. The Bank is also appointed the general Custodian for the MinFin bonds issued in 1999. With the view of facilitating custody services and within a tight time framework the Bank succeeded in launching a whole range of operations:

- opening and maintaining, for the holders of the III tranche MinFins, custody accounts with the securities' safekeeping on a free of charge basis;
- providing the holders of the III tranche MinFins with reports and information on novation arrangements;
- developing together with the Ministry of Finance a technical procedure of novation.

Also, the Bank actively participated in setting out and finalising the relevant documentation covering the above-mentioned procedure. 'The Rules to Apply to the Exchange of the III tranche MinFins for the MinFin Bonds issued in 1999 or Federal Loan Bonds with a Fixed Coupon' were worked out. Also, a respective document 'Technical Procedure to Apply to the Exchange of the III tranche



MinFins for the MinFin Bonds issued in 1999 or Federal Loan Bonds with a Fixed Coupon' was released.

Largely as a consequence, further improvements in respect of sovereign debt management theory and practice could be derived from the above documentation.

In 1999, there was a real breakthrough in settling the issue of Soviet-era currency-denominated internal debt owed to legal entities who are now residents of the CIS or the Baltic states. To implement the Agreement between Russia and Belarus of February 27, 1996 on the settlement of financial claims, an arrangement was reached to transfer and consolidate on Belvnesheconombank's correspondent account all the balances accumulated by legal entities – residents of Belarus prior to January 1992.

Regrettably, we failed to make similar progress in this area with other independent states. As a matter of fact, some governments are rather slow in decision-making. The case is that Georgia and Ukraine never ratified 'the zero option' agreement at all and would, therefore, insist Russia repay debts owed to legal entities – their residents. Other states, such as Kazakhstan and Turkmenistan, view this issue in package with the bilateral relations. As to other states, like Uzbekistan and Azerbaijan there is no mutual agreement as to the liquidation balance sheets of former Vnesheconombank's offices in their respective capitals and over a

long enough period they would not designate banks authorised to reconcile the data and sign the definitive documents. Moreover, the Baltic states simply ignore all the succession issues relating to the Soviet-era debts and assets, and as much as disregard Vnesheconombank's addresses.

The official stance of the Russian government is that the governments of independent states, former republics of the USSR, should themselves provide for the settlement of the currency-denominated internal debt issue with respect to legal entities - their residents. The viewpoint is fully shared and supported by Vnesheconombank. Implementing this policy line, the Bank made numerous replies to inquiries from the CIS residents.

## **2.2. Raising Credits under the Guarantees of the Government of the Russian Federation**

Remarkably, in 1999, for the first time in the history of democratic Russia the volume of repayments under foreign credits raised after January 1, 1992 exceeded the volume of new foreign credits obtained. Within a year, liabilities towards international financial institutions and the governments of creditor-countries were reduced by USD 6.6 billion and USD 0.2 billion, respectively. At the same time, the sum of 'tied' credits raised dropped 14.9 times on the previous year making USD 77.6 million. Within the framework of intergovernmental arrangements 3 individual loan agree-

ments were concluded, namely, with Italy (2 loans for the sum of USD 10.3 million) and France (1 loan for the sum of USD 67.3 million). Apart from it, a loan agreement of May 26, 1998 with Export-finance (Norway) for the sum of USD 22.75 million came into force. In a broader context, the decrease in foreign borrowings comes within the overall strategy of the Russian government seeking to ease the debt burden and ensure greater financial stability. For the same reason, the Russian government would not consider it expedient to further raise 'tied' loans and the issuing of guarantees is suspended. With the financial crisis of 1998 continuing to impact, a number of state insurance agencies, for example, HERMES of Germany and SACE of Italy, suspended providing coverage under a number of loan agreements formerly signed (for the sum of USD 277.5 million). Regrettably, neither COFACE (France), nor the Export-Import Bank of the USA would resume considering any new projects.

After all, it is against this background that our performance is 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 a number of counterparties. Thus, within a framework of 'A Memorandum of Understanding' signed on May 21, 1992 between Vnesheconombank and SACE an underlying loan

agreement with Medoibanca of Italy for the sum of USD 271.3 million was made. Vnesheconombank's cooperation proposals are being currently considered by the Export-Import Bank of Japan, COFACE (France), Comerchny Bank (the Czech Republic), NCM (the Netherlands) and GIEK (Norway). Aiming to expand the group of prospective creditors, Vnesheconombank is intent to foster its relations with the banks of India, Hungary, the Czech Republic, Argentina and a number of other financial institutions all over the world getting them engaged into the process.

