



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





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

CONTENTS

ADDRESS OF THE CHAIRMAN OF VNESHECONOMBANK	4
BOARD OF DIRECTORS	6
1. VNESHECONOMBANK 2000 – FINANCIAL HIGHLIGHTS	7
2. COMMERCIAL ACTIVITIES	9
2.1. Customer Services	9
2.2. Settlement and Documentary Operations	11
2.3. Custody Services	13
2.4. Credit Operations and Project Finance	13
2.5. Guarantee Operations	14
2.6. Operations In Financial and Money Markets	15
2.7. Correspondent Banking	17
3. AGENT FOR THE GOVERNMENT OF THE RUSSIAN FEDERATION	19
3.1. Sovereign Foreign Debt Management	19
3.1.1. London Club Debt Settlement	19
3.1.2. Paris Club Debt Settlement	20
3.1.3. Settlement of Debts to Other Creditors	20
3.2. The III Tranche MinFlns Novation	21
3.3. Managing Russia’s External Financial Assets	21
3.4. Extending State Export Credits	24
3.5. Raising Credits under the Guarantees of the Russian Government	24
4. PROFESSIONAL ORGANISATION AND ASSOCIATIONS – THE ROLE AND PLACE OF VNESHECONOMBANK	27
5. THE SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT	28
6. INFORMATION AND TECHNOLOGY INFRASTRUCTURE	31
7. FOREIGN REPRESENTATIVE OFFICES	32
8. CHARITABLE ACTIVITIES	34
9. PROSPECTS FOR THE FUTURE	35
10. FINANCIAL STATEMENTS	37



ADDRESS OF THE CHAIRMAN OF VNESHECONOMBANK

Ladies and Gentlemen,

In this paper we are aiming to give you a detailed description of Vnesheconombank's activities in 2000, to highlight major areas of its financial architecture and performance, as well as to outline its prospects for the future.

The last year of the twentieth century was marked by a more stable political environment and sustained economic recovery. This can be attributed to a consistent and genuine pattern of market-oriented reforms launched by Vladimir Putin, President of the Russian Federation. There is also a positive change of public attitudes towards the very essence of the reforms undertaken, which certainly gives us a ray of hope for the future.

Admittedly, the year 2000 proved to be most successful for the country. For the first time in its history, Russia comes within the top ten most dynamically developing nations. The Russian economy showed good results, exceeding the expectations of most observers. It signalled that the country is well on track to a sustainable and well-balanced economic growth. Over the year, Russian GDP has turned to growth, reaching 8.3 percent. More importantly, the inflation rate actually dropped to 20.2 percent. Industrial production grew by 9.2 percent, while export volume, for the first time in the decade, exceeded USD 100 billion. Largely as a consequence, Russia's gold and currency reserves approximated USD 30 billion. The above results are unprecedentedly good and the present challenge is to sustain and strengthen the economic turnaround.

Being far and away the leading Russian state bank, Vnesheconombank has been invariably seeking to play a vital role in making tangible contributions to Russia's economic growth. Also, it is traditionally noted for its respon-

sible citizenship and high professional standards. Throughout the period under review, strenuous efforts were made by the Bank for the positive changes in the Russian economy to take a stronger hold and to ensure the country's smooth integration into the global economic community.

One of the most pressing economic concerns Russia has been faced with is its debt obligations towards foreign creditors. Acting as the Russian government's agent authorized to service sovereign foreign debt and Russia's foreign assets, Vnesheconombank has been actively assisting the Government and the Russian Ministry of Finance to identify new and meaningful ways of settling the debt issue. Also, the Bank has been a regular participant in negotiations held with the London and Paris Clubs of creditors. Placed in an evolving economic and financial environment, Vnesheconombank is currently facing new challenges and opportunities. There's only space here to address a few of the initiatives we undertook last year. Now that Russia's economy is picking up, Management recognises that Russian enterprises have a consistent and growing demand for financial resources. Being well-positioned to respond to these demands, the Bank has achieved a one and a half time increase in lending volumes to the real sector of economy.

Invariably striking out in new businesses and directions, the Bank is currently engaged in mid- and long-term crediting of investment projects. In this context, further impetus comes from our reinforced cooperation with the World Bank.

With a view to raise more foreign direct investment into Russia's economy, Vnesheconombank has considerably increased its presence in global capital markets, acting without sovereign guarantees by the Russian government, while engaging the support of state insurance agencies of creditor-

countries. Thus, an Agreement signed with Mediobanca of Italy to implement an investment programme for the sum of USD 1.5 billion, as well as a No-Limit Loan Agreement with Deutsche Bank AG, can exemplify the progress made in this respect. In 2001, the Bank aspires to translate these arrangements into real investment projects.

Overall, good growth has been achieved in the Bank's core businesses over the last year. Most remarkably, Vnesheconombank has solidified its pre-eminent position as a major and system-forming Russian financial institution. The Bank is singularly well-positioned and committed to facilitate Russia in advancing with market reforms and seamless integrating into global economic community.

Principally, the best return on investments, as well as the highest profit obtainable, has always been major benchmarks of the Bank's performance. I should emphasize it here that though Vnesheconombank is a state bank, it is economic interests and financial considerations that underlie all our commercial activities. With respect to lending, for example, no political aspirations can override economic ones. No political directives or requests are coming from the Government. In terms of balance profit, Vnesheconombank ranks 4th among major domestic banking institutions, with the amount reaching RUR 2.1 billion.

Besides, in 2000 Vnesheconombank ensured adequate servicing of about 5 percent of the country's foreign trade turnover, inclusive of almost 100 percent of machine engineering exports. The volume of guarantees issued under export contracts exceeded USD 1.0 billion.

In recognition of Vnesheconombank's increasing strength, an international rating agency Fitch has upgraded the Bank's long-term credit rating to make it comparable to the sovereign rating of Russia.

But we admit that not everything we planned has materialized. More challenges and opportunities lie still ahead. Regrettably, we haven't adequately resolved the issue of Vnesheconombank's status, mainly because of the slow pace of the banking reform in the country. The issue is still on the agenda. Respective proposals to bring the legal status of the Bank in full compliance with the legislation in force have been forwarded to the Government and are presently under thorough consideration.

No organisation can successfully develop without the support and commitment of its staff. One of our greatest competitive advantages is the ability of our people to meet the highest professional qualifications. In the course of the year there has been an ongoing emphasis on personnel training and management development. We proudly count among our staff 52 candidates of science. About 85 percent of the employees are college or university graduates. Almost 70 percent have more than a five-year record of service in finance or banking, with a respective record of every third person exceeding 10 years. We encourage our people to fully develop their professional and personal skills offering them innovative training courses and programmes.

What is in store for the Bank? To respond to the present and future business challenges, a Strategic Development and Planning Directorate was established within the organisational structure of Vnesheconombank. It is designed to define our strategies, to update current planning procedures thereby enhancing our efficiency and profitability. Looking ahead, we feel quite confident of the Bank's objectives and priorities. There is every reason to believe that in future Vnesheconombank will maintain its premier position in the Russian banking system to match the highest ethical and professional standards of the global financial institutions.

We acknowledge the growing support of both our old and new customers in pursuing our financial objectives. In accordance with defined policies and procedures we were seeking to deliver a diversified range of financial services and products tailored to unique customer needs. The past year saw an increase in the number of customers we now serve and a deeper relationship with each of them. At the same time, the Bank maintained its fees and commissions competitively low.

We firmly believe that the Bank and its customers will continue their joint pursuit of market reforms to ensure Russia's economic prosperity and welfare of its people. Clearly, we have some way to go before we meet our own aspirations. But we look forward to 2001 with hope and confidence.

Andrey Kostin
Chairman of Vnesheconombank

BOARD OF DIRECTORS

Kostin Andrey Leonidovich – Chairman of the Bank

Dmitriev Vladimir Aleksandrovich – First Deputy Chairman

Kosov Nikolay Nikolaevich – First Deputy Chairman

Zabaznov Anatoly Pavlovich – Deputy Chairman

Zavyalov Igor Nikolaevich – Deputy Chairman

Levin Vadim Olegovich – Deputy Chairman

Smirnov Aleksey Vladimirovich – Deputy Chairman

Storchak Sergey Anatolievich – Deputy Chairman – Sovereign Debt Obligations Director

Chernukhin Vladimir Anatolievich – Deputy Finance Minister of the Russian Federation

Akinshin Aleksey Ivanovich – Treasury Director

Gavrilov Nikolay Vyacheslavovich – Credit Director

Gruzinov Aleksandr Sergeevich – Security Director

Lebedev Igor Aleksandrovich – Administration and IT Director

Norov Erkin Rakhmatovich – Strategic Development Director

Titov Vasily Nikolaevich – Public Relations Director

Shaprinskiy Vladimir Dmitrievich – Chief Accountant

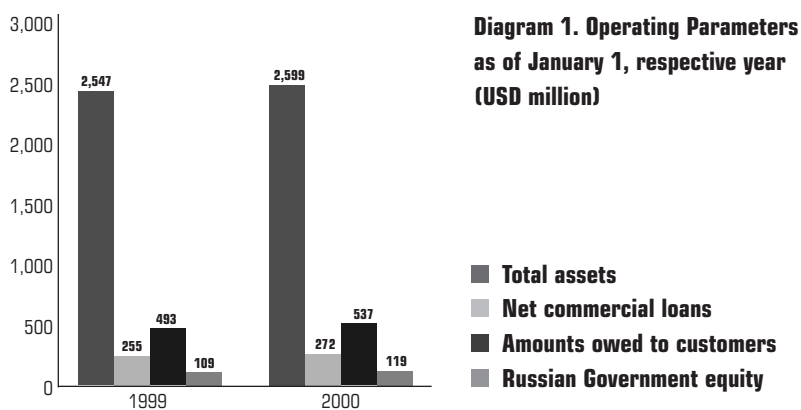
1

VNESHECONOMBANK 2000 – FINANCIAL HIGHLIGHTS

Vnesheconombank is a specialised state bank engaged both in its own commercial operations and in agency functions arising out of servicing sovereign foreign debt and managing external financial assets of the Russian Federation.

