



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

Annual Report  
2001



## Contents

	<b>Address of the Chairman of Vnesheconombank</b>	5
	<b>Board of Directors</b>	7
<b>1</b>	<b>Vnesheconombank 2001 – Financial Highlights</b>	9
<b>2</b>	<b>Commercial Activities</b>	
2.1	Customer Services _____	11
2.2	International Settlement and Documentary Operations _____	13
2.3	Custody Services _____	14
2.4	Corporate Lending _____	15
2.5	Project Financing and Cooperation with International Financial Institutions _____	16
2.6	Guarantee Operations _____	17
2.7	Operations in Financial Markets _____	17
2.8	Correspondent Banking _____	19
<b>3</b>	<b>Agent for the Government of the Russian Federation</b>	
3.1	Sovereign Foreign Debt Management _____	21
3.1.1	Paris Club Debt Settlement and Servicing _____	23
3.1.2	London Club and Russia's Eurobond Debt Management and Servicing _____	24
3.1.3	Settlement of Russian Indebtedness to Other Official Creditors _____	24
3.1.4	Settlement of the Former USSR Commercial Debt Owed to Foreign Creditors _____	25
3.2	Managing Russia's External Financial Assets _____	26
3.3	Extending State Export Credits and Raising Credits under the Guarantees of the Russian Government _____	28
<b>4</b>	<b>Professional Organisations and Associations: the Role and Place of Vnesheconombank</b>	30
<b>5</b>	<b>Internal Controls System</b>	31
<b>6</b>	<b>Information and Technology Infrastructure</b>	32
<b>7</b>	<b>Foreign Representative Offices</b>	33
<b>8</b>	<b>Charitable Activities</b>	35
<b>9</b>	<b>Prospects for the Year 2002</b>	37
<b>10</b>	<b>Financial Statements</b>	39



Ladies and Gentlemen!

In this report you will find key factors about our performance in 2001. But rather than simply presenting Vnesheconombank's financial results I would like to share with you an overall view of the main characteristics of our business, the changes and transformations it is undergoing and where we are taking it in the long term.

Efficient and dynamic reform efforts undertaken by President Putin and the Russian government in the social and economic spheres have ensured a consistent and genuine pattern of market-oriented progress, which laid solid groundworks for Russia's smooth integration into the global economic community and considerably enhanced social stability in the country.

Last year, the Russian economy showed good results against the background of a noticeable fall in oil prices on global commodity markets and a considerable downturn experienced by major industrialised nations. It signalled that our country is quite on track to sustained socio-economic growth. In particular, Russia's GDP increased by 5 percent. Industrial production grew by 4.9 percent, while capital investment growth reached 8.7 percent. Furthermore, Russia's gold and foreign exchange reserves totalled US\$ 37 billion. The surplus of consolidated budget approximated 2.4 percent of GDP. Also, there was a substantial increase in real household incomes. A traditionally high external demand for energy products and raw materials is now matched by growing domestic consumption to become a real factor of Russia's economic growth potential.

Admittedly, the Russian banking system has principally overcome the after-effects of the 1998 financial crisis. Its aggregate assets and capital have respectively

reached 140 and 120 percent of the pre-crisis level. The volume of credits extended by our lending institutions to domestic industry amounted to RUR 1 trillion, with household loans standing at RUR 90 billion. Remarkably, public confidence in Russian banks has gradually returned, which is evidenced by a five-fold increase in the share of long-term household deposits placed with the banks.

Last year was a watershed in Vnesheconombank's transformation process. On October 25, 2001 the Government of the Russian Federation made a decision to radically transform Vnesheconombank by separating its Agency functions to manage Russia's sovereign foreign debt and external assets from its commercial activities. When implemented, this transformation program will give a fresh impetus for further upgrading sovereign debt management and establish a solid state bank capable of raising substantial financial resources to channel into the country's key industries.

Over the period under review, Vnesheconombank has vigorously continued to act in the Russian government's Agency capacity ensuring efficient sovereign debt and external financial assets management. Thus, the Bank has successfully effected payments in redemption of Russia's foreign indebtedness worth of US\$ 9.41 billion and transferred to the Federal budget the sum of US\$ 1.3 billion as proceeds from external financial assets management.

By long-standing tradition and continued policy, Vnesheconombank assisted in modernising Russia's economy and sustaining its economic growth. Throughout the year, we have been actively engaged in mid- and long-term crediting of investment projects and various

programmes of the nation-wide scale. More than half of the loans were extended to enterprises of energy and fuel industries, as well as military and industrial complex. Overall, the volume of loans extended by the Bank approximated US\$ 900 million.

In 2001, in pursuit of its strategic missions and business priorities, Vnesheconombank continued its cooperation with the World Bank to finance major investment projects. Among our partners were also leading state export credits guarantee departments and agencies, as well as numerous international financial institutions. Encouragingly, the agreements reached with our Western counterparties enabled Vnesheconombank to raise long-term financial resources at competitively low pricing.

In principle, the best return on investment has always been a major benchmark of Vnesheconombank's performance. Last year, the Bank's net income reached US\$ 112 million as compared to US\$ 10 million for the previous year. Over the year, Vnesheconombank's capital has doubled and reached US\$ 240 million, as of January 1, 2002.

Also, the year under review witnessed substantial growth of the volume of our customer funds. Simultaneously, the increase in the balances in customer accounts was accompanied by further enhancement and diversification of our customer base. At year-end, the total number of corporate customers served by Vnesheconombank reached 2,449.

Demonstrating the Bank's commitment to innovation and customer care, we launched such forms of investment banking as lead managing offerings, underwriting and trading of corporate debt papers, with the overall nominal value of these papers reaching RUR 3 billion.

Besides, in 2001 Vnesheconombank ensured adequate servicing of about 10 percent of the country's foreign trade turnover, twice as much as the previous year. Underpinning such exemplary performance lies the Bank's competitive edge gained in the settlement services market.

In recognition of Vnesheconombank's credibility and integrity, as well as its operational efficiency, leading international rating agencies Fitch and Moody's have confirmed the Bank's long-term credit ratings comparable to Russia's sovereign ratings.

We recognise that our people are the most valuable asset, providing their energy, creativity and knowledge to meet the challenges of the future. The Bank's ability to attract and retain highly skilled individuals is evidenced by the following statistics: we are proud to have among our staff 59 candidates of science, about 87.2 percent of the employees are university graduates and 8.6 percent have specialised secondary education. Almost 75 percent have more than a five-year record of service in finance or banking, with a respective record of every second person exceeding 10 years. We encourage our

people to fully develop their professional and personal skills offering them innovative training courses and programmes.

We acknowledge that it is the quality of the relationships we establish with both our new and old customers that will ultimately determine our success. We must be worthy of our customers' trust and seek to reinforce our cooperation with them through understanding, guidance and advice, and by anticipating their long-term needs.

True, we operate in a changing and financially complex environment. But challenging times bring significant opportunities. We believe that once transformed, Vnesheconombank will evolve into a major state bank designed to assist our country in its advance with market reforms to fully integrate into the global economic community. Our faith in Russia's prosperity and well-being of its people remains undiminished.

Andrey Kostin  
Chairman of Vnesheconombank

**Board of Directors**

Andrey Leonidovich Kostin	Chairman of the Bank
Vladimir Aleksandrovich Dmitriev	First Deputy Chairman
Nikolay Nikolaevich Kosov	First Deputy Chairman
Anatoly Pavlovich Zabaznov	Deputy Chairman
Igor Nikolaevich Zavyalov	Deputy Chairman
Vadim Olegovich Levin	Deputy Chairman
Aleksey Vladimirovich Smirnov	Deputy Chairman
Sergey Anatolievich Storchak	Deputy Chairman   Sovereign Debt Obligations Director
Vladimir Anatolievich Chernukhin	Deputy Finance Minister of the Russian Federation
Aleksey Ivanovich Akishin	Treasury Director
Nikolay Vyacheslavovich Gavrilov	Credit Director
Aleksandr Sergeevich Gruzinov	Security Director
Igor Aleksandrovich Lebedev	Administration and IT Director
Erkin Rakhmatovich Norov	Strategic Development Director
Vasily Nikolaevich Titov	Public Relations Director
Vladimir Dmitrievich Shaprinskiy	Chief Accountant





## Vnesheconombank 2001 – Financial Highlights

Strategically, the year 2001 proved to be quite successful for Russia. It was marked by a sustained economic growth and further financial markets development. Tangible positive changes took hold in the Russian banking system, with most performance indicators reaching the pre-crisis level. For Vnesheconombank it was clearly a good year as well. We delivered a stronger customer focus and strengthened our continuous drive for further improvements in efficiency. Largely as a consequence, the past year witnessed substantial progress in the Bank's customer base expansion, as well as in a diversified spectrum of customer-oriented high quality products and services. Management recognises our major businesses performed well, substantially exceeding the results of the year 2000.

Now, a brief word on our financial highlights and operating statistics. Net income for the year ended 2001 calculated in accordance with the International Accounting Standards (IAS) reached US\$ 112 million as compared to US\$ 10 million for the previous year (Diagram 1), while the Bank's capital (Russian government equity) doubled and at December 31, 2001 approximated US\$ 240 million.