Poor repayment practices and realities with respect to credits raised under the state guarantees were another reason for the Russian government to re-appraise and reshape its borrowing policies. To overcome the difficulties and better legally protect the interests of the state, provisions of standardised loan and guarantee agreements were reviewed. Presently, 342 loan agreements and 33 guarantees are officially recorded on the Bank's books, while the total sum of indebtedness being serviced under them amounts to USD 4.9 billion. In 1999, the Bank stepped up its efforts to recover payments due from enterprises - the users of tied credits - to compensate the federal budget expenses arising out of these credits' redemption and servicing. As a result, the sum of USD 118.8 million in cash payments alone was transferred to the Russian Ministry of Finance's

accounts. We are still committed to identifying new ways and alternatives of further debt settlement, in particular through netting of mutual obligations. With the view of putting pressure on undisciplined borrowers, respective documentation was filed to arbitration courts. As a result of effective arbitration proceedings, the Bank got back RBS 3,281.1 million under 18 writs issued in its favour.

### **2.3. Ensuring Recoverability of Credits Extended by the Former USSR and the Russian Federation**

In 1999, Vnesheconombank, dedicated to upgrading its agency activities, continued to be actively engaged in managing external financial assets of the Russian Federation. Thus, in November, the first technical agreement in full compliance with the Paris Club principles was signed. It concerned the issue of settling debts owed to the Russian Federation by Ethiopia. To facilitate the process of debt repayment Vnesheconombank skillfully elaborated and agreed with the debtor the main parameters of a standardised document to be used in the future. That was another evidence of the Bank's professionalism and meticulous performance. Proceeding from this document, similar agreements specifying the respective debt repayment schedules could be signed with other Paris Club members having liabilities towards Russia. The funds received are to be transferred to

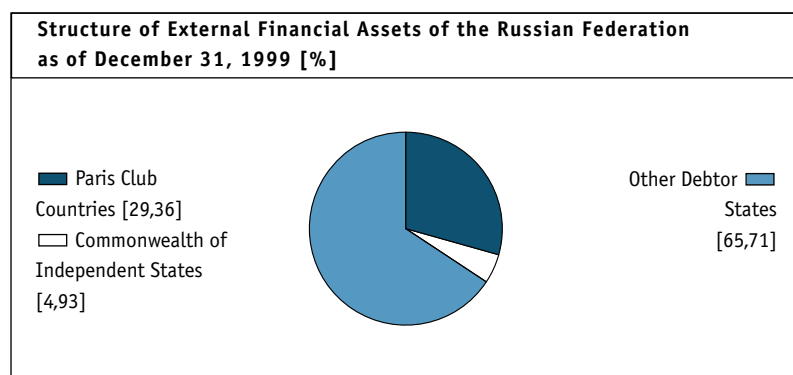
the federal budget. The immediate task for the Bank is to closely supervise that the schedule deadlines are met and, in the longer run, to manage these cash flows. Throughout the period under review, the Bank's attention was primarily focused on maintaining applicable records and making reports on the state of Russia's external financial assets. Admittedly, the data recorded on the Bank's books were, to a fairly large extent, unsubstantiated. For example, as of December 31, 1999 the applicable records showed that the indebtedness owed to us by foreign states under various credits amounted to USD 120.9 billion. But since respective inter-governmental arrangements are not in place, there are no formal grounds to reflect this sum as our real financial assets. Among the biggest borrowers are Cuba with USD 18.7 billion worth of debt, Mongolia with USD 11.5 billion, Vietnam - USD 10.7 billion, Afghanistan - USD 9.6 billion, and Syria - USD 13.3 billion. Above that, the indebtedness of the CIS, exclusive of Adzerbaijan and Turkmenistan, was recorded on the Bank's books as well, its overall amount totalling USD 6.5 billion. In 1999, the sum of USD 783.3 million was credited to the Bank's accounts to be now recorded on the books as Russia's external financial assets (the comparable figure for 1998 is USD 2.2 billion), with India remaining the biggest payer. Logically, most of the work to settle debts owed to Russia was car-

ried on within the framework of the Paris Club. A number of actions were undertaken by the Bank to propose and forward to the Ministry of Finance draft intergovernmental agreements with Burkina Faso, Zambia, Tanzania, the Central African Republic, Chad, and Guinea. Finalised documents were initialled, while with Ethiopia and Yemen they were actually signed. Also the Bank, aiming to deliver better results, worked out and submitted to the Ministry of Finance various documents evidencing an enhanced range of financial services it could

(equivalent of USD 631.3 million), up about 20.6 percent as compared with the previous year. Besides, tenders for the sale of priority rights to import goods in repayment of debts owed to Russia by Mongolia and Vietnam were also held. Simultaneously, work to set up a special 'tender floor' at Vnesheconombank to facilitate the sale of funds in clearing and accounting currencies was in progress. Also, Vnesheconombank assisted the Government of the Russian Federation in finalising a decree to establish adjustment factors to apply to the official

agreements with the designated banks of borrower-countries on the procedure of settlements under credits extended were signed by Vnesheconombank. In dealings with Armenia and Belarus under credits extended the Bank initiated a switch over to a letter of credit form of settlement. Though, for us, we admit, the problem of adopting generally accepted rules and regulations with regard to financing exports still persists. Definitely, overall preference should be given to using only cash debt repayment schemes, subsidising interest rates, etc. Looking to the future, Vnesheconombank is resolved to submit the relevant proposals to Russia's governmental agencies and bodies.