According to internal management information, the Bank's total assets and liabilities, inclusive of both centralised and commercial operations, were estimated at USD 244.6 billion as of January 1, 2001, with the centralised operations accounting for the bulk of the amount. Alongside this, Vnesheconombank has considerably enhanced its own commercial operations over the last few years, which places it among major system-forming banks of Russia. Throughout the year under review, Vnesheconombank has markedly improved its financial and operating parameters (Diagram 1), namely:

- income before income taxes at the year-end amounted to USD 34 million, while net income reached USD 10 million;



- the Bank's own funds (Russian government equity) grew by 9 percent within a year to reach USD 119 million. It should be noted that when calculating the equity value in the year 2000 the Bank would no longer use the so-called 'supported value'. In contrast to it, at year-end 1999 the Bank obtained a special permit by the Russian Ministry of Finance to use the Ministry's funds placed with Vnesheconombank to redeem the government bonds constituting a part of the Bank's portfolio as of August 17, 1998 at their face value, rather than at market value. In 2000, when financial markets stabilised and Russian securities went up, Vnesheconombank's Management decided not to apply the supported value concept any longer to estimate the Bank's securities portfolio value and, accordingly, the Bank's equity value;

- amounts owed to customers grew by 9 percent to reach USD 537 million at the year-end;

- the Bank's net commercial loans increased from USD 255 million (at year-end 1999) to USD 272 million as of December 31, 2000.

Due to an increase in customer funds and the Bank's equity, total assets grew from USD 2,547 million to USD 2,599 million within a year.

Management recognises that expanding in new challenging fields of banking business is the surest path to professional success. In light of this, another major achievement of the year 2000 was the performance of the Bank's Custody Department established in mid-1999. Presently, Vnesheconombank is a leading Russian Custodian in terms of volume of

assets held in safe-keeping, the spectrum of custodian services offered, the size and composition of its customer base. Few custodian institutions can match our Bank in its favourable impact on the market of custodian services in Russia. Besides, Vnesheconombank's Custody Department is authorised by the Russian government to act as a federal custodian of the Russian Ministry of Finance. Currently servicing the MinFin bonds and Eurobonds of 1999, Vnesheconombank is the sole Russian custodian (the agent of the Ministry of Finance) to make coupon payments and redemptions of these bonds, as well as to make initial public offerings of the bonds. Recognising the Bank's efficient performance, international rating agencies have upgraded Vnesheconombank's credit rating. Fitch, for example, has awarded Vnesheconombank a 'B' rating which is comparable to the sovereign rating of Russia and is the highest possible for a Russian bank.

Looking to the mid- and longer-term, Vnesheconombank is well equipped to adapt to new economic realities. We intend to deliver a stronger customer focus to strengthen a continuous drive for further improvements in efficiency. We remain dedicated to the agency functions, while aspiring to develop commercial activities.

2

COMMERCIAL ACTIVITIES

2.1. Customer Services

The 2000 results reflect the improvement in and resilience of our customer base, which underpins commercial activities of any financial institution. Vnesheconombank, therefore, was dedicated to developing its own commercial activities alongside its traditional agency capacity to ensure centralised operations servicing Russia's sovereign foreign debt. Over the last five years, the Bank has been predominantly and primarily focused on customer-driven businesses. The overriding task was to deliver a wider spectrum of customer-oriented high quality products and services.

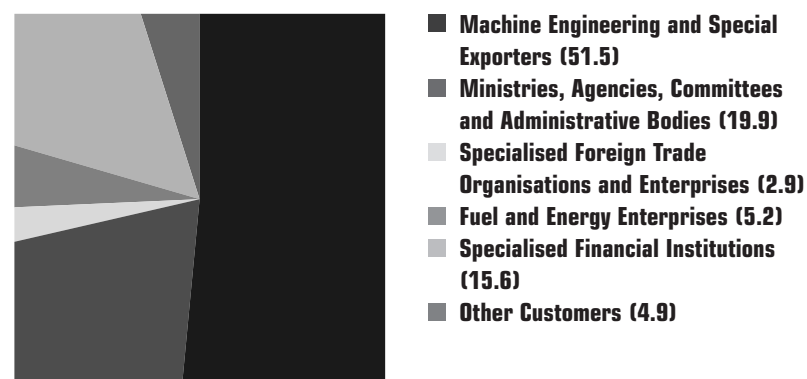
The effort undertaken generated a strong flow of new customers, with the volume of funds in customer accounts rapidly growing. Thus, in 2000, against the backdrop of tough competition, 128 new customers applied for Vnesheconombank's services, with the total number of corporate customers served by the Bank reaching 2,365.

The on-going business growth is mostly related to Vnesheconombank's credibility, financial soundness, a well-developed correspondent network and a range of diversified services. Some of the services provided meet the customers' most complex and unique requirements, which other banks are often unable to satisfy. We have got a leadership position in such banking areas as documentary transactions, settlements in clearing and soft currencies, lending, etc. The main drive of our customer base extension has been an increasing market share in the corporate sector.

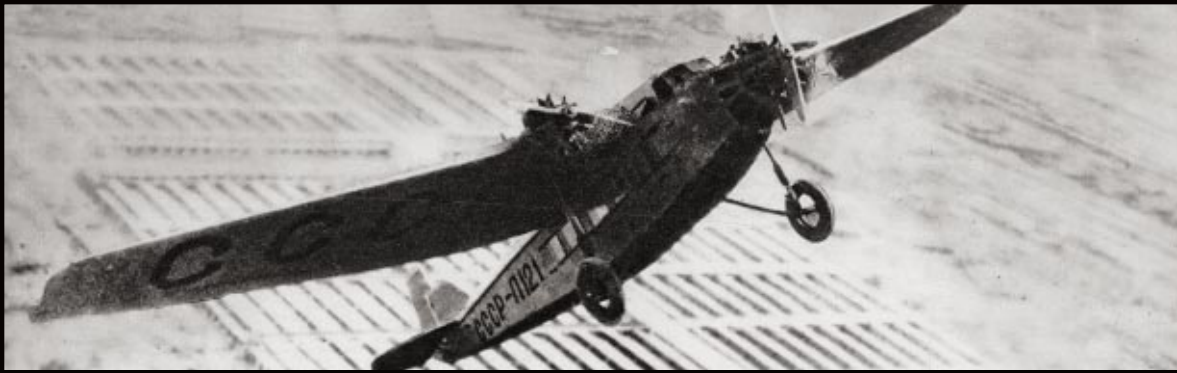
In 2000, we proudly counted among our major corporate customers such leading companies and firms as ROSVOORUDZENYE state company, KNAAPO state company, GASPROM joint-stock company, GAZEXPORT company. Moreover, Vnesheconombank is now a party to strategic cooperation agreements signed with GAZ joint-stock company, ROSUGLESBIT joint-stock company and MAGNITOGORSK metallurgical plant.

All the above companies belong to economic and industrial sectors of strategic importance for the Bank, such as machine engineering, energy and fuel, and foreign trade. The structure of the customer funds is reflective of Vnesheconombank's priorities set for targeting new customer connections (Diagram 2*).

Diagram 2. Industry Structure of Average Yearly Balances in Customer Accounts (%)



* According to internal management information, without amounts due to the Russian Ministry of Finance



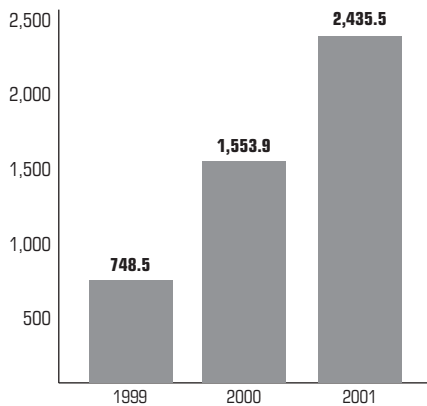


Diagram 3. Balances in Corporate Customer Accounts in Clearing and Soft Currencies excluding Bank's agency operations as of January 1, respective year (RUR million)

The past year has seen good progress in our relationship with customers engaged in business contacts with the People's Republic of China (the PRC) or India, since few banks can offer settlement processing services in soft or clearing currencies. In this context, Vnesheconombank plays a vital role in making tangible contributions to Russia's trade and economic cooperation with these countries.

Largely as a consequence, the balances in customer accounts in clearing and soft currencies, as of January 1, 2001, totalled the equivalent of RUR 2.44 billion, an increase of 57 percent within a year (Diagram 3). In terms of countries, settlements with the PRC, India and Finland accounted for 96 percent of the overall volume of settlements effected in clearing currencies.

In the absence of the Bank's countrywide branch network, further improvements in reaching regional customers were derived from the introduction of the 'Bank-Customer' remote banking system with an in-built cryptic protection of information flows.