Throughout the year, Vnesheconombank's total assets and liabilities, excluding its agency operations, grew by 47 percent and reached US\$ 3.826 million.

Adding a new quality dimension to the Bank's performance, there was sustainable growth in customer operations. The aggregate volume of the Bank's commercial loans portfolio more than doubled, as compared to the year-end 2000, while the volume of customer funds attracted witnessed a 26 percent rise (Diagram 2). Financial statistics of the year under review suggests that

Diagram 1  
Financial Highlights as at December 31, respective year  
US\$ million

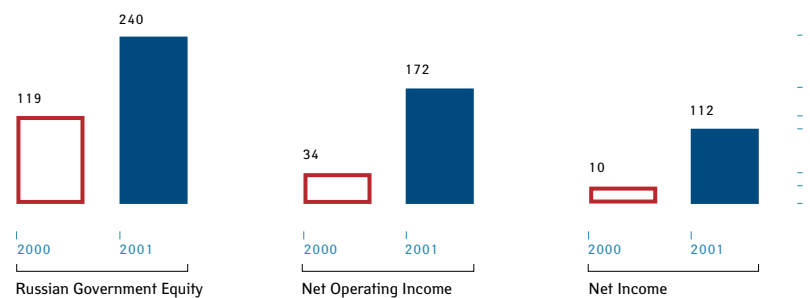
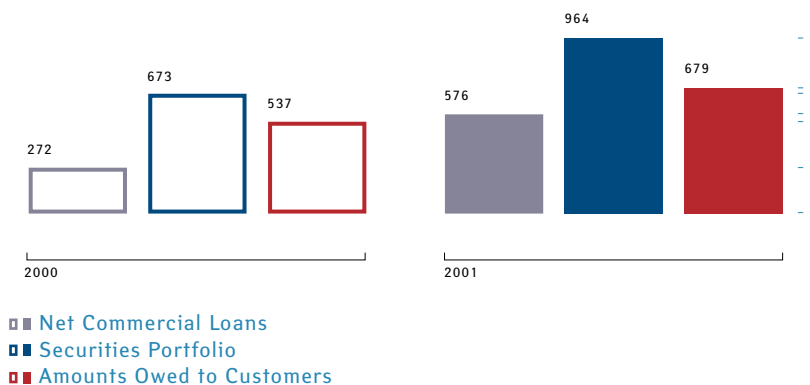


Diagram 2  
Operating Statistics as at December 31, respective year  
US\$ million



s. Diagram 1

s. Diagram 2

Vnesheconombank is currently a major market maker in the Russian government bonds, demonstrating a 43 percent year-on-year increase in securities portfolio investments. According to Management's assessment, Vnesheconombank now ranks 3rd among major domestic banking institutions in terms of its securities portfolio, coming immediately after the Savings Bank of Russia (Sberbank) and the Bank for Foreign Trade (Vneshtorgbank).

Recognising the Bank's efficient performance in 2001, such leading international rating agencies, as Fitch, our partner since 1998, and Moody's, noted for its conservative attitudes, have upgraded Vnesheconombank's credit rating. Thus, in appreciation of Vnesheconombank's increasing financial strength Fitch rating agency has confirmed the Bank's a «B+» long-term rating, as

well as a «B» short-term rating, comparable with the sovereign rating of Russia, while Moody's awarded us a «B1» long-term deposit rating, also comparable with the sovereign rating of Russia, and an «E+» short-term financial stability rating.

Looking to the mid- and longer-term, we believe that Vnesheconombank is well equipped to adapt to new economic realities. We aspire to seize opportunities that arise from rapid changes in the industry, capitalise on our existing strengths and develop stronger presence in selected strategic areas.

## Commercial Activities

2

### Customer Services

In 2001, alongside its traditional agency capacity to ensure centralised operations of the Russian Ministry of Finance, as well as other governmental agencies and bodies, Vnesheconombank was predominantly and primarily focused on customer-driven businesses. Management recognises that underpinning commercial activities of any financial institution and its growth prospects lies a resilient customer base. In 2001, against the backdrop of tough competition, we were striving to deliver a wider spectrum of customer-oriented high quality products and services.

The main drive of our customer base expansion was an increasing market share in the corporate sector. Preference was given to the real economy. Most of our prime rate customers belong to economic and industrial sectors of strategic importance for Russia's economic sustainability, that is machine engineering and foreign trade (Diagram 3). In the year under review, we reinforced our business ties and associations with such prominent companies as «Rosoboronexport» and «Zarubezhneft» state companies, Komsomolsk-on-the-Amur aircraft enterprise, Dzerzhinsky Uralvagonzavod state company and TVEL joint-stock company. These customers will remain the cornerstone of our business.

In 2001, aiming to enhance our financial results, we refined the Bank's strategy of customer diversification, as well as their industry segmentation. The past year has seen good progress in our relationship with new customers. Special energies were devoted to business cooperation with investment and leasing companies, such as Far East Investment Company and Ilyushin Finance Ltd. Vnesheconombank also became a party to strategic cooperation

agreements signed with «Gosinkor» and «Vneshtekhnika» state companies, the Russian Agency on Missile Guidance Systems, the Committee of the Russian Federation on Military and Technical Cooperation with Foreign States, and the Federal Centre for Project Finance.

In 2001, the bulk of the customer funds placed with the Bank, or 92 percent, belonged to companies and firms located in the Central federal region, 5 percent – to enterprises in the Far East federal region and 3 percent – in

2.1

Diagram 3  
Industry Structure of Average Yearly Balances in Customer Accounts  
%



s. Diagram 3



other regions. Such geographic pattern of the Bank's customer base is reflective of the absence of a country-wide branch network. In future, striving to ensure a stronger regional presence and to target new customer connections, we plan to open new Representative Offices in various federal regions. Meanwhile, additional improvements in reaching regional customers were derived from the application of the «Bank-Customer» remote banking system. Overall, the year saw a 5-time increase in the number of customers benefiting from the system, while the volume of settlements effected through it totalled the equivalent of US\$ 3 billion.

To add another dimension to our client-oriented policy, we further developed our plastic cards business. Throughout the year, the volume of MasterCard and Maestro cards issued by Vnesheconombank grew fivefold on the previous year. In future, it is envisaged by the Bank to start issuing multi-currency and international credit cards, inclusive of the VISA International card. All this means our customers have more choice than ever before. In years of intense competition, the Bank seeks to acquire its market share in credit card issuing.

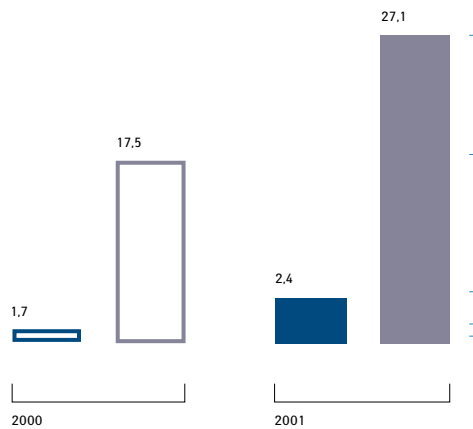
In 2001, we made new enhancements to our products and services line. Now, our customers have a window of opportunity to deposit funds in clearing currencies, namely in Indian Rupees to effect settlements under commercial credits with India (C56) and in US Dollars under current settlements with the country (C44).

In the year under review, while we continued to pursue opportunities for our corporate customer base enhancement, the environment remained challenging. Nevertheless, we are pleased with the impact we were having on addressing the needs of our clients and are gratified by a 1.6 time average monthly increase in client relationships. At year-end 2001 the total number of corporate customers served by the Bank reached 2,449.

Also, the dynamics of the customer base expansion is evidenced by a substantial rise in the overall volume of settlements effected through Vnesheconombank (Diagram 4). Remarkably, the year ended December 31, 2001, brought a substantial increase in the balances on customers' accounts, with the volume of funds on them rapidly growing to reach US\$ 679 million, as compared to US\$ 537 million in 2000.

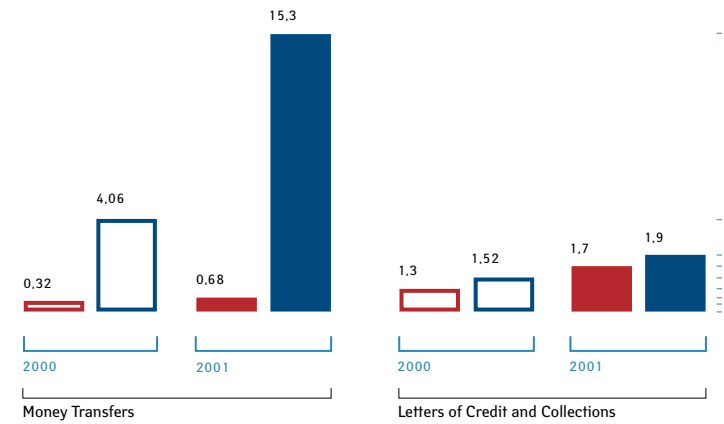
s. Diagram 4

Diagram 4  
Vnesheconombank's Customer Settlements  
US\$ billion



■ Clearing and Soft Currencies  
■ Russian Roubles and Hard Currencies

Diagram 5  
International Payments  
US\$ billion



■ Clearing and Soft Currencies  
■ Hard Currencies

**International Settlement and Documentary Operations**

Vnesheconombank values its reputation for impeccable execution of international settlement and documentary operations. The competitive advantages gained in these areas are based on the Bank's in-depth expertise, global partnership network and professional achievements.