In the context of Vnesheconombank's contribution to the real sector of Russia's economy, another direction of the Bank's activities was of primary concern. The Bank ensured targeted financing of domestic producers with federal budget funds to promote Russia's exports to borrower-countries. In this area our long-standing strategic partners are 'Atomstroi-export', 'Zarubezhneft', 'Energomashexport', 'Machine Engineering Plant' (city of Energostal). In some cases a tough and active position taken by the Bank helped meet the challenges of adequate financing, strict exchange control, as well as ensured due execution of underlying contracts.



presently provide. Among them, an expert opinion on the main financial parameters of settling debts owed to Russia by the countries referred to the group of the poorest and most indebted nations – the so called 'Cologne Extended Initiative', on conversion-debt swap operations, on solvency evaluation of debtor countries, etc. In 1999, as part of its on-going evolution, the Bank continued to conduct tenders for the sale of debt funds. In particular, tenders in Indian rupees were held with INR 30.3 billion being utilised

rates of these currencies which would eventually promote a smooth resolution of the problem. Operating in relatively adverse economic and financial environment substantially reduced the Government's underlying ability to extend credits to foreign states. Notwithstanding the difficulties, Vnesheconombank managed to ensure the utilisation of USD 253.2 million, with India being the biggest borrower, followed by China, Yugoslavia, Cuba, Algiers, Armenia and Belarus. Within a year, eight technical

### 3. CORPORATE STRUCTURE DEVELOPMENT

Faced with competitive pressures, Vnesheconombank made strides to upgrade and further develop its corporate structure. To achieve this, the Bank placed more emphasis on its IT base, personnel management programme, while creating a client-friendly, pragmatic and secure banking environment.

#### 3.1. Technological, Information and Other Support Facilities

In the year under review, much has been achieved through rethinking business processes and the introduction of new technologies. Management recognises that IT gives us a competitive edge and significant leverage in effecting integrated banking operations. Thus, in 1999 the Bank spent as much as RBS 60 million for these purposes. In this context, when the Bank's Custody Department started to operate, new customised software packages were introduced. That helped us efficiently perform custody operations and launch the novation of the III tranche MinFin bonds. To ensure the Bank's strategic efficiency and accommodate customer base expansion new sophisticated technologies were developed and implemented. They are designed to facilitate customer- and trading-related activities. The 'Bank-Customer'

remote banking system was therefore introduced. Above that, to streamline the Bank's electronic operations through the Moscow Interbank Currency Exchange an appropriate soft- and hardware complex was developed.

Our energies were also devoted to updating the Bank's overall automated environment. In particular, new innovative methods and means of reporting and submitting standardised documentation were applied. Also, creating new information delivery channels facilitated communication with the Ministry of Finance. Coded data reflecting movements over more than 300 accounts of the Ministry are now forwarded on a daily basis. With respect to the reports to be submitted to the CBR, the amount of paper work was significantly reduced since the bulk of information goes electronically. As a result of computer-based drafting, it takes much less time to finalise any document.

In 1999, increased efficiencies were also sought through the Bank's technology platform development. A new Computer Centre was eventually put into operation, upgraded backup facilities were installed to ensure 'immediate' data storing in central servers. The new soft and hardware helped radically reduce the time needed to effect information processing. Besides, separate segments of the Bank's computer network based in its different premises

were effectively combined in a united local banking network. Information channels were streamlined and updated with their processing capacity markedly increased. 308 new automated workstations were put into service equipped with leading edge PCs. Addressing the Y2K issue, the Bank's IT Department performed a thorough inventory and upgrading of the equipment used by personnel. To avoid 'millennium bug' outages, the log on/log off system was radically changed and 389 obsolete computers were removed. As a result, no hardware or software malfunction actually occurred. Trouble-free operation of all computers installed in Vnesheconombank was effectively ensured.

The year 1999 was marked by strategic changes in the Bank's information profile.

We continued to develop policies that enhance the Bank's standing. Obviously, emphasis was placed on transparency of Vnesheconombank's activities, its overall openness. The overriding task was to project and further develop the image of a sound national financial institution the Bank has acquired throughout 75 years of its fascinating history and impeccable record.