2.2. Settlement and Documentary Operations

Our long-term strategy calls for further development of the Bank's own commercial businesses along every meaningful dimension. We sought to enhance our customer base while striving to streamline clearing and

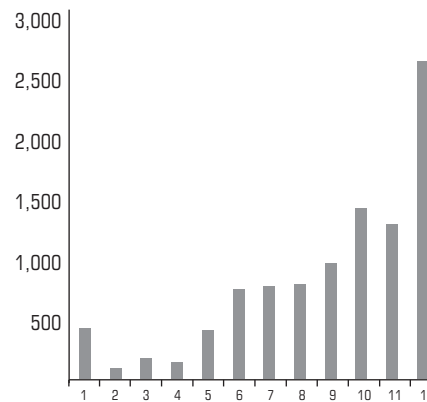


Diagram 4. Average Monthly Volumes of Funds Raised through Vnesheconombank's Note Issuing in 2000 (RUR million)

In the course of the year, new commercial business opportunities continued to be explored. Thus, Vnesheconombank has been successful in launching a new note programme and in increasing its penetration of the credit card market.

The way the note programme developed in the year 2000 is evidenced by the growing volume of funds raised through the note issuance (Diagram 4). From a strategic perspective, the Bank's customers will certainly benefit from the launch of the note programme, since it's designed to streamline settlements with their counterparties and to help them better utilize temporarily idle funds. In 2000, Vnesheconombank started to issue Europay plastic cards (Mastercard, Cirrus/Maestro, in particular). Presently, the Bank's customers are offered both individual and corporate cards, as well as Cirrus/Maestro cards to effect pay-roll schemes.

In future, it is envisaged by the Bank to start issuing multi-currency and credit international plastic cards. The linchpin of our strategy is to further satisfy the needs of our most sophisticated customers.

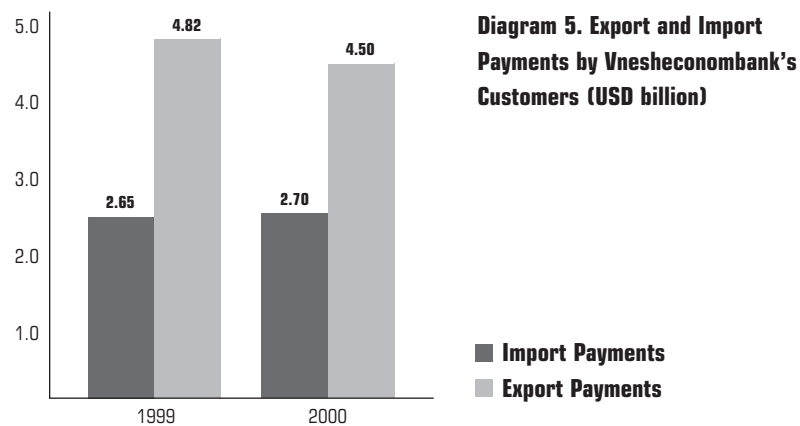
settlement services offered by the Bank. Also, some changes were made to the management structure at divisional level to deliver efficiency improvements and to provide a common platform to drive the settlement business forward. Thus, significant benefits were gained by consolidating all large scale processing operations and concentrating

routine payment activities in a special Settlement Centre established within Vnesheconombank's overall structure in 2000. As a result, there was a considerable increase achieved in both number and volume of transfers made upon Customers payment instructions, with a high level of their confidence in security of all the transactions effected. Such tendency refers not only to international settlements, but to intra-country settlements as well. Thus, the volume of operations executed through the Bank of Russia's clearing and settlement system amounted to RUR 334 billion.

Traditionally, our customers regard Vnesheconombank as a solid, safe and reliable financial institution effectively ensuring the country's foreign trade servicing. But despite our historical strength in international settlement processing, we have never been complacent. In 2000, therefore, we succeeded in maintaining the level of export and import settlement volume achieved in 1999 which saw an unprecedented rise in the payment area due to a sharply increased customer base. True, during the year under review there was a slight decline in export earnings, which was, however, partially offset by the growing import payments (Diagram 5).

A significant segment of Vnesheconombank's overall payment structure was related to payments made in freely convertible currencies which amounted to 90 percent in exports (standing at USD 4.0 billion) and 60 percent in imports (USD 1.6 billion).

Alongside that, Vnesheconombank is noted for its proved experience in effecting documentary operations in clearing currencies where it enjoys indisputable know-how and benefits from a long-term competitive edge. Thus, in 2000, acting within the framework of intergovernmental arrangements signed between Russia and the PRC, Vnesheconombank offered its customers to execute export settlements in the form of letters of credit,



which brought USD 185 million to the country. On the whole, letter of credit settlements prevail in the Bank's documentary activities. Over the year 2000, particularly, Vnesheconombank opened and advised more than 5,500 letters of credit for the sum of USD 3.4 billion.

As before, settlements made in redemption of India's sovereign debt accounted for the biggest part of documentary credit transactions effected by Vnesheconombank in 2000. Striving to best suit individual customer business profiles, we continued to service a great number of both Russian and Indian banks, as well as numerous trade houses, engaged in the settlement scheme. This is a responsibility the Bank has always taken seriously and, through demonstrating the highest professional standards and impeccable execution capabilities, is now playing an effective and fulfilling role in forging trade and economic relationship between India and Russia. Through the year, payments made under Indian letters of credit approximated an equivalent of USD 677 million.

As a result of 2000, Vnesheconombank has further solidified its leadership position in the documentary business. Ultimately, it's the effective performance in this area that was driving the growth of new customers and, therefore, promoting the Bank's commercial orientation.

2.3. Custody Services

Vnesheconombank's enhanced commercial activities only contributed to the scale and scope of its custody business, which expanded greatly. Over the year there was a sustained growth in the number of customers who called upon us for services, with a number of custody accounts opened with the Bank increasing 5 times and eventually reaching 600. Among our customers are major Russian enterprises, banks and investment companies. Also, other Russian leading depositories have opened correspondent (inter-depository) accounts with Vnesheconombank. Now investors have a much wider choice of centralised settlements in any security through the Bank's Custody Department.

At year-end 2000, the overall volume of securities kept in safe custody with Vnesheconombank reached USD 5 billion, with the largest proportion of the MinFins and Russian Eurobonds in it. Alongside that, Vnesheconombank continued vigorously to promote operations in other Russian shares and bonds. Through its accounts maintained with leading international clearing and settlement houses Clearstream Banking (in Luxemburg) and Euroclear (in Brussels), Vnesheconombank provides its customers with a greater access to securities trading in international markets. Currently, Vnesheconombank is the only Russian bank, which opened and maintains accounts with Euroclear to keep record of its own, as well as its customers' securities. Recognizing the importance of this, the Bank's commitment to upgrade custody services in Eurobonds has been substantially reinforced.

2.4. Credit Operations and Project Finance

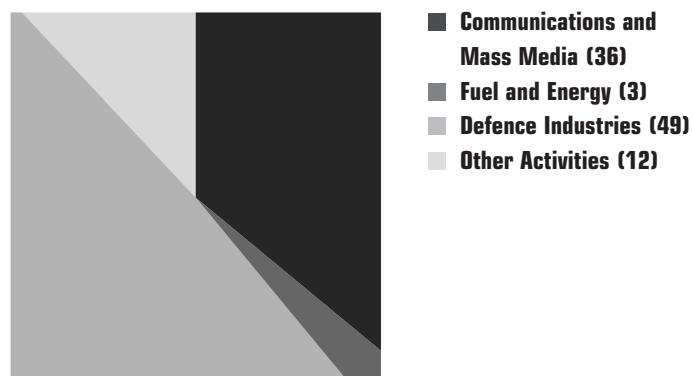
Strategically, all our commercial activities are driven by the desire to expand Vnesheconombank's customer base while considerably upgrading the product line and service quality. To achieve this goal, Vnesheconombank's officers are committed to enhance the Bank's credit portfolio, since it's the credit that is an integral element, as well as an important link of Bank-Customer lasting relationship. Therefore, the Bank views its credit

operations not only as a direct source of income, but also as a primary vehicle to further develop customer-oriented policy. In light of this, in 2000, Vnesheconombank was dedicated to expanding the volume of lending to its customers and seeking to add resources to key industries (Diagram 6). Obviously, the Government is anxious to see banks ensure the provision of bank loans to the real sector.

Presently, apart from the Bank's traditional credit operations, special energies are devoted to launching leasing operations, relatively new for the Bank. With this end in view, together with ILYUSHIN FINANCE Ltd. and such major Russian leasing companies as CENTRELEASING, TUPOLEV and S.A.LEASING we plan to initiate leasing of aviation technique and equipment. Moreover, aiming to meet most complex customer needs and capitalising on its in-depth business intelligence, as well as meticulous execution capabilities, the Bank is also intent on setting up its own leasing company. It will add another dimension to Vnesheconombank's diversified commercial activities.

Today's investment outlook is incomplete without a global perspective. In fact, financing various investment projects has always been a priority task

Diagram 6. Loan Portfolio Industry Breakdown as of January 1, 2001 (%)



for Vnesheconombank and a key feature of its business-focused performance. We are especially proud of our successful and long-standing relationship with the World Bank regarding, in particular, the projects financed out of its funds. We recognise substantial progress has been achieved in implementing a number of such projects. Thus, Vnesheconombank is a designated agent-bank to maintain a special compensating account and to effect payments made by the World Bank in compliance with the Grant Agreement between the Russian Federation and the World Bank to finance 'Special Initiative to Phase-out Manufacturing of Ozone Depleting Substances in the Russian Federation' signed on October 25, 2000.

In 2000, striving to ensure increased investment flows to the Russian market, Vnesheconombank was committed to identifying new alternative sources of financing. In practice, this meant strenuous efforts to raise foreign investment credits with no guarantees by the Russian government, while engaging the support of state insurance agencies of creditor-countries. Within this context, a number of direct agreements with foreign counterparties, namely, an Underlying No-Limit Loan Agreement with the Deutsche Bank AG (Germany) and a Framework Loan Agreement with the BCEN-Eurobank

(France) for the sum of EUR 50 million were carefully elaborated and signed. Also, to fully implement an Italian investment program for Russia financed within the framework of Mediobanca's of Italy credit facility, Vnesheconombank together with the above bank assisted the Government of the Russian Federation in working out a detailed scheme and procedure for the respective program implementation, as well as in investment project selecting. The respective investment package is estimated as approximating USD 1.0 to 1.5 billion.