The past year witnessed a multifold increase in the volume of international payments effected by the Bank (Diagram 5). Actually, the main driving force there was the growing production in major export-oriented industries. Thus, in 2001, Vnesheconombank's share in Russia's foreign trade servicing was estimated to have

2.2

s. Diagram 5

reached 10.2 percent against 4.8 percent in 2000, with export earnings of the Bank's customers exceeding their import payments by more than US\$ 8 billion.

Capitalising on its existing strengths and striving to develop a stronger presence in the country's foreign trade, Vnesheconombank has succeeded in increasing the number of passports of export-import deals it services, with the volume reaching US\$ 6.2 billion – a 13 percent increase as compared to the previous year. Further benefits have also been sought through extending the volume of letters of credit opened or

advised by the Bank from US\$ 3.4 billion in 2000 to US\$ 4.8 billion in 2001 (Diagram 6).

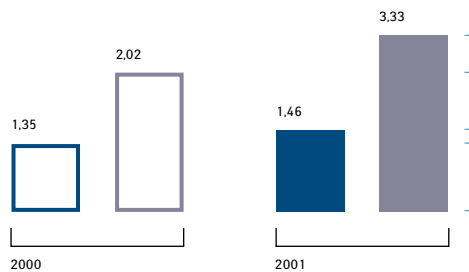
A considerable increase in the volume of letters of credit advised by Vnesheconombank upon foreign banks' payment instructions reaching US\$ 3.9 billion in 2001 is reflective of the relationship of trust with our partners servicing their customers' businesses in Russia.

Alongside that, Vnesheconombank is noted for its unique experience in effecting transactions in clearing currencies where the Bank enjoys indisputable know-how and benefits from its long-term competitive edge. Thus, in 2001, we saw good growth in letter of credit settlements for the goods delivered and services provided along India's debt redemption route, as well as in clearing currency settlements with the People's Republic of China. Particularly, the volume of payments under letters of credit opened or advised within the framework of inter-governmental arrangements signed between Russia and the People's Republic of China has doubled to reach an equivalent of US\$ 967 million, with the volume of payments under letters of credit opened for settlements with India exceeding US\$ 565 million.

Clearly, Vnesheconombank's success in providing sophisticated settlement services comes down to the experience and discipline of its people who demonstrate the highest professional standards and unique execution capabilities built around expertise embracing international banking best practices. They continue to regularly develop and apply their specialised knowledge while working in the Commission on Banking Technique and Practices of the International Chamber of Commerce.

s. Diagram 6

Diagram 6  
Letters of Credit Opened or Advised by Vnesheconombank  
US\$ billion



■ Clearing and Soft Currencies  
■ Hard Currencies

## 2.3

### Custody Services

Established in 1999, Vnesheconombank's Custody Department has presently become a leading Russian depository institution in terms of the scope of assets held in safe-keeping and the spectrum of custodian services provided. As of January 1, 2002, the overall nominal value of securities kept in safe custody with Vnesheconombank exceeded US\$ 6 billion, with the number of customers' custody accounts increasing by 40 percent to eventually reach 836.

Being a regular securities market maker, Vnesheconombank seeks to provide a comprehensive range of integrated financial services over the whole spectrum of securities trading both in Russia and abroad. We aim to give our customers the freedom to choose the option, which best suits their individual needs.

Authorised by the Russian government to make initial public offerings of the Russian Ministry of Finance bonds and to service the issues, Vnesheconombank is currently the sole Russian custodian acting as the Ministry's Agent to make coupon payments and redemption of these bonds.

Also, Vnesheconombank continued to promote the development of the Russian eurobond domestic market. To that end, the Bank launched a number of initiatives aimed at liberalising international securities trading procedures and at ensuring easier access to Russian eurobonds for investors. The initiative was supported by the Ministry of Finance and, as a result, the Bank of Russia lifted the existing foreign exchange restrictions imposed on eurobonds transactions in domestic markets, provided they are traded on special trading floors.

Obviously, the year under review was quite successful for Vnesheconombank's custody business and the Bank aims to build on its strengths there. In particular, while servicing most liquid bills and promissory notes issued by major Russian companies and firms, Vnesheconombank now offers its customers a full range of integrated custody services ranging from checking the bills' authenticity and validity, their safe-keeping and recording on the Bank's custody accounts, to effecting settlements of securities trades and their redemption upon maturity. Our affluent customers are offered assistance in implementing their bill issuance programmes. Such services would include initial public offering, trade servicing on the secondary market and domiciliation of the bills.

**2.4 Corporate Lending**

Vnesheconombank is far and away the leading Russian state bank invariably seeking to play a vital role in making tangible contributions to Russia's economic growth.

In 2001, bolstering relations with major real economy enterprises, namely, machine engineering, fuel and energy companies, as well as with foreign trade organisations was in the focus of the Bank's lending activities. Management recognises that Russia's successful macroeconomic performance and structural changes in 1999-2000 substantially improved economic growth prospects and enhanced corporate borrowers' creditworthiness. Being well positioned to respond to the industry challenges and an ever-growing demand for financial resources, Vnesheconombank considerably increased its loan portfolio. Simultaneously, we were seeking to strike the right balance between sector risks and rewards through further loan portfolio diversification (Diagrams 7, 8). Currently, the focus is on major dynamically developing industries.

Lending to real economy enterprises will remain in 2002 an overriding priority for Vnesheconombank. At the same time, we will invariably strike in new businesses and directions, since the financial services industry everywhere is reshaping to compete in the global market.

s. Diagram 7, 8

Diagram 7  
Loan Portfolio Breakdown as of January 1, 2002  
%

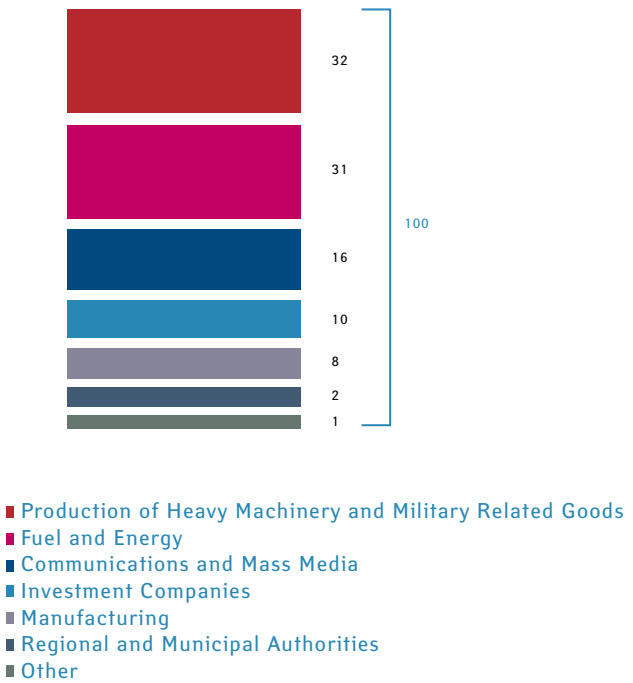
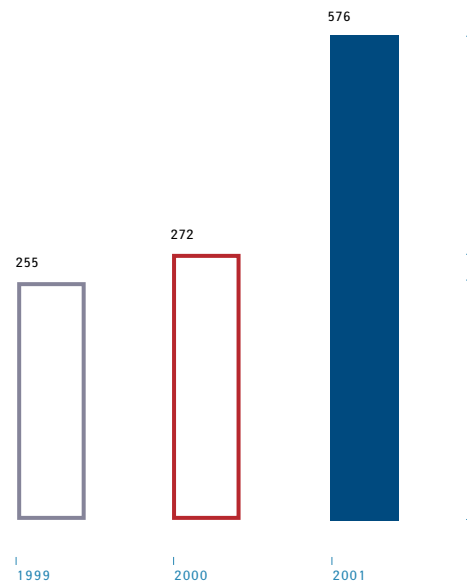


Diagram 8  
Loan Portfolio Volumes as at December 31, respective year  
US\$ million



**2.5****Project Financing and Cooperation with International Financial Institutions**

Among our major international partners to finance commercial projects developing on the territory of Russia we proudly count the World Bank and a number of Italian state agencies and commercial banks.

In 2001, in pursuit of its strategic missions and business priorities, Vnesheconombank continued its cooperation with the World Bank to finance the modernisation of environmentally harmful enterprises operating within the Russian Federation. Also, an agreement on budgeted loan is now being finalised with the Ministry of Finance authorising Vnesheconombank to act as a financial intermediary to channel a credit extended by the IBRD into three investment projects. These projects are to be implemented within the framework of the Russian Investment Programme of Environmental Rehabilitation aimed at reducing energy consumption and upgrading the efficiency of cellulose production by Solombal, Archangelsk and «Pitkyaranta» pulp and paper plants.