One of the major goals was to restore investors' confidence and regain the trust of the global banking community. To achieve this objective the Bank's Press Office would maintain regular contacts with Russ-



ian and Western mass media, stage press conferences and interviews by Vnesheconombank's chief executives. 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.

To advance with the information policies, Vnesheconombank opened an Internet web site in early 1999 ([www.veb.ru](http://www.veb.ru)) aiming to offer the world a clear vision of the day-to-day performance of the Bank engaged in commercial activities and at the same time acting in the agency capacity to service Russia's foreign debt and to effectively manage its external assets. The web site gives an insight into the Bank's record and past activities, presents information on its structure, major lines of business, the targets set or attained, plans and aspirations. It also contains press releases, feature articles, interviews by the Bank's executives, etc.

Largely as a consequence, the Bank's information profile, both in Russia and abroad, was notably improved.

Throughout 1999, we also continued to promote diversity in our work-force through careful recruitment, training, coherent performance evaluation and incentive-related pay. Admittedly, we have always encouraged staff involvement in the Bank's performance, appreciated commitment of our people and

their professional strength. Strategically, highly-motivated and dedicated staff is a major source of future growth and innovation dynamics.

In future, we would always seek to advance those who deliver outstanding results. Our aim is to generate healthy economic performance. To achieve this, retaining the very best people in support of our clients, promoting the culture of excellence and team spirit among our professionals will be critical to our success.

To accommodate customer base expansion, the Bank's premises were effectively refurbished and renovated. New convenient offices for cash and settlement operations were opened, a spacious vault for valuables safe-keeping was installed, front and back offices were considerably enlarged, and a lot of auxiliary service rooms were re-built. Negotiation facilities were considerably improved with special offices opened and fully equipped.

Striving to meet the standard requirements set by the CBR and the Interior Ministry, Vnesheconombank implemented a uniform security system to ensure proper protection of the Bank's premises and buildings. Besides, an autonomous energy system was eventually put into operation to service the central and peripheral equipment, as well as the underlying security system. In 1999, the FAPSI government communications service issued

4 licences authorizing the Bank:

- to maintain and service the coding devices designed to cryptically protect information flows;

- to offer information coding services;

- to provide the Bank's automated system users with coding devices;

- to maintain and service the S.W.I.F.T. coding devices.

The licences obtained certify that the Bank operates in full compliance with the relative Russian legislation, information flows are properly secured and its competitiveness is further enhanced. Vnesheconombank's customers can rest assured that their interests are well taken care of.

During a year of significant achievements, another was the success of Vnesheconombank's Legal Department. Notwithstanding certain inadequacies of the Russian legislation, the Bank's lawyers effectively participated in the arbitration proceedings held under 71 cases in 22 regions of the Russian Federation with the Ministry of Finance being involved as either a claimant or a defendant. The number of cases considered makes a 93 percent increase on the previous year. Acting on the instruction of the Ministry of Finance, Vnesheconombank drew up and filed with the courts 47 claim applications for the recovery of outstanding debts under various debt obligations. Throughout the year, 18 cases were heard in courts of law and

the Bank's claims were met, with Deutsche Marks 201.3 million and Yens 1,822.5 million being recovered to the federal budget through the legal proceedings. With respect to two debt obligations, indebtedness for the sum of French Francs 94.4 million was actually repaid. On its part, striving to protect its vested interests and lawful rights, Vnesheconombank issued 22 claims.

One main objective underlying all our activities is aspiration to upgrade the Bank's competitiveness. To promote the Bank's strategic efficiency and facilitate business processes some new Departments were set up, namely: Corporate Banking, Problem Debts, Internal Audits, etc. Some other Bank's divisions were drastically transformed to become Directorates. Primarily, we expect the performance of every unit to be integrated with the Bank's other functional areas. Sometimes to accommodate and resolve integrated problems, special working groups and ad hoc committees were organised. They were designed to handle numerous issues ranging from mapping out the Bank's strategy and financial outlook for the years 2000-2001 to developing and introducing a 'Personnel Management - Wage Schemes' software package, as well as creating an adequate analytical database with respect to foreign debt management, etc. Hopefully, our businesses are mutually supportive – success

in one contributes to success in others.

Also, Management maintains a system of internal controls closely monitoring the Bank's day-to-day performance. The aim is to invariably weigh the costs with the benefits sought. Throughout 1999, to ensure better financial performance 34 documentary checks were made. Internal controls were also intended to provide the Bank's Management with the information reflective of the real state of things and foster closer interaction with outside institutions engaged in carrying out checks and examinations of the Bank's activities. We are also most focused on the compliance issue aiming to make sure our internal audits operated in full compliance with the federal law 'On Banks and Banking Activities'.