Fresh business opportunities continue to be explored. Thus, seeking to expand the group of prospective creditors Vnesheconombank hopes to foster its business relations with Poland. An agreement signed with KUKE, Polish Export Credits Insurance Corporation, is viewed as the first move to meet the challenge. A similar cooperation agreement with the Eximbank of India is being carefully prepared.

Currently, Vnesheconombank's investment projects financing proposals are being considered by the Eximbank of Japan, COFACE (France), Komerčni Banka and EGAP, a state insurance company of the Czech Republic, NCM (the Netherlands), GIEK (Norway) and the Bank of China. The core of our strategy is long-term relationships and associations.

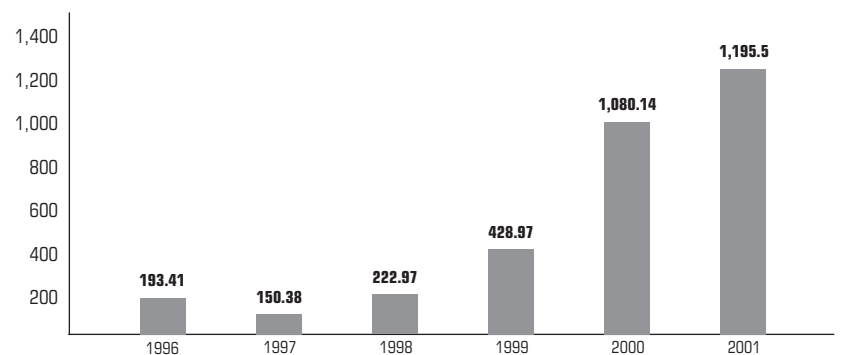
2.5. Guarantee Operations

In 2000, to accommodate business expansion, most of Management's attention was invariably devoted to stepping up guarantee operations, which underlie and facilitate the Bank's customer-driven businesses.

Starting from 1999, there has been a notable rise in the number of guarantees issued by the Bank. The increase in the volume of guarantee operations in the wake of the disastrous financial crisis of 1998 is additional evidence of the Bank's efficiency and success in restructuring guarantees formerly issued by the so-called 'problem' banks which failed to properly effect settlements under export contracts. It enabled the cus-

tomers to resume suspended settlements for the goods delivered or services provided, as well as to generate more export earnings under the

Diagram 7. Guarantee Commitments as of January 1, respective year (USD million)



above contracts. By these actions we established a clear lead over our main competitors.

As of January 1, 2001, guarantees for the sum of USD 1,195.5 million were recorded on the Bank's books, including both centralised and commercial operations (Diagram 7). Of special note is the fact that it is major Russia's exporters who benefit from the Bank's settlement capability, meticulous execution and overall guarantee growth dynamics.

As a rule, to reduce the Bank's operating risks guarantee issuing is made conditional on the type of collateral being pledged by the principals. It is worth mentioning the biggest proportion of guarantees is being issued within the framework of respective intergovernmental agreements.

In future, whenever and wherever possible, the Bank intends to deliver outstanding results and meet its customers' needs promptly and professionally.

2.6. Operations In Financial and Money Markets

The year 2000 witnessed further bolstering of Vnesheconombank's resource base. Concurrently, we continued a determined drive to expand our presence in financial and money markets. Traditionally, trading has been an important compliment to our client-focused businesses and the Bank has long since defined its leadership role in this segment of the Russian banking industry. Moreover, Vnesheconombank remains a principal operator on Russia's money, currency and stock markets. Also, there is a clear focus on enhancing the Bank's operations on global currency and bond markets. In 2000, substantial progress was achieved in this respect.

Financial statistics of the year under review suggests that currently Vnesheconombank is a major market-maker in the MinFins (currency-

denominated government bonds), as well as Russia's Eurobonds. In 2000, the Bank's overall volume of operations in currency-denominated bonds reached USD 11.15 billion, an increase of 71 percent over 1999, with Russia's currency-denominated bonds accounting for 89.7 percent of the above volume, primarily, the MinFins – USD 6.81 billion and Eurobonds – USD 3.2 billion.

In terms of the Bank's GKO-OFZs portfolio, Vnesheconombank is taking the lead in the Russia's banking community just as well, the aggregate yearly GKO-OFZs portfolio volume exceeding in 2000 RUR 3.8 billion. The prevalence of Russia's government bonds in the Bank's adjusted portfolio mix is directly reflective of Vnesheconombank's specialisms and market expertise in handling these financial instruments (Diagram 8).

Also, the year under review saw a considerable enhancement in the spectrum of the Bank's customers and counterparties engaged in securities trading. Thus, a number of new important agreements on the procedures to apply to securities operations with 34 Russian counterparties, inclusive of some regional ones, were carefully elaborated and signed. In light of this, new opportunities open up for Vnesheconombank to become more proactive in operating both on the Russian and global stock markets, with a tighter focus on handling currency-denominated securities, including 'switch' operations in favour of Russian, as well as foreign counterparties with no credit lines opened on each other.

Remarkably, in the year ended December 31, 2000, Vnesheconombank's

Diagram 8. Securities Portfolio Breakdown as of January 1, 2001 (%)





relentless energies were also devoted to fostering business relations with numerous banks-counterparties operating on the domestic and global currency and money markets. With a view to promote and reinforce business ties and associations with them, 38 cooperation agreements were made. In the context of renewed cooperation with Western financial institutions, intensive negotiations were held. Largely as a consequence, Russian sub-

sidaries of the German Commerzbank AG and Deutsche Bank AG set clean limits on the Bank to effect money-market operations.

Looking ahead, Management recognises gaining wider access to global financial markets will enhance our results and drive the growth of our business. To achieve the goals, Vnesheconombank aspires to reach into new challenging areas of finance.

2.7 ■ Correspondent banking

Vnesheconombank has a long history of building ongoing supportive and mutually reinforcing relationship with Russian and foreign commercial banks. Having a most extensive nation-wide correspondent network, Vnesheconombank now serves its customers and partners both in Russia and abroad through 220 nostro and 954 loro accounts (as of December 31, 2000). Admittedly, the largest share of these accounts is maintained by Moscow-based banks (80 percent of the Bank's Russian correspondents). Striving to achieve a greater geographical diversification in 2000, we continued to pursue our governing objective of maximising the Bank's correspondent network through extending the reach of new customers in most industrialised regions of Russia – the North-West and the Volga regions, the Urals and the Far East. The growth of establishing cooperative relations was particularly impressive with the banks of St. Petersburg.

Within the year Vnesheconombank has doubled the number of its counterparties among Russian banks and financial companies which got limits opened to execute money-market, foreign exchange and documentary transactions, as well as to trade in securities.

Acting as an authorised bank of the Russian government in record-keeping and servicing the CIS' indebtedness owed to Russia, Vnesheconombank has explored different opportunities to attain a bigger market share in these countries. Presently, the Bank's correspondent network in the CIS, as well as in the Baltic States, comprises 19 correspondent banks and is predom-

inantly based on central (national) banks of those countries or on commercial banks, which are legal successors to former affiliates of Vnesheconombank. Over the year 2000, Vnesheconombank established correspondent relations with the National Bank of Kyrgyzstan and the National Bank of Belarus.

Over the years, Vnesheconombank has progressively acquired in-depth expertise and professional competence in the banking industry, and is now well positioned to further develop cooperation with industrialised nations. Recognising that it is important to regain foreign banks' confidence and trust to Russia, the Bank made a concerted effort to restore the traditional ways and patterns of working with its partners in the West. Thus, the last year saw a number of successful arrangements achieved with Deutsche Bank AG, Commerzbank AG, Credit Suisse First Boston and others who agreed to set limits for documentary operations with Vnesheconombank.

Striving to add another dimension to its correspondent network, Vnesheconombank encouraged further relations with banks of developing countries and those of the emerging markets. The main objective was to provide for settlements in clearing or soft currencies under intergovernmental agreements.

Strategically, top priority is given to enhancing relations with the People's Republic of China. The past year has seen good progress in that direction. In particular, a number of arrangements were achieved with the Bank of China regulating settlement procedures under the agreement signed

between the Russian Ministry of Finance and Tzjiantzum nuclear power corporation "On Advance Financing by the Chinese Party of Equipment with a long manufacturing cycle to be produced for the nuclear power station being under construction within the Russian-Chinese intergovernmental agreement of December 12, 1992". Striving to promote the implementation of Russian-Chinese intergovernmental protocols on trade and economic cooperation signed annually, Vnesheconombank continued to effectively execute settlement processing for the construction of Jimin and Suichjun nuclear power stations.

In 2000, the Bank also reported strengthening cooperation with Vietcombank, which is the oldest correspondent of Vnesheconombank in Asia. The governments of the two countries, the Russian Federation and the Socialist Republic of Vietnam, signed an agreement of September 13, 2000, "On the Settlement Procedure to Apply to Debt Owed to the Russian Federation by the Socialist Republic of Vietnam under the credits extended earlier". Acting within the framework of the intergovernmental agreement, Vnesheconombank and Vietcombank defined the pattern of registering and allocating the payments made in redemption of the above indebtedness.

Over the year a new trend has been dominating Vnesheconombank's ongoing cooperation with the Asian lending institutions and will continue to create challenges and opportunities in future. The traditional role of the Bank as a government agent in servicing Russia's sovereign foreign debt is being progressively complimented by its own commercial activities, with the spectrum of services provided by Vnesheconombank becoming more diversified and sophisticated, as evidenced by cooperation agreements signed in 2000 with the Exim Bank of India, Bank of China, State Development Bank of China and Foreign Trade Bank of Vietnam.