Likewise, Vnesheconombank places a special emphasis on the project aimed at developing a closed-loop water complex on the Baikal pulp and paper plant. When implemented, the project would substantially help rehabilitate the unique ecological system of the largest sweet water pool on the Earth.

Apart from extending credits to finance environmental projects, Vnesheconombank is engaged in effecting compensation payments under the Agreement signed between Russia and the IBRD to finance the «Special Initiative to Phase-out Manufacturing of Ozone Depleting Substances in the Russian Federation» project worth of US\$ 26.2 million.

Further progress was achieved in our relationship with Italian banks and state agencies, as evidenced by a framework credit agreement for the sum of Euro 250 million

signed with Mediobanca, a leading financial institution of Italy. The agreement stipulated the way of financing major investment programmes launched by Russian companies and implemented with the participation of Italian equipment vendors.



**Guarantee Operations**

Traditionally, in guarantee operations the Bank has always had a clear lead over its main Russian competitors. In 2001, most of Management's attention was invariably devoted to further upgrading these core transactions, which underlie the Bank's customer-driven businesses, ensuring greater stability to trade and economic relations with numerous foreign partners.

The year under review was marked by substantial growth in the number of guarantees issued by the Bank. In 2001, to accommodate customer base expansion, we issued guarantees for the sum of US\$ 708.4 million. Thus, as of January 1, 2002, the overall volume of guarantees issued by Vnesheconombank (including those fully covered) is estimated as running at US\$ 1,257.6 million. In our judgment, the guarantee growth dynamics directly reflects the evolving needs of an enhanced customer base.

As a rule, to reduce the Bank's credit risks guarantee issuing was made conditional on the type of collateral being pledged by the organisations-principals. Now that more customers, intent on using the full force of the Bank's market intelligence and execution capabilities, apply to it for cash and settlement services and with the transfer of major operations over accounts to Vnesheconombank, guarantee issuing without a respective currency coverage is deemed quite appropriate. Naturally, the total volume of customer operations through the Bank is taken full account of. Largely as a consequence, the sum of guarantees issued in 2001 showed a 2.3 time increase on the previous year (in 2000 it stood at US\$ 304.5 million). It is worth mentioning that in operations of this kind we were seeking the right trade-offs between credit risk and reward. In future, it gives us the confidence to grow the Bank's strengths wherever we see opportunities.

2.6

**Operations in Financial Markets**

In 2001, we continued a determined drive to expand our presence in the financial markets. Also, the year 2001 witnessed a substantially increased volume of investment in both Russia's eurobonds and government currency-denominated bonds — the MinFins (Diagram 9). Obviously, the growth in the volume of these transactions could be attributed to an ever-expanding range of the Bank's counterparties, as well as the diversification of transactions effected. Financial statistics of the year under review shows the volume of investment in the

Russian government currency-denominated debt papers also growing to reach at year-end 2001 US\$ 806 million, as compared to US\$ 395 million, as of January 1, 2001.

More importantly, there is currently much more stability on the Russian interbank market. In light of this, new opportunities are opening up for Vnesheconombank to become more pro-active in operating both on the Russian and global financial markets. Remarkably, in the year ended December 31, 2001, Vnesheconombank's energies were devoted to fostering business

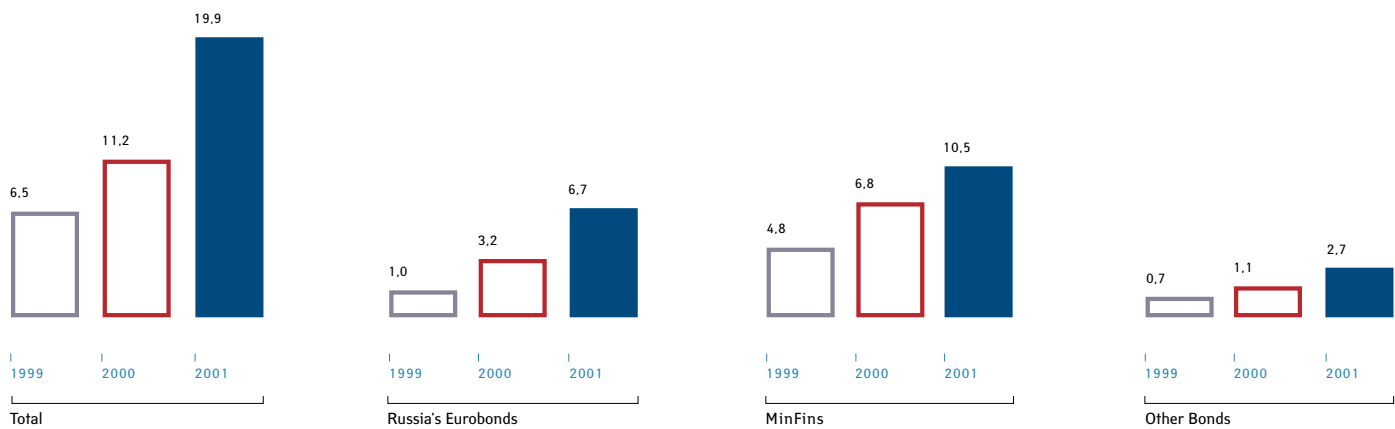
2.7

relations with numerous counterparties. With a view to promote and reinforce business ties and associations with them, 32 framework agreements on deposit and conversion operations were made. Key achievements in 2001 also included an enhanced volume of operations effected. Thus, the volume of interbank credits extended grew 2.2 times, while the volume of forex deals increased 3.5 times on the year 2000. At present, the Bank is intent on becoming «the first choice provider» of various intelligent services for its customers and partners.

that counts most for its leadership position on an emerging investment banking market.

Currently, we see a strong potential to conduct more investment business with our excellent customer base. For companies with more sophisticated financial needs, investment banking services are available. In 2001, to accommodate them, Vnesheconombank acted as an underwriter and a financial consultant for «Novaya Moskva» Bank, the Magnitogorsk metallurgical plant, Aeroflot-Russian Airways joint-stock company, the United Machine Engineering Plants. Overall, we suc-

Diagram 9  
Operations in Foreign Currency-Denominated Bonds  
US\$ billion



Innovation is the quality we value at Vnesheconombank. One example is our investment banking services, which include lead managing offering, as well as underwriting and trading of corporate debt papers upon customers' request. Hopefully, the new business will play to the Bank's strengths.

Traditionally, investment banks act as intermediaries between an issuer and the financial market, and there is a great ongoing demand for such services. Admittedly, investment banking business happens to be relatively new for Russia, though some Russian banks and financial institutions are already taking a clear lead in this respect. In Russia, it is an overall number of successful projects an investment bank is implementing

successfully lead-managed their offerings valued at RUR 3 billion.

Encouragingly, Vnesheconombank, rated by the Cbonds.ru Internet service, ranks 3rd in Russia among investment banks in terms of the offerings made.

Looking ahead, Management recognises the Bank should build on its strengths, in particular, by making sure its customers have access to a full range of leading-edge products and services. To achieve the goals, Vnesheconombank aspires to reach into new challenging areas of finance.

**Correspondent Banking**

Few Russian banking institutions can match Vnesheconombank in the scale and scope of its correspondent network built on the ongoing supportive and mutually reinforcing relationships with banks all over the world. Drawing on such geographic diversification, Vnesheconombank now serves its customers and partners abroad through 144 nostro and 69 loro accounts, as of January 1, 2002. Within the past year the number of foreign correspondent banks of Vnesheconombank reached 974.

In the area of international settlement processing, as well as export credits and guarantees providing, of special note is Vnesheconombank's close collaboration with the banks representing Western Europe, North America and other regions of the world. Additional opportunities and further benefits have been identified here that extend well beyond traditional relationships. It is now therefore agreed between a number of major partners to accept Vnesheconombank's liabilities and to open new credit lines for the Bank without any special collateral. Besides, such leading financial institutions as Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG and HypoVereinsbank AG have fixed or extended credit limits for transactions with Vnesheconombank. Our response was to considerably upgrade customer service levels, diversifying the range of products provided and reducing their cost.

In 2001, Vnesheconombank continued to reinforce its business positions in the People's Republic of China and India, with economic priorities closely echoing Russia's strategic imperatives in foreign trade. The past year saw good progress in that direction. In particular, a number of arrangements were reached with the Bank

of China regulating settlement procedures under the Tyanwan nuclear power plant construction project to allow nuclear fuel delivery to the country. Alongside that, Vnesheconombank has progressively developed and extended business contacts with other financial institutions of the People's Republic of China. Thus, correspondent relations were established with China Ever Bright, as well as with the Chinese Industrial and Commercial Bank, a major bank of China.

As before, settlements in redemption of India's sovereign debt made through Vnesheconombank accounted for the biggest part of the foreign trade turnover between Russia and India. Further boost to the long-term cooperation between Vnesheconombank and Indian banks was provided by a new agreement reached with the Eximbank of India to extend to Vnesheconombank a credit line to finance the purchase of Indian goods and products.

Striving to add another dimension to its correspondent network, Vnesheconombank encouraged further relations with Russian banks operating on the territory of the country, with the number of banks reaching 200 and the number of accounts held by the Russian banks with Vnesheconombank amounting to 328. In fact, our correspondent network, complimented by strong, consistent financial performance in money markets, allowed Vnesheconombank to offer its correspondents fast, efficient and, more importantly, competitive settlement arrangements. To make loro accounts held with Vnesheconombank even more attractive for Russian banks, the loro account maintenance fee has presently been cancelled and S.W.I.F.T. messages to service such accounts are now free of charge.