In 1999, there was considerable progress in further co-ordinating the work of the Bank's various divisions and units with external auditors, rating agencies, the state controlling bodies and banking supervisory authorities. In fact, the Bank was subject to the following checks and examinations: by the Auditing Chamber (17 checks), by the CBR (3 checks), by the Ministry of Finance (once) and by the Tax Authorities (once). Further oversight was provided by independent external auditors and major international rating agencies.

As to the audit checks, they were performed by Russian and for-

eign 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.

An independent audit check was conducted by the 'Auditservice' firm. It analysed the financial reports for the year 1998 and the first nine months of the year 1999 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 1999 prepared in accordance with International Accounting Standards were submitted to be audited by 'Ernst & Young (CIS) Ltd', an independent audit company. Their opinion was also favourable stating that the reports, in all material respects, gave a true and fair picture of the financial standing of the Bank as of December 31, 1999.

Moreover, Thompson Bank Watch and Fitch IBCA Ltd., leading international rating agencies, assigned Vnesheconombank a CCC Long-term foreign currency debt rating and a Short-term foreign currency rating of C, which is Russia's sovereign rating.

### **3.2. Foreign Representative Offices**

In 1999, Vnesheconombank's foreign representatives offices

operating in Italy, India, China, the USA, Hungary and its regional offices in the Arab Republic of Egypt, South African Republic and the Middle East countries considerably contributed to its agency's functions in servicing Russia's sovereign foreign debt and implementing intergovernmental arrangements. They also facilitated control and supervision of smooth and speedy settlements under agreements on military-technical and trade-economic cooperation aiming to develop safe and reliable settlement schemes, as well as to ensure Vnesheconombank's property interests there.

Of special importance were the activities of the Bank's Representative Offices in China and India. Thus, active position taken by the Representative Office in Mumbai helped finalise and sign an agreement between Vnesheconombank and India's Ministry of Finance on the procedure of recording and settlement of state credits for the construction of the Kudankulam Nuclear Power Station, as well as interbank agreements on military-technical and trade-economic cooperation. Negotiations with the Reserve Bank of India were timely and effectively held resulting in mutually acceptable terms of investing into India's government bonds. The Bank's Representative Office in Beijing, on the other hand, succeeded in ensuring that the balances in a number of special accounts of the Incombank joint stock bank maintained with the Bank of China were

transferred to and consolidated in a special account with Vnesheconombank.

To give another example of successful activities of the Bank's Representative office in Cairo, we should highlight the Bank of Alexandria's accepting the direct counter-guarantees of Vnesheconombank which set an outstanding precedent for the forthcoming years. A similar approach was demonstrated in dealing with the Banque du Caire, Cairo, which agreed to accept Vnesheconombank's direct guarantees though making them conditional on an immediate transfer of 76 percent coverage. Surely, these precedents positively impacted all the guarantee operations with other banks of Egypt. Furthermore, Vnesheconombank's Representative Office in Hungary, working in close cooperation with the Export-Import Bank and the State Export Credits Insurance Agency, elaborated agreements on extending credits to finance purchases in that country. Together with the Ministry of Finance, the Banks' Representative Office in Italy ensured lifting of restrictions imposed by SACE on financing contracts within the framework of intergovernmental credit lines. The restrictions implied a ceiling of Italian Liras 420 billion. In addition, with the assistance of the Representative Office, a general loan agreement between Vnesheconombank and Mediobanca of Italy for the sum of Italian Liras 500 billion was signed without stipulating sover-

eign guarantees. In this context, Russia's credit outlook was markedly improved.

### **Legal Addresses of the Bank's Representative Offices:**

USA, New York  
527 Madison Avenue, 12th floor,  
New York, NY 10022, USA  
Phone: (1-212) 421-8660  
Fax: (1-212) 421-8677

Italy, Milano  
Piazzale Principessa Clotilde,  
8-20121 Milano, Italy  
Phone: (3902) 653-625  
Fax: (3902) 655-1697

Hungary, Budapest  
Trade Centre, Vaci u. 19-21  
1052, Budapest, Hungary  
Phone: (316) 318-6978  
Fax: (316) 266-2786

India, Mumbai  
11, World Trade Centre,  
Cuffe Parade,  
Mumbai 400005, India  
Tel: (9122) 218-2705,  
Fax: (9122) 218-5845

Egypt, Syria and the Middle East countries  
4, Yehia Ibrahim Street,  
Zamalek, Cairo, Egypt  
Tel: (202) 341-5387  
Fax: (202) 341-5387