3

AGENT FOR THE GOVERNMENT OF THE RUSSIAN FEDERATION

Commercial activities described above have become most intensive and evident in the last five years. But what sets us apart from other commercial financial institutions is the Bank's government agency capacity. From the very outset Vnesheconombank's expertise and professional competence

gained in servicing Russia's sovereign foreign debt and managing its external financial assets have been the driving force behind the development of its own commercial businesses.

3.1. Sovereign Foreign Debt Management

As of January 1, 2001, the sovereign foreign debt of Russia is estimated to total USD 144.4 billion, with USD 113.2 recorded on Vnesheconombank's agency books. It is a USD 14 billion reduction as compared with the previous year. Such a downward trend can be directly attributed to a partial write-off of the debt owed to the London Club of commercial credi-

tors, as well as to payments made in redemption of 'new' Russia's debt towards International Financial Institutions and official creditors under tied credit. Its structure and dynamics are reflected in Diagram 9*.

Acting upon the instruction of the Russian Ministry of Finance, Vnesheconombank effected payments to redeem the sovereign foreign debt for the sum of USD 4.8 billion.

Diagram 9. Russia's Sovereign Foreign Debt as of January 1, respective year (USD billion)



3.1.1. London Club Debt Settlement

The year 2000 was marked by a successful exchange of the London Club debt instruments – PRINs (restructured loans) and IANs (interest arrears) – for the Russian Eurobonds effected by Vnesheconombank acting as an obligor under these instruments. The overall amount of the restructured debt commitments reached USD 31.1 billion. Under the terms of the restructuring agreement, a considerable part of the Soviet-era debt (36.5 percent, to be exact) was eventually written off, while a new financial instrument comparable to standard Eurobonds was issued.

* According to internal management information

The restructuring procedure was meticulously elaborated with the exchange process being in the focus of both Russian and foreign debt negotiators. Largely as a consequence, 99 percent of the total amount of indebtedness to the London Club creditors was upgraded to the status of Russian Eurobonds with maturities in 2010 and 2030. Currently, the new Eurobond commitments stand at USD 21.1 billion, which is USD 10 billion less than the 'old' debt. In this context, the structure of Russia's sovereign foreign debt has greatly improved, while the country's debt burden has substantially eased. The exchange of PRINs and IANs issued by Vnesheconombank for the government debt instruments has drastically changed the Bank's overall financial environment. For example, in compliance with the terms and conditions of the restructuring agreement of October 6, 1997, Vnesheconombank, being an obligor under the debt instruments issued, could not change its legal status until these instruments matured in 2020. Otherwise, the Bank would face a default. The exchange actually turned these provisions invalid making it possible for Vnesheconombank to bring its rules and regulations in strict compliance with the banking legislation in force. Now that the London Club indebtedness is off the Bank's balance, its financial statistics will definitely improve.

Also, the successful exchange procedure has favourably impacted the Bank's credit rating. Thus, at year-end 2000, Fitch, the international rating agency, assigned Vnesheconombank a 'B' foreign currency debt rating with a Positive Outlook. The present rating is comparable to Russia's sovereign rating and is the highest for a Russian bank.

3.1.2. Paris Club Debt Settlement

With the London Club debt issue resolved, another challenge for Vnesheconombank is to settle debts owed to the Paris Club creditors. Over the recent years the Bank has been keeping applicable records of this debt category, and in 2000 a stronger effort was made to implement all the provisions of the Multilateral Protocol of August 1, 1999 (Consolidation V) signed with the Paris Club of official creditors on restruc-

turing debts with original maturities in 1999-2000 and on payments overdue since August 20, 1998.

With close assistance of Vnesheconombank, the Russian Ministry of Finance signed 19 intergovernmental agreements with the Paris Club member-countries, inclusive of Australia, Austria, Belgium, Great Britain, Germany, Denmark, Spain, Italy (SACE, the Treasury of Italy), Canada (the Wheat Committee of Canada, the Export Development Corporation), the Netherlands, the USA, Finland, France, Switzerland, Sweden and Japan (the International Cooperation Bank of Japan, MITI).

In practice, over the year, Vnesheconombank has completed the process of reconciling the indebtedness owed to the above countries which is eligible for restructuring under Consolidation V.

3.1.3. Settlement of Debts to Other Creditors

Apart from the debt owed to the Paris and London Clubs of creditors, foreign liabilities towards the former socialist countries are recorded on Vnesheconombank's agency books amounting to USD 14 billion. Besides, we keep records of indebtedness towards other official creditors who are not members of the Paris Club, with the respective sum running at USD 3.2 billion.

In the year under review, the redemption of these debt categories went ahead mainly through various goods delivery schemes. Thus, deliveries were made to the Czech Republic, Slovakia, Hungary, the PRC, South Korea, the United Arab Emirates and Poland. Remarkably, the debt to Poland has been fully redeemed.

Overall in 2000, USD 692.5 million worth of debt was actually redeemed through goods schemes. Furthermore, the sum of USD 24.1 million was settled through mutual nettings of financial obligations within the framework of an intergovernmental agreement signed with Egypt. As a rule, Vnesheconombank helped to define the financial provisions of the underlying goods delivery contracts designed to redeem debts owed to the above creditor group.

The Bank continued to work intensively with a most numerous, but least organised group of the former USSR creditors, that is foreign firms and companies. As of January 1, 2001, the total commercial indebtedness (without interest accrued) was estimated as approximating USD 4 to 5 billion.

A real breakthrough was achieved in relations with commercial banks who became major holders of trade indebtedness. Principally, an agreement

was reached to settle this debt on terms and conditions similar to the London Club debt restructuring parameters.

Also, as a result of negotiations held with the leading country-clubs of commercial creditors, basic provisions for this debt component settlement were specified and agreed at year-end 2000. Encouragingly, the commercial creditors accepted Russia's proposals to write off a considerable portion of this indebtedness.

3.2. The III Tranche MinFins Novation

In 2000, according to the Russian Government's Decree No. 1306 dated November 29, 1999 "On Novation of Government Foreign Currency-Denominated Bonds (MinFins) of the III tranche", the Bank was expressly authorised to act in an agency capacity for the Ministry of Finance in the novation procedure of the III tranche MinFins.

Being actively engaged in the process, Vnesheconombank accepted for custody safekeeping the Global Certificate of the new 1999 MinFins for the nominal value of USD 1.3 billion and became the general Custodian for this issue. With the view of facilitating custody services, the Bank succeeded in providing a diversified range of services:

- maintaining the issuer's custody account for the Russian Ministry of Finance;

- centralised record keeping of the 1999 MinFins in custody accounts opened with Vnesheconombank by the securities' underlying beneficial owners or their nominal holders;

- making coupon payments to the bond holders;

- servicing the 1999 MinFins secondary market.

Throughout the novation period, Vnesheconombank has accepted 797 applications for the III tranche MinFins exchange. The nominal sum of the novation totalled USD 1.2 billion, which comprised 96.4 percent of all outstanding III tranche MinFins.

In recognition of the effectively performed novation, an international rating agency Standard & Poor's has upgraded Russia's sovereign long-term foreign currency credit rating from 'SD' (selective default) to 'B-'.

3.3. Managing Russia's External Financial Assets

In 2000, Vnesheconombank, committed to its agency activities, continued to work intensively with the Russia's Ministry of Finance to further upgrade managing external financial assets of the Russian Federation. First and foremost, after two years of considerations and dedicated efforts a respective resolution by the Government of the Russian Federation, dated September 22, 2000, 'On Participation of the Russian Federation in the

Activities of the Paris Club of Creditor-Countries' was released. In fact, in full compliance with the underlying principles and mechanisms of the Club, the resolution gives a fresh impetus to the settlement of debts owed by the Paris Club member-countries. Then, largely as a consequence, the first payments in redemption of credits extended by the former USSR to the so-called poorest and most heavily indebted nations, namely, Burkina Faso, Benin, Guinea were made. Furthermore, embracing all the opportunities derived from the Paris Club membership Russia promoted and ensured its



financial interests related to the settlement of debts owed to Russia by Pakistan, Georgia, Nigeria, Algeria.

As of January 1, 2001, Vnesheconombank's agency records showed that indebtedness owed to us by foreign states under numerous credits amounted to USD 104.4 billion, while the sum of USD 219.7 million worth of debts was actually recovered in the year under review.

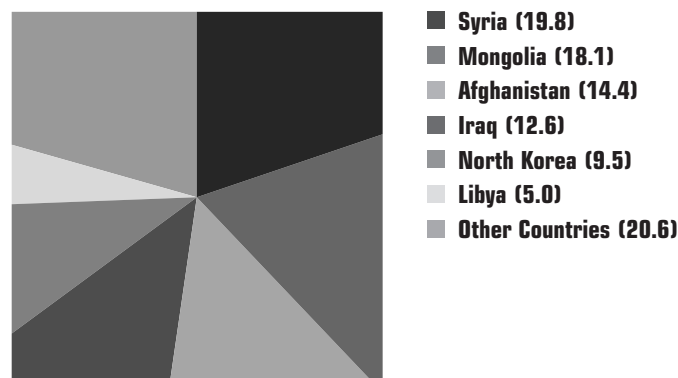
In the debt recovery context, Vnesheconombank continued its drive to resolve the issue of Russia's claims towards a group of foreign debtor-countries. Special emphasis was placed on getting these relations properly regularised and streamlined. Admittedly, with a view to facilitate debts redemption and servicing, it is deemed absolutely necessary to have the respective indebtedness documentary confirmed, with appropriate inter-governmental arrangements put in place. To achieve these objectives, we are intent on stepping up efforts within the framework of the Paris Club to recover more debts, since 28 Club member-countries have liabilities towards Russia, presently estimated as totalling USD 45.1 billion.