## Agent for the Government of the Russian Federation

3

In 2001, three predominant objectives continued to shape Vnesheconombank's activities as an Agent for the Government servicing Russia's sovereign foreign debt and managing its external financial assets, they are: to design and implement innovative debt redemption schemes aimed at reducing Russia's payments;

to use the Paris Club membership to recover or restructure indebtedness owed to Russia; and to agree terms and conditions of commercial debt restructuring.

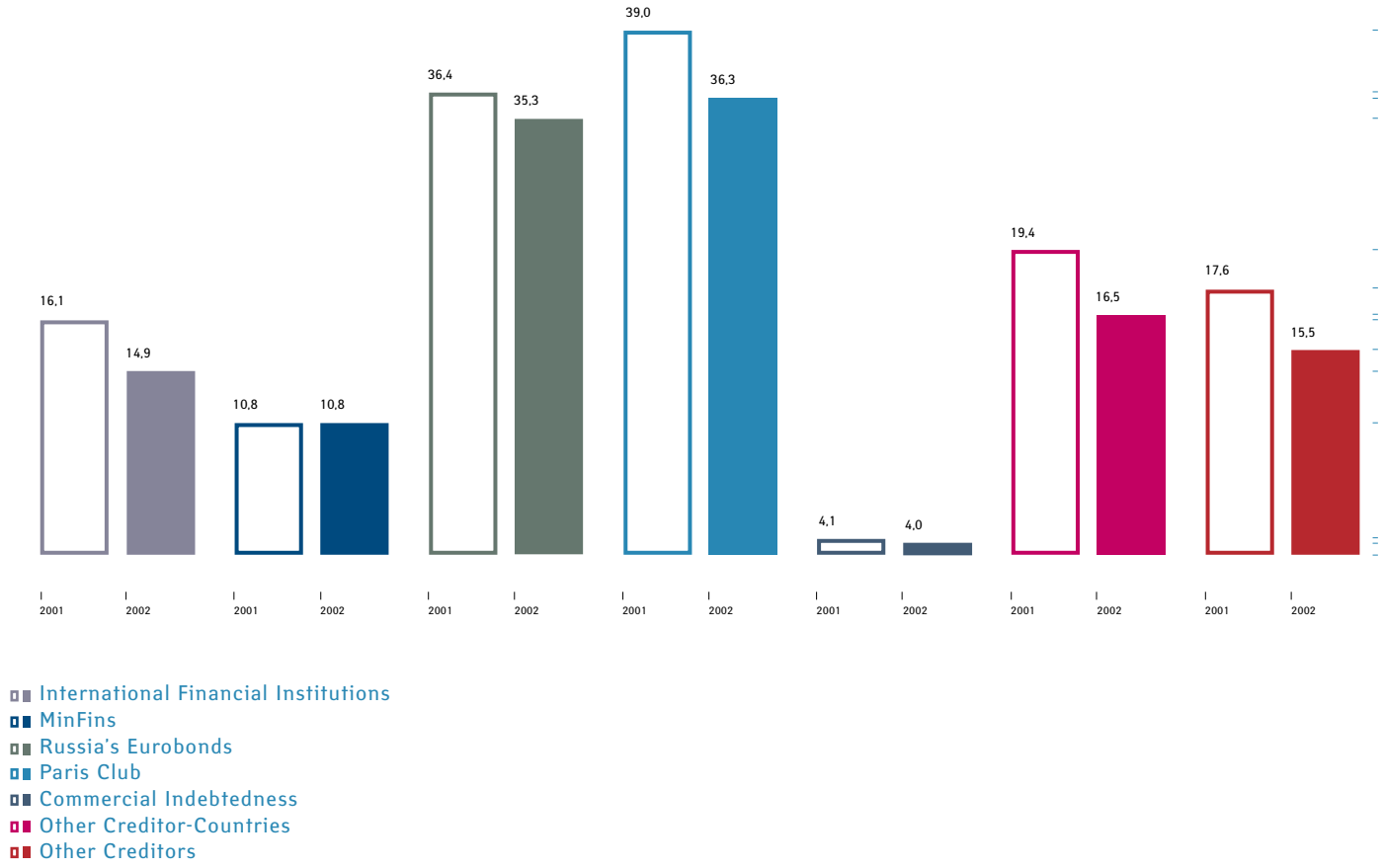
### Sovereign Foreign Debt Management

As of January 1, 2002, the sovereign foreign debt of Russia is estimated to total US\$ 133.3 billion (Diagram 10), with more than 80 percent of the sum, or US\$ 111.2 billion, recorded on Vnesheconombank's agency books. It is a US\$ 10.1 billion reduction as compared to the previous year. Such a downward trend is reflective of the partial redemption of the 'new' Russian debt owed to international financial institutions and official creditors, as well as of the redemption of the first bond loan placed by the

Russian Federation in 1996. Over the last year Vnesheconombank executed fund transfers in redemption of Russia's sovereign foreign debt in favour of 82 beneficiaries, with its share in the total volume of repayments amounting to US\$ 9.41 billion.

3.1

Diagram 10  
Russia's Sovereign Foreign Debt as of January 1, respective year  
US\$ billion



**Paris Club Debt Settlement and Servicing**

Almost one third of Russia's sovereign foreign debt, or 27 percent, to be more exact, stems from the Soviet-era indebtedness owed to the Paris Club creditors. Over the recent years, the Bank has been keeping applicable records of this debt category, and in 2001 a stronger negotiation effort was made to effectively settle it. Within the year, acting in the Agency capacity, Vnesheconombank made payments to redeem and service this indebtedness for the sum of US\$ 3,581.9 million.

As part of this drive, Vnesheconombank worked in close collaboration with the Russian Ministry of Finance to finalise and sign intergovernmental agreements with Denmark and Portugal. The parties acted in full compliance with the Multilateral Protocol of August 1, 1999 signed with the Paris Club of official creditors on restructuring the former USSR debts with original maturities in 1999–2000 and on interest payments overdue since 1998.

Of prime concern in the past year were also Vnesheconombank's efforts to elaborate and agree various conversion schemes aimed at redeeming the Paris Club restructured indebtedness, on the one hand, and reducing both principal and interest repayments, on the other. To take one example, an arrangement was made between Vnesheconombank and Finnvera company in April, 2001 stipulating technological procedures and approaches to implementing the Intergovernmental

agreement signed by Russia and Finland on goods delivery for the sum of US\$ 32 million to partially redeem Russia's indebtedness towards Finland. This arrangement implies a US\$ 1 million reduction of interest payment.

Another arrangement agreed by Vnesheconombank with SACE, a leading Italian state insurance agency, specified the settlement processing of the principal redemption under Consolidation IV. Within the framework of the Russian-Italian programme aimed at constructing a Yak/AEM-130 training aircraft US\$ 77 million worth of principal debt was actually redeemed through research and development provided by the Russian party. The application of the redemption scheme eased Russia's interest payment burden by another US\$ 2.5 million.

In 2001, another framework agreement was reached with Spain converting part of the debt owed to this country into investment projects worth of US\$ 100 million. In particular, it is envisaged to build railway carriages, as well as to provide sea craft frames constructed in St.Petersburg in redemption of Russia's debt obligations.

3.1.1

**3.1.2****London Club and Russia's Eurobond Debt Management and Servicing**

In full compliance with Declaration of the Government of the Russian Federation No.478 dated 23.06.00 «Concerning the Restructuring of the Former USSR Indebtedness Owed to Foreign Commercial Banks and Financial Institutions (London Club of Creditors)», Vnesheconombank continued to exchange PRINs (Principal Notes) and IANs (Interest Arrears Notes) issued in 1997–1998 under the relative agreements with the London Club Creditors for new Russian Eurobonds to mature in 2010 and 2030. Within the year, the overall amount of exchanged PRINs and IANs reached US\$ 4.97 million and US\$ 11.95 million respectively. In the year 2001 London Club debt commitments were mainly written off Vnesheconombank's agency books with the remaining balance of only US\$ 37 million.

To further enhance Russian external debt obligations servicing, the Ministry of Finance designated Vnesheconombank a Paying Bank for Russian Eurobonds maturing in 2010 and 2030. In 2001, pursuant to the Russian Eurobond servicing procedures Vnesheconombank effected principal and coupon payments for the overall sum of US\$ 3,504 million.

**Settlement of Russian Indebtedness to Other Official Creditors****3.1.3**

Apart from the debt owed to the Paris and London Clubs of creditors, Vnesheconombank keeps on its agency books records of the Soviet-era liabilities towards the former socialist countries (which amount to US\$ 11,1 billion, inclusive of debts worth 6.4 billion of transferable Roubles owed to the former German Democratic Republic), as well as indebtedness of US\$ 3.3 billion towards other official creditors who are not members of the Paris Club. In line with debt redemption intergovernmental agreements signed, goods deliveries were made to the Czech Republic, Slovakia, Hungary, the People's Republic of China and South Korea. Mutual nettings of financial obligations were also made with Slovakia and the Arab Republic of Egypt. Cash payments and partial writes-off were effected with respect to debt owed to the Czech Republic and Slovakia.