China, Beijing  
20A CITIC Building, 19  
Jianguomenwai daijie,  
Beijing, P.R. China, 100004  
Phone: (8610) 6592-8905  
Fax: (8610) 6592-8904



South Africa, Johannesburg  
2<sup>nd</sup> Floor, Chelsea Place,  
138 West Street, Sandown,  
Sandton, Johannesburg, RSA  
Tel: (2711) 783-3425,  
Fax: (2711) 784-4688

### 3.3. Public and Social Activities

The positive financial results for 1999 enabled Vnesheconombank to be actively engaged in social and charitable work. A year earlier a special Commission on Charitable and Public Activities designed to deal with charity issues and respond to social needs was set up. In compliance with the decisions of the Commission targeted support was given to social programs and cultural projects, with the overall sum of RBS 34.7 million spent for specific purposes.

To address the needs, a special corporate action charitable program was developed while the priorities were coherently defined. With the sharp focus on the strategy chosen it envisages support for children's health-care projects as well as major artistic and cultural events. Management admits the choice was not altogether random. Primarily and predominantly, the Bank aims to render financial aid to the social sector which, regrettably, happens to be under-financed. In this context, Vnesheconombank has channelled considerable funds to these institutions. One example is financing purchases of equipment for children's medical institutions of Moscow: the Morozovsky Municipal Children's

Hospital (equipment and expendable materials for blood transfusion for the haematology department), the Research Institute of Children's Oncology and Haematology, the first hospice for children with incurable cancer problems.

Also, help to those injured, crippled or wounded during the hostilities in the Chechen Republic has been central to the Bank's charitable activities. Working together with the Interior Ministry of the Russian Federation Vnesheconombank purchased six intensive-care ambulances equipped with most sophisticated devices meeting all the best global medical standards.

Striving to preserve intrinsic cultural values and uphold the glorious traditions of Russian art Vnesheconombank took an active part in launching new cultural events.

Overall, the Bank's charitable performance in 1999 was most encouraging and rewarding. As an illustration:

- participation in a special charitable program devoted to the bicentenary of A. Pushkin. Thus, the Bank financed an '1836. Supposition to Live' exclusive collection book by A. Bitov, a prominent author and literary critic;
- a gift of 55 works by V. Sterligov, pupil of K. Malevich, to the Pushkin Fine Arts Museum purchased by the Bank (November 1999);
- financial aid to the Rerich Memorial Museum in Naggara and the Urusvati Himalai Research Institute with the funds being

used to refurbish and renovate the buildings and acquire Nickoly Rerich's literary works as well as books about the life and creative work of the great Russian artist and thinker noted for his spiritual and religious quests;

– financial support for the reconstruction of 'the Pyotr Fomenko Studio' building in Kutuzov Avenue – the theatrical group being one of our long-standing special friends, a most talented and innovative company of modern theatrical world, with their performances being always in the limelight of Russian and European cultural life. In 1999 the inauguration ceremony took place.

In all its people-oriented activities Vnesheconombank abides by the principle that Russia's Big Business should show compassion and seek to help those in extreme need. We should in no way forget the well-known names of our Russian industrialists and famous art patrons, such as Morozov, Mamontov, Moiseyev who are gratefully remembered nowadays by their charitable deeds, their names going into our history.

Now that Russia's economy is definitely on track for recovery and the country's outlook is much brighter this fine and fascinating tradition of charity should well be continued.

### 3.4. Aims and Objectives of the Bank's Development for the Years 2000-2001

Admittedly, in 1999 the Bank had a year of significant achievements as the strategic

changes continued to enhance our results. We made a real breakthrough to become a universal financial institution professionally equipped, in terms of technological environment and personnel management culture, to create exceptional value for our clients. Principally, we are always asking ourselves whether our processes, products and performance are the best we can deliver to our clients, whether they are really innovative and leading edge. And it should be highlighted that the Bank's agency functions were always of prime concern to us. Top of the list of our preferential clients comes the Government of the Russian Federation, federal agencies and bodies, first and foremost, the Ministry of Finance. The Bank is absolutely committed to foster its close ties and associations with these institutions seeking to invariably offer them a wide range of specialised financial services.