Simultaneously, Russia is faced with serious problems regarding debt repayments by countries, which are non-members of the Paris Club. As of January 1, 2001, the amount of this debt category reached USD 64.1 billion (Diagram 10).

Also, throughout the period under review, aiming to deliver better results Vnesheconombank engaged in active work to resolve the issue of debts owed to the Russian Federation by the CIS. As part of an overall strategy, a relevant agreement between Russia's Ministry of Finance, the Bank of Russia (CBR) and Vnesheconombank was finalised and signed. Actually, it envisaged a transfer of the CIS indebtedness plus all the interest accrued under state credits extended to the countries within the period of 1993-1997 from the CBR books to Vnesheconombank's records. Thus, from a strategic perspective, the role of the Bank in the debt recovering process is substantially reinforced.

To be more specific, the CIS indebtedness to Russia, exclusive of Azerbaijan, Turkmenistan and Kazakhstan, as evidenced by Vnesheconom-

Diagram 10. Debt to Russia by Non-Members of the Paris Club as of January 1, 2001 (%)



bank's records, totalled USD 3.5 billion, with USD 0.4 billion accounting for overdue payments. As a result of debt repayments – primarily USD 1.1 billion paid out by Ukraine in accordance with the Russian-Ukrainian intergovernmental agreement of 1997 and the addendum to it of March 1, 2000, USD 31.4 million by Georgia, USD 3.8 million by Moldova, USD 1.5 million by Armenia, USD 0.9 million by Kyrgyzstan and in view of a respective intergovernmental agreement of October 8, 1998 with Kazakhstan on settling mutual financial obligations – the overall debt amount of the above countries reduced by USD 3 billion during 1999.

Apart from it, the year 2000 saw a considerable increase in revenues generated for the federal budget through efficient external financial assets management, with USD 1.3 billion channelled to it, a rise of 34 percent over the previous year. The biggest proportion of the funds generated (50.4 percent or USD 662.5 million) came from tenders to utilise centralised assets. Thus, Vnesheconombank's tenders for the sale of Indian debt funds earned USD 635.6 million, which accounts for more than 90 percent of this revenue category.

Also, in terms of return on Russia's foreign investments the past year proved to be most favourable, if not unique. Suffice it to say, that much better value was extracted from equity participations in foreign or joint venture enterprises, with the proceeds for the federal budget amounting

to USD 421.6 million (almost double against the previous year figure of USD 217.0 million). The increase in the funds generated for the federal budget is directly attributed to a successful performance and effective state resources allocation by a Russian-Vietnamese VIETSOVPETRO joint venture which took full advantage of Vnesheconombank's meticulous processing capability to effect seamless settlements.

Being singularly well-positioned and committed to efficient external financial assets management Vnesheconombank placed a special focus on further joint venture investment. In particular, in 2000, the Bank made a substan-

tial contribution into the authorised capital of a Russian-Indian BRAMOS joint venture (USD 30.5 million), as well as into a joint Russian-Vietnamese VIETROSS enterprise (USD 95 million), duly and timely ensuring transfer of funds to the Russian counterparties.

Management believes that in all our activities we are guided by the principles of high professionalism and efficient performance. These principles and aspirations are the essential underpinnings of our financial and business strategies.

3.4. Extending State Export Credits

In 2000, in full accordance with the defined strategies Vnesheconombank went ahead with extending state export credits. As a rule, priority was given to financing high-tech projects in the fuel and energy areas (respective projects in the PRC, India, Yugoslavia), as well as to military-technical cooperation (India), the overall volume of the export credits extended reaching within the year USD 130.5 million.

Strategically, when delivering export credits, the focus is on major dynamically developing economies to extract better value from their financial solvency and potentially huge domestic markets. Also, the Bank is dedicated to dealing with well-disciplined borrower-countries, which tend to honour their financial obligations towards Russia duly and on time. More importantly, when just elaborating a prospective export credit agreement Vnesheconombank would always favour competitive and market-oriented borrowing rates.

3.5. Raising Credits under the Guarantees of the Russian Government

Another feature that actually sets Vnesheconombank apart from any other Russian financial institution is the fact that in accordance with the Agency Agreement between Vnesheconombank and the Russian Ministry of Finance of July 30, 1992, the Bank has been expressly authorised to act in the agency capacity for the Government of the Russian Federation in servicing the country's centralised operations, as well as in raising foreign credits, inclusive of those under the guarantees of the Russian government. The dynamics of raising tied foreign credits in 2000 is reflective of the

overall Government's strategy to reduce the federal budget deficit in 1998-2000 aiming to eventually overcome the after-effects of the severe financial-economic crisis of August 1998. The matter is that the crisis negatively impacted the stance and approach of creditor-countries with respect to issuing new export guarantees in favour of their own banks engaged in extending export credits to finance projects on Russia's territory (Diagram 11).

In 2001 it's envisaged to sign a number of loan agreements with the banks of Germany, Italy, the USA, Norway, Turkey and Japan for the total sum of USD 270 million to meet Russia's ever-growing demand for resources.

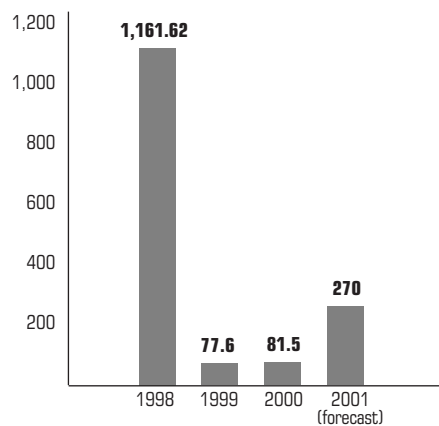


Diagram 11. Tied Foreign Credits Raised by Vnesheconombank (USD million)

Starting from the year 2000, there has been a sharper focus on financing socially important projects of federal importance (purchasing medical equipment for health-care institutions and centres, for example) rather than procuring centralised funds for all sorts of self-sustaining projects. Recognising Russia's improved macroeconomic performance, the Organisation for Economic Cooperation and Development (OECD) upgraded Russia's credit rating and placed it into the 6th category of borrower-countries with regard to its credit risk profile. In this context, the US Eximbank took an important decision to resume the practice of guarantee issuing thereby continuing to finance projects formerly specified and approved in respective intergovernmental arrangements. The decision is expected to favourably impact the attitudes of other leading state insurance agencies, in particular, HERMES of Germany and SACE of Italy. In Management's judgement, it might considerably improve Russia's credit outlook.



4

PROFESSIONAL ORGANISATIONS AND ASSOCIATIONS – THE ROLE AND PLACE OF VNESHECONOMBANK

Placed in an evolving market environment Vnesheconombank has been continuously developing policies to become an integral part of both Russian and global banking associations, professional and public organisations, as well as numerous business forums. Among our major partners and associates are top banking community and business organisations: the National Russian Association of SWIFT Members, the Russian Trading System (RTS), the Association of Russian Banks, the National Currency Association, the World Economic Forum, the Russian-British Chamber of Commerce, International Securities Markets Association (ISMA), Emerging Markets Trade Association (EMTA), etc.

From a strategic perspective, Vnesheconombank's proactive participation in the activities of leading global organisations is intended to facilitate its

smooth integration into the global banking industry to eventually become its trusted and full-fledged member. Also, it enables the Bank to considerably expand its customer base, foster and reinforce cooperation with various foreign banks, streamline information flows, as well as identify and establish new business contacts.

Apart from it, there has been an ongoing focus on improving Vnesheconombank's information profile and enhancing its transparency policies. To respond to these challenges, the Bank became a regular member of the Russian Public Relations Association, and the Public Relations Club of the Association of Russian Banks.

Looking ahead, Vnesheconombank aspires to forge new partnerships and alliances, aiming to extract better value from their dynamics.

5

THE SYSTEM OF INTERNAL CONTROLS AND RISK MANAGEMENT

We work in a market place that is continually changing and a financial services world that is ever-evolving. In light of this, the Board recognises the importance of having an appropriate system of internal controls and risk management. Regulatory authorities, predominantly the Bank of Russia, devote considerable attention to maintaining a framework of internal control standards which include policies, procedures and organisational structures. At the same time, requirements towards the banking institutions have been seriously tightened. The Board realises an urgent need to create and upgrade financial risk management and internal control systems. For this specific purpose, the Board undertook a major review and an organisational transformation of the Bank's activities with three respective Committees, namely, Financial, Credit and Technological ones, set up. They actively participate in defining policies and monitoring controls, while their performance is overseen by the Board.

The Financial Committee reviews significant financial issues, recommends overall policies regarding risk tolerance levels and ensures adequate current and future liquidity levels. Alongside this, the Committee oversees the whole asset/liability management process in the Bank and is authorised to establish trading limits. It has clear authority to enforce trading limits. The principal objective of its policy is to assure liquidity at all times, especially through periods of financial stress.