The way Russia's sovereign foreign debt has been successfully reduced is evidenced by the effective restructuring of the Russian liabilities towards the Czech Republic. Overall in 2001, US\$ 2.5 billion worth of the principal debt to this country was actually redeemed through Russia's buy-out of its debt obligations at a discount.



All in all, the restructured indebtedness, both of the former USSR and that of Russia, owed to official creditors who are not members of the Paris Club was redeemed through various goods delivery schemes by US\$ 842.5 million, which is a twofold increase on the previous year.

#### **3.1.4 Settlement of the Former USSR Commercial Debt Owed to Foreign Creditors**

The Bank continued to work intensively to finalise the restructuring of the former USSR indebtedness towards a most numerous group of creditors, that is foreign firms and companies. As of January 1, 2002, the total commercial indebtedness (without interest accrued) was estimated as approximating US\$ 2.71 billion, with major debt holders being creditors of Great Britain (22.2 percent of the overall debt obligations), the USA (about 19 percent), Germany (9.8 percent), Italy (7.6 percent) and Japan (6.1 percent).

In April 2001, at the Commercial Creditors Forum held in London, a real breakthrough was achieved in relations with this creditor group when an agreement was reached to settle the debt on terms and conditions similar to the London Club debt restructuring parameters.

Principally, the restructuring means a 36.5 percent debt write-off, with exchanging the remaining part of the debt for Russian Eurobonds maturing in 2010 and 2030.

Also, as a result of Vnesheconombank's cooperation with the Ministry of Finance Declaration of the Russian government «Concerning the Restructuring of the Commercial Debt Owed to Foreign Commercial Creditors» No.931 was signed on December 29, 2001. On the basis of estimates made by Vnesheconombank the Ministry of Finance set the volume of the 1st tranche of debt obligations to be issued for the commercial indebtedness exchange as amounting to US\$ 2 billion. Redemption payments to be made when the 1st tranche is to be exchanged are expected to reach US\$ 150 million.

**3.2****Managing Russia's External Financial Assets**

Vnesheconombank's aim going in 2001 was to effectively record and manage external financial assets of the Russian Federation, thereby generating extra revenues for the budget. Presently, these assets include debts owed to the former USSR and Russia by foreign countries under various credits, and Russia's participations in foreign enterprises' equity. Also, the Bank extended credits to foreign countries and businesses.

Overall in 2001, as a result of efficient external financial assets managing the sum of US\$ 1.26 billion was transferred to the federal budget by the Bank.

In 2001, committed to its agency activities, Vnesheconombank continued to work intensively to keep the applicable records of the debt and respective redemption payments, make interest accruals, reconcile debt obligations with the designated banks and debtor-countries' institutions, enter into agreements on technical procedures to apply to debt settlement within the framework of intergovernmental agreements.

In the Paris Club debt recovery context, Vnesheconombank is engaged in keeping records of debts and settlements with 29 countries of this debtor group, with some of them subject to restructuring along the Naples, Lion and HIPC 'soft' schemes. Presently, the aggregate volume of these liabilities amounts to US\$ 34 billion. At year-end 2001, appropriate bilateral arrangements with 20 debtor-countries on the debt settlement procedure were either signed or initialled.

Simultaneously, Russia was faced with serious problems regarding debt repayments under credits extended to

countries, which are non-members of the Paris Club. Now, among major debtors are Syria, Mongolia, Afghanistan, Iraq and the People's Republic of Korea.

Remarkably, the year 2001 witnessed a certain breakthrough in the debt settlement relations with the non-Club members, namely, the People's Republic of Korea and Syria. Before that, for different reasons, the talks with them had been seriously handicapped. But now, with respect to the People's Republic of Korea, for example, the major parameters to apply to mutual obligations settlement were principally agreed upon. Furthermore, as a result of successful debt settlement talks, draft bilateral debt settlement documents were successfully elaborated. Eventually, Vnesheconombank and the Bank for Foreign Trade of the People's Republic of Korea were designated as payment agents.

Also, aiming to deliver better results throughout the period under review, Vnesheconombank was engaged in active work to resolve the issue of debts owed to the Russian Federation by the Commonwealth of Independent States (CIS) under numerous credits. Admittedly, with a view to facilitate intergovernmental debt restructuring talks, Vnesheconombank ensured careful preparation of the relevant documentation on the debt redemption, as well as the settlement procedures. To reinforce the debt recovery process and give it a new impetus, Vnesheconombank assisted in elaborating an intergovernmental Russia-Kirgizstan agreement on debt restructuring, actively participated in the implementation of the multilateral Memorandum signed by Georgia with the Paris Club creditors. Drawing on its in-

depth expertise and meticulous execution capabilities, Vnesheconombank streamlined the process of debt recovery from Ukraine. To be more specific, payments for the deployment and maintenance of the Russian Black Sea Navy were effected through mutual obligations netting. As a consequence, the sum of US\$ 97.8 million worth of Ukrainian debts towards Russia was effectively settled through Vnesheconombank.

Encouragingly, the volume of direct payments effected in strict accordance with the payments schedule also tends to grow. Thus, in 2001, as evidenced by Vnesheconombank's records, it totalled US\$ 291.3 million as compared with US\$ 219.7 million in 2000, inclusive of US\$ 84.7 million worth of debts recovered from the CIS countries. Apart from it, the year 2001 saw a considerable increase in revenues generated for the federal budget through tenders to utilise debt funds.

Overall, in 2001, tenders for the sale of debt funds generated US\$ 488.8 million. For example, within this revenue category, tenders for the sale of Indian Rupees brought US\$ 481.5 million. Obviously, an enhanced number of participants in the tenders also contributed to the debt recovery process, facilitating tenders for the sale of clearing funds recovered in redemption of debts owed to Russia by Bangladesh (US\$ 1.6 million), as well as tenders for the sale of rights to import goods from Mongolia (US\$ 5.7 million).

The year 2001 also witnessed an increase in the funds generated for the federal budget by the equity participations in Russian-Vietnamese «VietRos» and Russian-Indian «Bramos» joint ventures, which exemplifies our

commitment to effective allocation of state resources. 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 the proceeds for the federal budget from Russia's investments under agreements with the Russian Ministry of Finance amounted to US\$ 479.6 million (a 14 percent rise on the previous year).

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 2001, in full compliance with the Directive issued by the Russian Ministry of Finance, the Bank made a substantial contribution and effected a duly and timely transfer of funds into the authorized capital of the Russian-Indian «Bramos» joint venture, as well as into the joint Russian-Vietnamese «VietRos» enterprise. The total sum of investments made is estimated as reaching US\$ 54.6 million.

### 3.3

#### Extending State Export Credits and Raising Credits under the Guarantees of the Russian Government

In 2001, in full accordance with its strategic priorities and well-established practices Vnesheconombank pressed ahead with extending state export credits, with the overall volume totalling US\$ 268.5 million (Diagram 11). Actually, it is more than a twofold increase on the previous year figure of US\$ 130.5 million.

Strategically, preference was given to financing high-tech projects in the fuel and energy areas (the respective projects include nuclear power stations in the People's Republic of China and India, as well as energy facilities in Yugoslavia).

More importantly, the year under review saw a considerable increase in the volume of funds raised under the sovereign guarantees of the Russian government. To illustrate the point, while in 2000 only four respective credits for the sum of US\$ 81.5 million were obtained by the Bank, in 2001 the volume of the credits raised was already estimated as reaching US\$ 548.73 million, with 46 new loan agreements put in place. Major creditors under these agreements are Germany, Japan, the USA and Norway (Diagram 12). Principally, the dynamics of raising foreign credits in 2001 is reflective of the overall Government's dedication to promoting socially important projects.

s. Diagram 11

s. Diagram 12  
p. 29

Diagram 11  
State Export Credits Extended through Vnesheconombank in 2001  
%

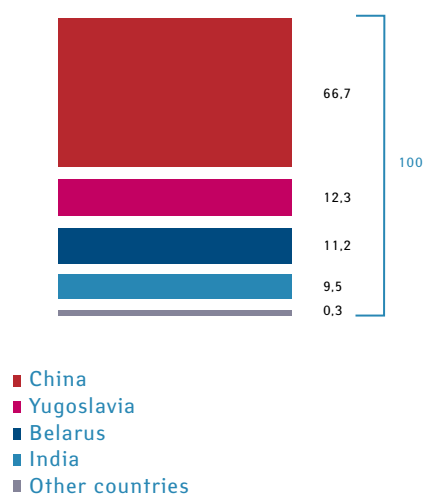
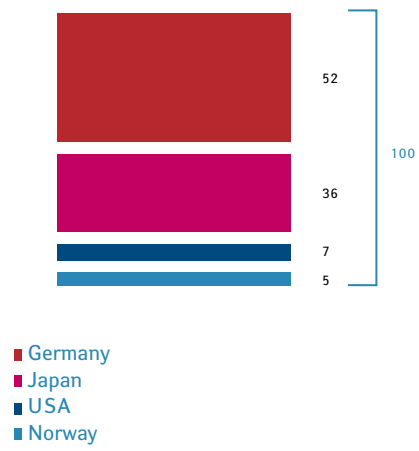


Diagram 12  
Funds Raised by Vnesheconombank under Guarantees of the Russian government in 2001  
%



#### **4 Professional Organisations and Associations: the Role and Place of Vnesheconombank**

In 2001, placed in an evolving market environment Vnesheconombank was continuously developing policies to become an integral part of the global banking community. To ensure stronger global and regional presence, the Bank actively participated in the work of more than 20 interbank associations, public organisations and numerous business forums.