We have defined our strategic objectives clearly and precisely. And we have carefully identified ways and means to achieve them. The list of the Bank's priorities for the forthcoming years is set out as follows:

- to adequately resolve the issue of the Bank's Status bringing the latter in full compliance with the legislation in force;
- to enhance capitalisation of the Bank;
- to bolster and diversify the Bank's customer base;
- to upgrade the Bank's performance and efficiency as a specialised state bank expressly authorised to ensure foreign economic operations;
- to establish lasting strategic partnerships with the leading global financial institutions, foreign export-import banks, insurance agencies as well as major investors;
- to extend the list of banking products and services to meet competitive pressures;
- to ensure a smooth transition to seamless 'on line' operations;
- to better co-ordinate the work of different divisions and units of the Bank with respect to resources management through upgrading the Bank's budgetary-planning activities;
- to restructure the Bank's assets with the view of pursuing effective credit policies and financing the real sector;
- to actively advance with the creation of a uniform debt management system with a speedy installation of an automated debt database;
- to ensure within the framework of the Bank's competence and powers the exchange of London Club instruments for Eurobonds;
- to restructure and exchange the Soviet-era trade indebtedness for Eurobonds;
- to ensure finalizing and signing of bilateral agreements with Paris Club creditors within the framework of Multilateral Protocol of August 1, 1999;
- to work out proposals on a new comprehensive restructuring of the Soviet-era debt owed to the Paris Club creditors, to actively participate in the respective negotiations;
- to considerably extend the list of creditor-countries prepared to accept goods' schemes in repayment of the Soviet-era debt and to continuously update the schemes;
- to ensure finalising and signing of bilateral agreements with the Paris Club creditors within the framework of a new Multilateral Protocol;
- to draw up (on the basis of agreements made) an appropriate schedule of 'cash flows' under the assets restructured within the framework of the Paris Club and to ensure a smooth transition to the management of these assets;
- to obtain powers entitling the Bank to carry out novation and securitization of Russia's financial assets;
- to extend the list of assets in national currencies to be realised at Vnesheconombank's tenders (using different funds in clearing Swiss francs under settlements with China and 'escrow dollars' under settlements with India, etc);
- to undertake measures to improve the Bank's information-analytical profile enhancing its role in decision-making;
- to streamline the structure of the Bank, to improve personnel management policies and upgrade corporate culture.



## 4. FINANCIAL RECORDS OF THE YEAR 1999

### 4.1. Tax Payments

Under the Russian tax legislation the Bank is subject to 14 different taxes and duties, with its major tax liabilities comprising income tax, interest tax, property and equipment tax, and others. The overall volume of taxes charged in 1999 amounted to RBS 639.6 million, a rise of 70.7 percent on the previous year. In fact, Management closely monitors compliance with statutory tax obligations.

In our case the greatest growth is seen in taxes referred to operating expenses, which is brought about by a sharp increase of the Bank's taxable profit reported for Russian tax purposes. Thus, highway user tax and social and cultural facilities development tax expenses have grown 3.4 and 2.4 times, respectively, against 1998. Property and equipment tax expenses have advanced 6.2 times, primarily as a result of a new interest accounting procedure introduced for borrowed funds. Overall, Vnesheconombank is one of the largest and most disciplined taxpayers generating considerable revenues for the federal budget.

### 4.2. Balance of Payments, Income and Expenses, Profit

The year under review was a watershed in our drive towards delivering outstanding financial performance. The profit the Bank

has posted (both balance sheet and net) is three times as large, compared with 1998. More importantly, the 1999 results show that the steps we have been taking to achieve that – streamlining the Bank's earnings and costs, effecting a meticulous planning and monitoring of its financial performance – are beginning to bear fruit. Broadly in line with this strategy appeared the establishment of a Finance Committee designed to secure planning, supervision and co-ordination of earnings and costs flows within the Bank. Mainly as a consequence, there are no longer quarterly 'swings' in financial performance so frequently experienced over the last years.

As of January 1, 2000, total assets of Vnesheconombank (related to its own operations) amounted to RBS 1,109,371.9 million as against RBS 704,152.2 million as of January 1, 1998, an estimated real terms increase of 16.7 percent over a year.

In 1999, both RBS and foreign currency assets continued to experience considerable growth, with foreign currency assets advancing 38.3 percent from 1998 and reaching USD 2,991.2 million, while RBS assets climbed 200 percent and totalled RBS 12,188.0 billion. As to their placements, the core of our strategy here remained unchanged: major investments were made in securities and approximated USD 696.0 million in 1999. Loans to customers stood up at USD 312.4 million and RBS 661.6 million,

other assets (in dollar equivalent) amounted to USD 533.5 million.

The Bank's liabilities have also seen a continuing growth. For the year ended December 31, 1999, RBS liabilities have risen to 10,459.2 million, with foreign exchange liabilities amounting to USD 3,127.0 million, which was primarily due to a 4 time increase in customer account balances maintained with Vnesheconombank. In the fourth quarter of 1999 amounts owed to customers were credibly estimated to average USD 403.8 million.