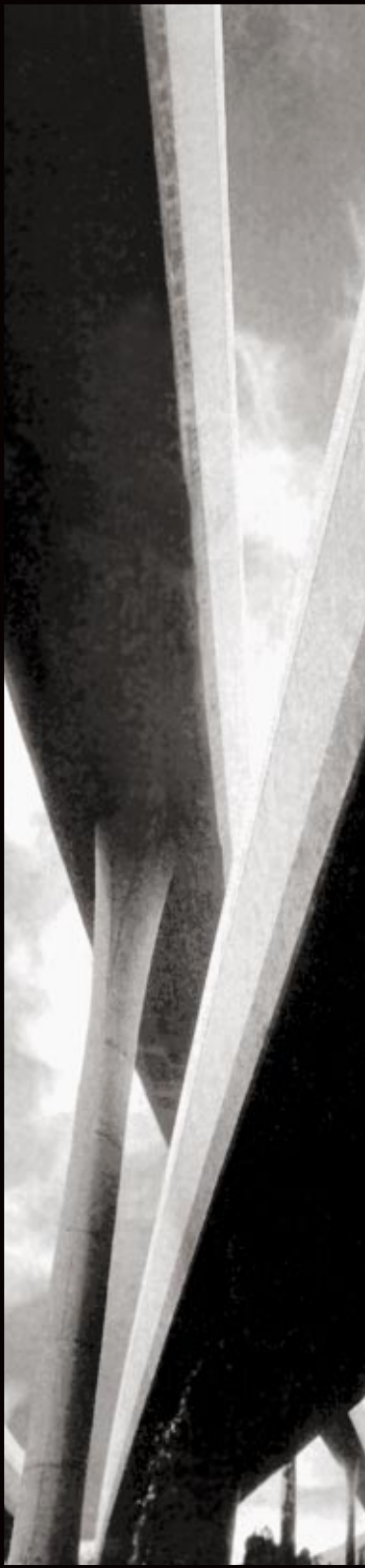
The Credit Committee establishes parameters for credit risks assumed by the Bank, monitors credit exposure and controls overall credit risks.

It also determines loan portfolio policies, and has discretion over the largest individual credit exposures. Moreover, the Credit Committee has distinct authority regarding the country, counterparty, industry or sector risks. Specialist lending departments are allocated discretionary limit levels. Strategically, it facilitates portfolio management decisions and the desired aggregate exposure limits. Its prime concern is to help keep decision-making process short and sensitive to customer needs. Ongoing credit monitoring has become an integral part of the Bank's corporate culture. Further efficiencies are sought through the Technological Committee, its main goal being to define and control technological and operational risks. One should mention that seeking to deliver a range of distinctive products and services the Bank has been investing heavily in innovative technologies. Adding another dimension to the Bank's successful performance and work coordination is the Department of Internal Audit and Controls. It ensures an adequate system of internal controls designed to provide Management with reasonable assurance that all the divisional units operate in full compliance both with internal management policies and external regulatory requirements. Also, it aims to invariably weigh the costs with the benefits sought. To achieve this, the Bank's activities are monitored through periodic reviews, checks, inspections and external auditors reports on aspects of internal controls and other matters. The Board receives regular reports on risk and compliance issues (regarding domestic activities and the performance of representative offices operating beyond Russia's territory).

The financial statements for 2000 prepared in accordance with the Russian and International Accounting Standards were submitted for auditing to Ernst & Young, an independent audit company which comes within the top five international auditing firms. Their opinion was favourable stating that the statements, in all material respects, gave a true and fair picture of financial standing of the Bank as of December 31, 2000.

In 2000, there was considerable progress in further coordinating the work of the Bank's various divisions and units with external auditors and the state controlling bodies. In fact, the Bank was subject to 10 checks by the Auditing Chamber. Remarkably, no serious misinterpretations or misstatements of facts were revealed.

We remain confident that we have strategies, financial strength, reputation and people to succeed in our efforts.



6

INFORMATION AND TECHNOLOGY INFRASTRUCTURE

In the year 2000, Vnesheconombank continued energetically to develop, as well as modernise its 'smart' technology platform designed to improve the Bank's operational efficiency and enhance customer service levels.

Accordingly, we have pressed ahead with our programme to fully automate custody services offered by the Bank. Now all transactions in securities held with other depositories, including income payment to bond holders, can easily be executed on a book-entry basis. Another achievement of the year was Vnesheconombank's performance in the novation of the III tranche MinFins where the Bank's automated banking system was successfully applied.

Striving for further operational efficiency gains, Vnesheconombank has put even more emphasis on developing innovative computer-based technologies of preparing various banking surveys and reviews. To that end, a special Analytical Data Processing System has been effectively launched on the basis of the sophisticated 'data warehouse' concept. A number of other important initiatives have been achieved including the development of a data base intended to monitor the process of Russia's sovereign foreign debt settlement. It has already proved most instrumental in keeping records of all the debt payments or redemptions made, or reconciliations achieved. Another example of Vnesheconombank's commitment to the development of new banking technologies is its operation on stock and foreign exchange markets.

In the year under review, both soft- and hardware dealing systems of Vnesheconombank were overhauled and totally modernised, with, among

other things, Reuters Dealing 3000/Prism+ platform being installed. Besides, information terminals of the Moscow Interbank Currency Exchange, Moscow Stock Exchange and Russian Commodities Exchange are successfully operating in Vnesheconombank. Obviously, these achievement will let us capture vastly more financial information and tailor it intelligently and efficiently to each customer needs.

Other strategic projects in which the Bank has been proactively involved include the further exploitation of the 'Bank-Customer' system intended to provide electronic service delivery channels to remote customers. The system is well integrated into Vnesheconombank's Automated Banking System, thus ensuring that our customers are consistently provided with high quality clearing and settlement services.

In 2000 Vnesheconombank continued to provide innovative technology solutions for its card business. Thus, an internationally certified software package 'Transmaster' was installed in the Bank designed to safely and effectively manage numerous card account transactions. More importantly, the package works very well within the overall Automated Banking System to ensure that card services are delivered in more convenient and accessible ways. Also, adequate arrangements were made to safely and reliably connect the package with the Settlement Processing Centre.

Still further impetus for considerable efficiency might come from a more extensive application of Intranet-technology in the Bank's work-practices.

7

FOREIGN REPRESENTATIVE OFFICES

It is common knowledge, efficient banking business is incredible without an extensive branch network. To perform its agency functions in servicing Russia's sovereign foreign debt and managing external financial assets, Vnesheconombank has invariably paid utmost attention to developing its external infrastructure. At year-end 2000 the Bank's Representative Offices network comprised seven offices effectively operating abroad, namely, in the PRC, India, Italy, Hungary, the Republic of South Africa, the USA, Egypt (in fact, its activities extend over the Arab Republic of Syria, as well as other Middle East countries). Currently, the Bank aspires to be an organisation not only with a truly global footprint, but with a countrywide presence just as well. To meet the enhanced presence goal, in the summer of 2000, Vnesheconombank established its first Representative Office in St. Petersburg, the North-West federal region, Russia.

In 2000, in pursuit of its strategic missions and business priorities, Vnesheconombank continued to expand its regional presence worldwide. In light of this, two more Representative Offices started to operate: one in Johannesburg, the Republic of South Africa and an additional office in Delhi, India, thus, giving another dimension to our global presence and perspective.

At the same time, it is envisaged to open Vnesheconombank's Representative Offices in Yekaterinburg, the Urals federal region, as well as some other ones. Obviously, when choosing a particular region

to operate in, we weigh all the options, then make an appropriate decision aiming to take full advantage of the region's attractive investment opportunities and development dynamics. Also, of primary concern is the region's financial and industrial outlook, concentration of the Bank's clients there.

In the year under review, in all their activities Vnesheconombank's Representative Offices were guided by the strategic principles of reinforcing intergovernmental cooperation, ensuring adequate debt settlement, facilitating seamless execution of intergovernmental agreements and arrangements, streamlining appropriate credit facilities. With a view to upgrade the Bank's efficiency, expand its customer base and deliver better commercial results, Vnesheconombank's Representative Offices were seeking to identify new projects, develop safe and reliable settlement schemes, eventually resolving all the settlements issues of the previous years.

Legal Addresses of the Bank's Representative Offices:

Russia, St. Peterburg

25 Nevskji ave., St. Peterburg, 191186, Russia

tel.: (812) 346 7727

fax: (812) 346 7780

USA, New York

400 Madison ave., Suite 7B, New York, NY 10017, USA

tel.: (1212) 421 8660

fax: (1212) 421 8677

Italy, Milano

Piazzale Principessa Clotilde, 8-20121 Milano, Italy

tel.: (3902) 653 625

fax: (3902) 655 1697

China, Beijing

20A, CITIC Building, 19,

Jianguomenwai daijie, Beijing 100004, China

tel.: (8610) 6592 8905

fax: (8610) 6592 8904

Hungary, Budapest

Trade Centre, Vaci u., 19-21 Budapest 1052, Hungary

tel.: (361) 266 2786

fax: (361) 318 6978

South Africa, Johannesburg

P.O. Box 413742, Caighall, 2024, 2nd fl., Chelsea Place,

138 West str., Sandton, Johannesburg, RSA

tel.: (2711) 783 3425

fax: (2711) 784 4688

India, Delhi

85, Poorvi Marg, Vasant Vihar, New Delhi-110057, India

tel.: (9111) 615 4835

fax: (9111) 615 4837

India, Mumbai

11, World Trade Centre, Cuffe Parade, Mumbai-400005, India

tel.: (9122) 218 2705

fax: (9122) 218 5845

Egypt, Cairo

4, Yehia Ibrahim Street, Zamalek, Cairo, Egypt

tel.: (202) 736 5387

fax: (202) 736 5387

8

CHARITABLE ACTIVITIES

Our reputation is not just based on operational excellence, it is also based on good citizenship. For us charity is not an abstract concept. Charity is a responsibility the Bank has been taking seriously through its various programs over a considerable period of time. In light of this, we are striving to support the community in which we operate through philanthropic and sponsorship activities, placing great emphasis on cultural, educational and health-care projects.