Presently, among our major partners and associates are top banking community and business organisations, such as the Association of Russian Banks, the National Russian Association of S.W.I.F.T. Members, the Russian Trading System (RTS), the National Currency Association, and others. Apart from it, there has been an ongoing focus on improving Vnesheconombank's information profile and enhancing its transparency policies, which is essential, if we are to retain the confidence of our customers and partners. To respond to these challenges, the Bank became a regular member of the Russian Public Relations Association and the Association of Russian Banks, Public Relations Club.

Close business ties with the major global associations and forums, such as the International Chamber of Commerce, the Russian-British Chamber of Commerce, the International Securities Markets Association (ISMA), the Emerging Markets Trade Association (EMTA) and the World Economic Forum came top of the Bank's cooperation priorities list.

From a strategic perspective, Vnesheconombank's proactive participation in the work of leading global organisations is intended to facilitate its smooth integration into the global banking industry to eventually become

its full-fledged member. Also, it enables the Bank to considerably expand its customer base, reinforce cooperation with various banks-counterparties, as well as identify and establish new business contacts.

Drawing on the expertise of the above institutions, Vnesheconombank is committed to shaping up common approaches to Russia's economic development and its banking sector restructuring.

## Internal Controls System

5

It is common knowledge we operate in an ever-evolving and financially complex environment. In light of this, Management recognises the importance of having an appropriate system of internal controls. Principally, it is designed to underpin the Bank's financial stability and growth prospects. We believe it is the combined strength and close interaction of Vnesheconombank's Board of Directors, Financial and Credit Committees, Department of Internal Audit and Controls, as well as other structural divisions that ensures a seamless integration of our businesses and helps upgrade financial risk management and internal controls systems. Our policy of tightening risk controls means separation of powers and responsibilities when making decisions on setting respective trading limits, defining risk tolerance levels, operating in the financial markets or monitoring trading limits enforcement.

Admittedly, further development of the internal controls system was not only directly contingent on the technological developments, but also on the changes in the Russian legal framework, with the most important federal law «On Countering Money Laundering of Illicit Gains» becoming effective on February 1, 2002. Throughout 2001, preparations were under way to tighten overall controls over numerous transactions effected by the Bank. A sharper focus was placed on timely identifying and monitoring the deals which need more stringent checks and controls in compliance with the law.

Further improvements were derived from meticulous IT audit undertaken by Department of Internal Audit and Controls to upgrade the Bank's IT environment.

The year 2001 saw considerable progress in further co-ordinating Vnesheconombank's performance with external auditors and state controlling bodies. In fact, the Bank was subject to checks by Russia's Auditing Chamber. Remarkably, no serious misinterpretations or misstatements of facts were revealed.

In future, the Bank intends to be at the leading edge in the field of risk management. This is an important plank in our strategy. It gives us the confidence to grow the Bank's businesses where we see opportunities.

## 6 Information and Technology Infrastructure

In a bid to be well equipped for the growing competitive challenges in advanced computer-based technologies, intense information processing and financial e-services industry, Vnesheconombank continued to develop its technology platform designed to further improve the Bank's operational efficiency and enhance customer service levels.

A key factor in distinguishing any business from its competitors is sophisticated IT philosophy. Recognising the importance of this, the Bank's Board of Directors adopted the programme of IT development in Vnesheconombank. The main goals and objectives of the programme are the following: to further develop e-banking, to provide information and technology support for business processes and to continually upgrade the Bank's hard- and software.

Underpinning the information and technology infrastructure is the Bank's Automated Information Processing System linked with Reuters and Bloomberg global information systems, Russian Trading System, Moscow Stock Exchange and Moscow Interbank Currency Exchange, analytical blocks for accounting data processing and the S.W.I.F.T. We have also pressed ahead with our continuous effort to create and upgrade the Bank's computerised working places. Actually, within the year 277 new working places were created and 231 upgraded.

Striving for further operational efficiency gains, Vnesheconombank has put even more emphasis on developing software basis to ensure sovereign foreign debt servicing, effecting currency control and custody operations, developing its card business. As a result we suc-

ceeded in enhancing customer service level, on the one hand, and in optimising both internal and external documentation processing, on the other.

Although competition in business communications industry is intensifying we look forward to the many challenges that lie ahead and are quite confident of the Bank's ability to face them.



## Foreign Representative Offices

7

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. Also, the focus was on enhancing interbank cooperation, as well as identifying new challenging projects to ensure business opportunities both for the Bank and its distinctive customers.

In 2001 to deliver better efficiency, the network of Vnesheconombank's Representative Offices underwent a strategic transformation. It should be noted Vnesheconombank has invariably paid utmost attention to developing its operating infrastructure. To take full advantage of the Western federal region's attractive investment opportunities and development dynamics, as well as to accommodate existing and prospective customers there, the Bank started to operate a Representative Office in Kaliningrad. In future, in pursuit of its strategic missions and business priorities, Vnesheconombank will continue to expand its regional presence country-wide. In light of this, it is envisaged to open new Representative Offices in Yekaterinburg, the Urals federal region, Kiev, Ukraine, Khabarovsk, etc. In so doing, we intend to reach more regional customers. At the same time, because of the change in regional priorities and customer connections, a Representative Office in the Arab Republic of Egypt was closed down, with the operations suspended.

At year-end 2001, the Bank's Representative Offices network comprised nine offices, with seven of them

effectively operating abroad (inclusive of two offices in India).

Obviously, among all other Russian banks, Vnesheconombank has the longest record of successfully operating on the financial and economic markets of India and China. More importantly, the Bank has gained in-depth market intelligence and excellent execution capabilities, which match the highest standards of the global financial institutions. Hopefully, the performance of Vnesheconombank's Representative Offices in these countries will help us reach new markets and customer segments adding another dimension to cooperation dynamics.

**Russia**  
**St.Petersburg**  
Nevskiy pr., 25, St. Petersburg,  
191186, Russia  
phone: (7-812) 346 77 27  
fax: (7-812) 346 77 80

**Russia**  
**Kaliningrad**  
Karl Marx street, 134, Kaliningrad,  
236000, Russia  
phone | fax: (7-0112) 51 69 09

**USA**  
**New York**  
Madison ave., 400, Suite 7B,  
New York, NY10017, USA  
phone: (1-212) 421 86 60  
fax: (1-212) 421 86 77

**Italy**  
**Milan**  
Piazzale Principessa Clotilde,  
8-20121, Milano, Italy  
phone: (39-02) 65 36 25  
fax: (3902) 655 16 97

**People's Republic of China**  
**Beijing**  
20A, CITIC Building, 19, Jianguomenwai dajie,  
Beijing 100004, China  
phone: (86-10) 6592 89 05  
fax: (86-10) 6592 89 05

**Hungary**  
**Budapest**  
Bajczy-Zsiliuszky ut., 12,  
Budapest 1051, Hungary  
phone: (36-1) 266 27 86  
fax: (36-1) 318 69 78

**India**  
**Delhi**  
85, Poorvi Marg, Vasant Vihar,  
New Delhi-110057, India  
phone: (91-11) 615 48 35  
fax: (91-11) 615 48 37

**Mumbai**  
11, World Trade Centre, Cuffe, Parade,  
Mumbai-400005, India  
phone: (91-22) 218 27 05  
fax: (91-22) 218 58 45

**Republic of South Africa**  
**Johannesburg**  
PO. Box 413742, Caighall, 2024, 2-nd fl., Chelsea  
Place, 138 West str., Sandton, Johannesburg, RSA  
phone: (27-11) 783 34 25  
fax: (27-11) 784 46 88

## Charitable Activities

8

In all its activities Vnesheconombank does not only aspire to be a pre-eminent client-focused financial institution, but also a good citizen. For us, charity is not an abstract concept, but a responsibility the Bank has been taking seriously through its various programs over a considerable period of time. In this context, we are striving to support the community in which we operate through numerous philanthropic and sponsorship actions. Traditionally, special attention is devoted to health care, educational and cultural projects, as well as to sports.

In 2001, major charity highlights were:

>> Participation in «World without Tears» child health-care project. The key charity achievements in this area included financing purchases of sophisticated medical equipment for improved diagnostics, disposable materials and medicines for haematological laboratories. Among our permanent aid recipients were the major 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. Also, several bone marrow transplant operations were fully financed. More importantly, both the young patients and their families were offered medical, social, as well as psychological support.

>> Further contributions to educational projects. Vnesheconombank continued to sponsor «The Teacher of the Year» contest, rendered appropriate financial aid to the editing and release of innovative higher school textbooks, funded scholarships for exceptional performance to the best students of the Financial Academy under the Government of the Russian Federation, the Lomonosov Moscow State University, the Higher School of Economics, financed and supported several educational programs, «Computer-and Internet-knowledge to Moscow Schools» being most fascinating.