Principally, over the year under review, the Bank has remained singularly well positioned to meet all its performance targets and economic benchmarks. Prime concerns for Vnesheconombank were faultless execution of its commitments, superb performance in settlement services and customer care combined with a determined drive to benefit the Bank's competitive edge and extract better value from its trade and investment portfolios. The profit gained allowed the Bank to further upgrade its technological base, to attract and retain highly skilled individuals, to actively participate in various public and social activities. Moreover, the Board of Directors decided to transfer part of the Bank's yearly profit for the sum of RBS 155.5 million to the federal budget.

On request, Press Office of Vnesheconombank can provide full sets of the financial statements, as well as the respective audit companies' opinions.

**BALANCE SHEETS****December 31, 1999 and 1998**

(In millions of US dollars)

	<b>1999</b>	<b>1998</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 507	\$ 339
Due from other banks, net	887	481
Securities	792	643
Commercial loans, net	255	205
Receivable from the Russian government under London Club	31,268	29,670
Due to London Club creditors	(31,268)	(29,670)
Due from the Russian government	–	86
Other assets, net	106	96
<b>Total assets</b>	<b>\$ 2,547</b>	<b>\$ 1,850</b>
<b>LIABILITIES AND RUSSIAN GOVERNMENT EQUITY</b>		
Due to other banks	\$ 613	\$ 203
Securities sold under agreements to repurchase	–	41
Due to the Russian government and the Central Bank of Russia	1,257	1,159
Amounts owed to customers	493	294
Debt securities issued	30	–
Other liabilities	45	69
<b>Total liabilities</b>	<b>2,438</b>	<b>1,766</b>
<b>Russian government equity</b>	<b>109</b>	<b>84</b>
<b>Total liabilities and Russian government equity</b>	<b>\$ 2,547</b>	<b>\$ 1,850</b>

**STATEMENT OF INCOME AND RETAINED EARNINGS****Year ended December 31, 1999**

(In millions of US dollars)

Interest income:	
Securities	\$ 60
Loans	44
Placements at other banks	30
	134
Interest expense	
	(19)
Net interest income before provision for losses	115
Provision for losses	(28)
<b>Net interest income after provision for losses</b>	<b>87</b>
Fee and commission income	20
Gains less losses from securities	63
Gains less losses from foreign currency translation	(54)
Other operating income	12
<b>Total other income</b>	<b>41</b>
Payroll and other staff costs	(37)
Occupancy and equipment	(10)
Taxes other than income taxes	(20)
Other operating expenses	(23)
<b>Total operating expenses</b>	<b>(90)</b>
Income before income taxes	38
Income taxes	(13)
<b>Net income</b>	<b>25</b>
<b>Retained earnings at beginning of year</b>	<b>84</b>
<b>Retained earnings at end of year</b>	<b>\$ 109</b>

**STATEMENT OF CASH FLOWS**

Year ended December 31, 1999

(In millions of US dollars)

**Cash flows from operating activities**

<b>Net income</b>	<b>\$ 25</b>
Adjustments for:	
Depreciation and amortization	1
Provision for deferred income taxes	8
Provision for losses	28
Change in market value of securities	(153)
Change in supported value	168
Operating income before changes in net operating assets	77
(Increase) decrease in operating assets:	
Due from other banks	(23)
Securities	(154)
Commercial loans	(79)
Due from the Russian government	86
Other assets	(10)
Increase (decrease) in operating liabilities:	
Amounts owed to the Russian government and the Central Bank of Russia	98
Due to other banks	24
Securities sold under agreements to repurchase	(41)
Amounts owed to customers	199
Other liabilities	(23)
Net cash from operating activities	154

**Cash flows from investing activities**

Purchases of property and equipment	(16)
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**Cash flows from financing activities**

Debt securities issued	30
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<b>Net change in cash and cash equivalents</b>	<b>168</b>
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<b>Cash and cash equivalents at beginning of year</b>	<b>339</b>
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<b>Cash and cash equivalents at end of year</b>	<b>507</b>
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**Supplemental information:**

Income taxes paid	5
Interest paid	19
Interest received	74

**Non-cash transactions:**

Securities received as repayment for loans	10
Due from other bank transferred from Agency Balance Sheet	392
Amounts owed to customer transferred from Agency Balance Sheet	\$ 386

Vladimir Sterligov's works of art illustrating the Annual Report were purchased by Vnesheconombank and granted to the Pushkin Fine Arts Museum.



Page 20  
Surrounding geometry. 1973.  
Paper, water-colour, charcoal.  
465x361. P23031



Page 8  
Landscape. 1971.  
Paper, pastel.  
407x298. P23029



Page 28  
Khovrino. 1965. Paper,  
water-colour.  
385x295. P23025



Page 14  
Branch. 1945. Paper,  
water-colour, pencil.  
416x295. P230005



Page 34  
Still life with a pipe. 1950s.  
Paper, pencil.  
239x202. P23051





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