In general, child health-care is a priority for the Bank. In this context, we supported a number of health-care programs. Vnesheconombank has channelled considerable funds to meet the goal. One example is financing purchases of equipment for children's medical institutions of Moscow: the Morozovsky Municipal Children's Hospital, the Blokhin Research Institute of Children's Oncology and Haematology, the first hospice for children with incurable cancer problems.

Aiming to contribute to the educational projects, Vnesheconombank sponsored the Teacher of the Year 2000 Contest, rendered appropriate financial aid for the editing and printing of new high school textbooks, financed and ensured the awarding of special grants for exceptional performance to the best students of the Financial Academy under the Government of the Russian Federation, the Lomonosov Moscow State University and the Higher School of Economics.

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

new cultural events. Overall, the Bank's charitable performance in 2000 was most encouraging and rewarding. As an illustration, financial support was given to:

- the XII Moscow International Film Festival held June 19-29, 2000;
- the 'VIII Seasons' performance by Gedeon Kramer Chamber Orchestra at staged the Moscow Conservatory on May 3, 2000 for the children who lost their parents in war conflicts;
- the Pyotr Fomenko Studio, a most talented and innovative company of the modern theatrical world;
- the Moscow Drama Theatre headed by Armen Dzigarkhanjan;
- the Rerich Memorial Museum in Naggara and the Urusvati Himalai Research Institute.

We believe social responsibility goes hand in hand with business success and we aim to support specific groups of population through charitable donations, primarily, to the National War Fund (Vnesheconombank has transferred considerable funds to the families of the 'Kursk' nuclear submarine crew which got sunk in the Barentsov sea in August, 2000), to the Russian Hero Association, the Russian Public Charitable Fund of War, Labour and Armed Forces Veterans, as well as the Moscow House of War and Armed Forces Veterans.

In future, we intend to continue making particular contributions to the cultural, educational and economic prosperity of the community in which we operate.

9

PROSPECTS FOR THE FUTURE

Vnesheconombank had a year of significant achievement in 2000, as the strategic changes in our business continued to enhance our results. Remarkably, the Bank not only considerably bolstered its overall financial performance, with all the parameters considerably improved, but also achieved a more sustainable level of profitability. As part of its overall strategy, the Bank succeeded in further expanding its customer base. Much has been achieved through rethinking and redesigning our core businesses processes, overall planning, work-practices and procedures. We recognise the best response to ever-increasing complexity and financial challenges is continuous, relentless innovation.

Of particular significance is our determined drive to update sovereign foreign debt management, as well as to further streamline foreign assets management.

Actually, in 2000 Vnesheconombank solidified its position as a full-fledged and universal financial institution providing its clients with an array of distinctive banking products and sophisticated services. Hopefully, these positive trends and tangible results will continue to enhance our operating capabilities and customer satisfaction.

Currently, the major aims and objectives in our business development are:

- developing and introducing an operating and financial infrastructure designed to deliver a variety of innovative products to meet complex customer needs and accommodate business expansion;
- further expanding the Bank's customer base with a tight focus on the real sector of economy;

- obtaining resources to finance long-term projects under tied credit facilities to satisfy customers' consistent demand for investments into key industry sectors;

- upgrading the Bank's IT and operating infrastructure by installing a new automated banking system which will enable us to operate faster, more efficiently and be more sensitive to customer needs.

In 2001, we are aiming to enhance our role as an agent of the Russian government authorised to service Russia's sovereign foreign debt and manage its external assets. In this context, ensuring, as well as facilitating the process of exchange of the Soviet-era trade indebtedness for Eurobonds with maturities in 2010 and 2030 is of primary concern for the Bank. This aspiration is consistent with our long-standing commitment to work closely with the Russian government and further upgrade the system of sovereign foreign debt management, including the objective to establish an independent Debt Management Agency.

Like many in our industry, we intend to address all the above issues in an integrated way. The Board considers good governance, high ethical standards, financial soundness are central to achieving our governing objective of maximising value for numerous customers.

From a strategic perspective, we believe in responsible citizenship and a higher purpose of our enterprise. The financial outlook is by all measures good and the prospects for growth are promising.



10

FINANCIAL STATEMENTS

As Vnesheconombank swiftly moves into the twenty first century, we would like to summarize some of its achievements and our successful partnership together.

Our firm has worked with Vnesheconombank since 1995, when they asked us to help them with the reconciliation of the London Club debt. This was an important time for Vnesheconombank as they were actively assisting the Russian government in settling this external debt issue. This successful project led to the stabilization of the external debt market for Russia. Shortly after this project, Ernst & Young was appointed as the external auditor and business advisor for Vnesheconombank. We have served in that capacity for four years now and have also assisted the Bank with other projects, including World Bank projects.

We are proud to call Vnesheconombank one of our premier clients for the past six years and we hope to continue this sound relationship into the future. The audit is a process based on independence and integrity. It is a team effort between the auditor and the Bank. I am proud to say that the Vnesheconombank/Ernst & Young team effort is one with strong independence, integrity, and high ethical standards.

Vnesheconombank was one of the first companies in Central and Eastern Europe to prepare financial statements in accordance with International

Accounting Standards. This was undertaken because management and the Board had the desire to be transparent and to be a market leader. They continue this tradition today.

We have audited the financial statements of Vnesheconombank as of and for the year ended December 31, 2000, in accordance with International Auditing Standards, some of the highest auditing standards in the world. Our audit opinion is included in this document. We received the full cooperation of management during our audit and received full access to any and all information we requested. Management has not restricted the scope of our audit in any way.

Considering the dynamics of the economy of the Russian Federation, this past year has been a very good one for Vnesheconombank and you should be proud of the achievements of the Bank. This annual report presents a much more complete picture of the accomplishments of the Bank for the year 2000. Vnesheconombank remains one of the leading financial services companies in the Russian Federation.

Once again, we are proud to call one of the premier financial services companies in the Russian Federation as one of our clients.

Barry L. Eden, Partner

 **ERNST & YOUNG**

Balance Sheets (in millions of US dollars)

	Year ended December 31	
	2000	1999
Assets		
Cash and cash equivalents	829	507
Due from other banks, net	687	887
Securities	673	792
Commercial loans, net	272	255
Receivable from the Russian government under London Club	54	31,268
Due to London Club creditors	(54)	(31,268)
Other assets, net	138	106
Total assets	2,599	2,547
Liabilities and Russian government equity		
Due to other banks	267	613
Due to the Russian government and the Central Bank of Russia	1,504	1,257
Amounts owed to customers	537	493
Debt securities issued	107	30
Other liabilities	65	45
Total liabilities	2,480	2,438
Russian government equity	119	109
Total liabilities and Russian government equity	2,599	2,547

The accounting policies and the explanatory notes are integral part of the financial statements

Statement of Income and Equity (in millions of US dollars)

	Year ended December 31	
	2000	1999
Interest income:		
Securities	92	60
Loans	50	44
Placements at other banks	34	30
	176	134
Interest expense	(24)	(19)
Net interest income before benefit for losses	152	115
Benefit (provision) for losses	42	(28)
Net interest income after benefit for losses	194	87
Fee and commission income	22	20
Gains less losses from securities	(62)	63
Gains less losses from foreign currency translation	(6)	(54)
Other operating income	16	12
Total other expenses	(30)	41
Payroll and other staff costs	(53)	(37)
Occupancy and equipment	(19)	(10)
Taxes other than income taxes	(31)	(20)
Other operating expenses	(27)	(23)
Total operating expenses	(130)	(90)
Income before income taxes	34	38
Income taxes	(24)	(13)
Net income	10	25
Russian government equity at beginning of period	109	84
Russian government equity at end of period	119	109

The accounting policies and the explanatory notes are integral part of the financial statements.

Statement of Cash Flows (in millions of US dollars)

	Year ended December 31	
	2000	1999
Cash flows from operating activities		
Net income	10	25
Adjustments for:		
Depreciation and amortization	1	1
Provision for deferred income taxes	7	8
Benefit for losses	(42)	28
Change in market value of securities	(184)	(153)
Change in supported value	256	168
Operating income before changes in net operating assets	48	77
(Increase) decrease in operating assets:		
Due from other banks	212	(23)
Securities	47	(154)
Commercial loans	13	(79)
Due from the Russian government	(1)	86
Other assets	(25)	(10)
Increase (decrease) in operating liabilities:		
Amounts owed to the Russian government and the Central Bank of Russia	247	98
Due to other banks	(346)	24
Securities sold under agreements to repurchase		(41)
Amounts owed to customers	44	199
Other liabilities	13	(23)
Net cash from operating activities	252	154
Cash flows from investing activities		
Purchases of property and equipment	(8)	(16)
Disposals of equity participations	1	
	(7)	(16)
Cash flows from financing activities		
Proceeds from issuance of debt securities	77	30
Net change in cash and cash equivalents	322	168
Cash and cash equivalents at beginning of year	507	339
Cash and cash equivalents at end of year	829	507
Supplemental information:		
Income taxes paid	14	5
Interest paid	28	19
Interest received	159	74

The accounting policies and the explanatory notes are integral part of the financial statements.

In design and illustration the works
by the following artists are used:

Vasilii Kuptsov
"Maxim Gorky" ANT-20
Aircraft
1934



Alexander Rusakov
A Fitter
1928(?)

Aristarkh Lentulov
A Monastery Landscape
1920



Natalia Goncharova
A Bridge Composition
1930s – 1950s

Pyotr Villiams
A Car Race
1930



Vera Yermolaeva
Barentsov Sea, A Steamer
1928



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

9, Akademik Sakharov Avenue,
Moscow, B-78, GSP-9, 101999,
Russian Federation
Tel: (095) 207-10-37
Fax: (095) 975-21-43
Telex: 64,412232 VEBX RU
www.veb.ru