>> Financial aid to preserve intrinsic cultural values and uphold glorious traditions of Russian art, as well as to provide support for young talent. Vnesheconombank took an active part in launching new cultural projects:

Financing the Mariinskij Opera and Ballet Theatre's gala-concert at the Bolshoy Theatre in Moscow and rendering financial support to stage the Bolshoy Theatre's performance at the Mariinskij Opera and Ballet Theatre in St. Petersburg in June 2001. Financial aid in launching the theatre's new cultural event, namely staging a new opera by Verdi. Special emphasis was placed on cultural events of educational character for university students in these cities. Grants were awarded to

encourage young talented singers, with Russia's Minister of Culture M.Shvidkoj and Vnesheconombank's Chairman A.Kostin participating in the award presenting ceremony in Moscow in October 2001.

Continued financial aid to the Pyotr Fomenko Studio, a most talented and innovative company of the modern theatrical world and the Moscow Drama Theatre headed by Armen Dzigarkhanjan.

Participation in a charitable program to support the Pushkin Fine Arts Museum in holding an exhibition of the Duke Yusupov's famous paintings collection.

Traditional assistance in launching the XXIII International Moscow Film Festival held in June 21-31, 2001, as well as sponsoring the production of a number of new popular TV serials and feature films.

>> Support to most fascinating sporting events of the year 2001. Of special note is a cooperation agreement with Russia's National Olympic Committee, which made the Bank an official partner of our National Olympic Team at the XIX Winter Olympics in Salt Lake City, the USA.

Overall, the Bank's charitable performance in 2001 was most encouraging and rewarding. And these charity efforts will remain a priority for the Bank.

## Prospects for the Year 2002

9

In 2001, the positive strategic changes and transformations in our businesses of the previous two years took a firm hold and continued to enhance our results. Financial statistics of the year suggests that Vnesheconombank had a period of significant achievement, with the Bank's own funds and net profit considerably increased. As part of its overall strategy, Vnesheconombank continued a determined drive to upgrade sovereign foreign debt and external financial assets management. Alongside this, Vnesheconombank was dedicated to developing its own commercial activities. We considerably enhanced the volume and efficiency of the Bank's lending operations and customer services, as well as bolstered its financial market performance.

Acting in the Agency capacity, Vnesheconombank will seek to ensure smooth implementation of arrangements and agreements reached with major country and regional clubs of creditor-firms to exchange the former USSR trade commitments for Russian Eurobonds. In future, the Bank will also assist the Russian Ministry of Finance in updating the system of state export credits to match the highest global standards.

Intending to more effectively serve our customers' fundamental financial needs, we aim to:

>> lead manage syndicated loans to finance large scale projects of federal importance together with both Russian and Western partner-banks

>> expand the spectrum of investment banking services, inclusive of lead managing offering, underwriting and trading of debt papers issued by Russian corporates

>> lend to leasing companies specialising in servicing enterprises of aircraft and shipbuilding, automobile and communication industries

>> finance most attractive investment programmes and projects by domestic companies through lending or equity participation

>> elaborate and offer our customers a package of integrated services to meet their standard and individual requirements; to provide advisory services on securities portfolio management; to perfect settlement procedures under export-import operations; to upgrade banking and IT environment.

We intend to further refine the Bank's investment strategies through developing its organisational structure, with a respective Investment Activities Directorate set up.

Additional improvements derived from obtaining a license of a professional securities market operator will be offering brokerage and securities portfolio management services, as well as professional dealing on stock markets.

Currently, the key priorities also include a de-merger of Vnesheconombank, in strict compliance with the Russian government's decision of October 25, 2001, into an independent Debt Management Agency and a banking institution. Advocating a clear strategic direction and high standards for performance against strategy, we firmly believe the ongoing transformation will be a source of future growth and business development.



**Financial Statements****10****February 28, 2002****Report of Independent Auditors**

To the Board of Directors

Bank for Foreign Economic Affairs of the USSR

We have audited the accompanying balance sheets of the Bank for Foreign Economic Affairs of the USSR (hereinafter referred to as «Vnesheconombank» or the «Bank») at December 31, 2001 and 2000, and the related statements of income and equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express our opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vnesheconombank at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with International Accounting Standards issued by the International Accounting Standards Committee.

 **ERNST & YOUNG**

## Balance Sheets

millions of US dollars

	December 31	
	2001	2000
<b>Assets</b>		
Cash and cash equivalents	1,194	829
Due from other banks, net	885	687
Trading securities	796	673
Available for sale securities	168	
Commercial loans, net	576	272
Receivable from the Russian government under London Club	37	54
Due to London Club creditors	(37)	(54)
Other assets, net	207	138
<b>Total assets</b>	<b>3,826</b>	<b>2,599</b>
<b>Liabilities and Russian government equity</b>		
Due to other banks	475	267
Due to the Russian government and the Central Bank of Russia	2,245	1,504
Amounts owed to customers	679	537
Debt securities issued	87	107
Other liabilities	100	65
<b>Total liabilities</b>	<b>3,586</b>	<b>2,480</b>
Russian government equity	240	119
<b>Total liabilities and Russian government equity</b>	<b>3,826</b>	<b>2,599</b>

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



## Statements of Income and Equity

millions of US dollars

	Year ended December 31	
	2001	2000
Interest income:		
Securities	102	92
Loans	42	50
Placements at other banks	38	34
	182	176
Interest expense	(28)	(24)
Net interest income before (provision) benefit for losses	154	152
(Provision) benefit for losses	(59)	42
Net interest income after (provision) benefit for losses	95	194
Fee and commission income	24	22
Gains less losses from securities	176	(62)
Gains less losses from foreign currency translation	(6)	(6)
Other operating income	9	7
Total other income	203	(39)
Payroll and other staff costs	(65)	(50)
Occupancy and equipment	(20)	(15)
Taxes other than income taxes	(7)	(31)
Fee and commission expense	(2)	(2)
Other operating expenses	(32)	(23)
Total operating expenses	(126)	(121)
Income before income taxes	172	34
Income taxes	(60)	(24)
Net income	112	10
Russian government equity at beginning of period	119	109
Net unrealized gains from available for sale securities, net of tax	9	-
Russian government equity at end of period	240	119

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

## Statements of Cash Flows

millions of US dollars

	Year ended December 31	
	2001	2000
<b>Cash flows from operating activities</b>		
Net income	112	10
Adjustments for:		
Depreciation and amortization	3	1
Provision for deferred income taxes	11	7
Provision (benefit) for losses	59	(42)
Change in unrealized appreciation of securities	(74)	(184)
Provision for impairment of securities	4	-
Change in supported value	-	256
Operating income before changes in net operating assets	115	48
(Increase) decrease in operating assets:		
Due from other banks	(203)	212
Trading securities	(49)	47
Securities available for sale	(163)	
Commercial loans	(358)	13
Due from the Russian government	-	(1)
Other assets	(16)	(25)
Increase (decrease) in operating liabilities:		
Due to other banks	208	(346)
Amounts owed to the Russian government and the Central Bank of Russia	741	247
Amounts owed to customers	142	44
Other liabilities	24	13
Net cash provided by operating activities	441	252
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(6)	(8)
Purchases of equity participations	(50)	1
Net cash used in investing activities	(56)	(7)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt securities	-	77
Repayment of issued debt securities	(20)	-
Net cash (used in) provided by financing activities	(20)	77
<b>Net change in cash and cash equivalents</b>	365	322
<b>Cash and cash equivalents at beginning of year</b>	829	507
<b>Cash and cash equivalents at end of year</b>	1,194	829
<b>Supplemental information:</b>		
Income taxes paid	19	14
Interest paid	28	28
Interest received	172	159

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



Alexander Rodchenko.  
White circle.

1918.  
The State Russian Museum

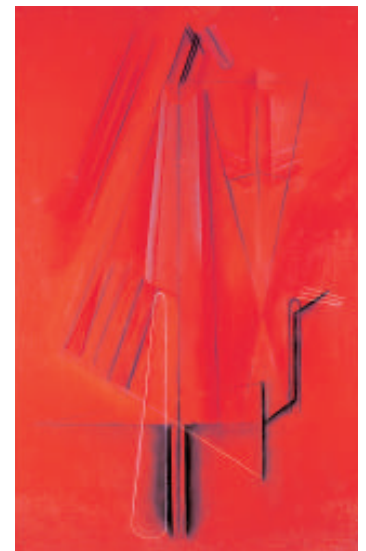
Oil on canvas.  
89,2x71,5 cm



Mikhail Matyushin.  
Crystal.

1919-1920.  
The State Tretyakov Gallery

Oil on canvas.  
68x50 cm



Alexander Tyshler.  
Formal analysis of the red colour.

1922.  
The State Tretyakov Gallery

Oil on canvas.  
101x65,8 cm



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

9, Academic Sakharov Avenue,  
Moscow B-78, GSP-6, 107996, Russian Federation  
phone +7 (095) 207 10 37  
fax +7 (095) 975 21 43  
[www.veb.ru](http://www.veb.ru)