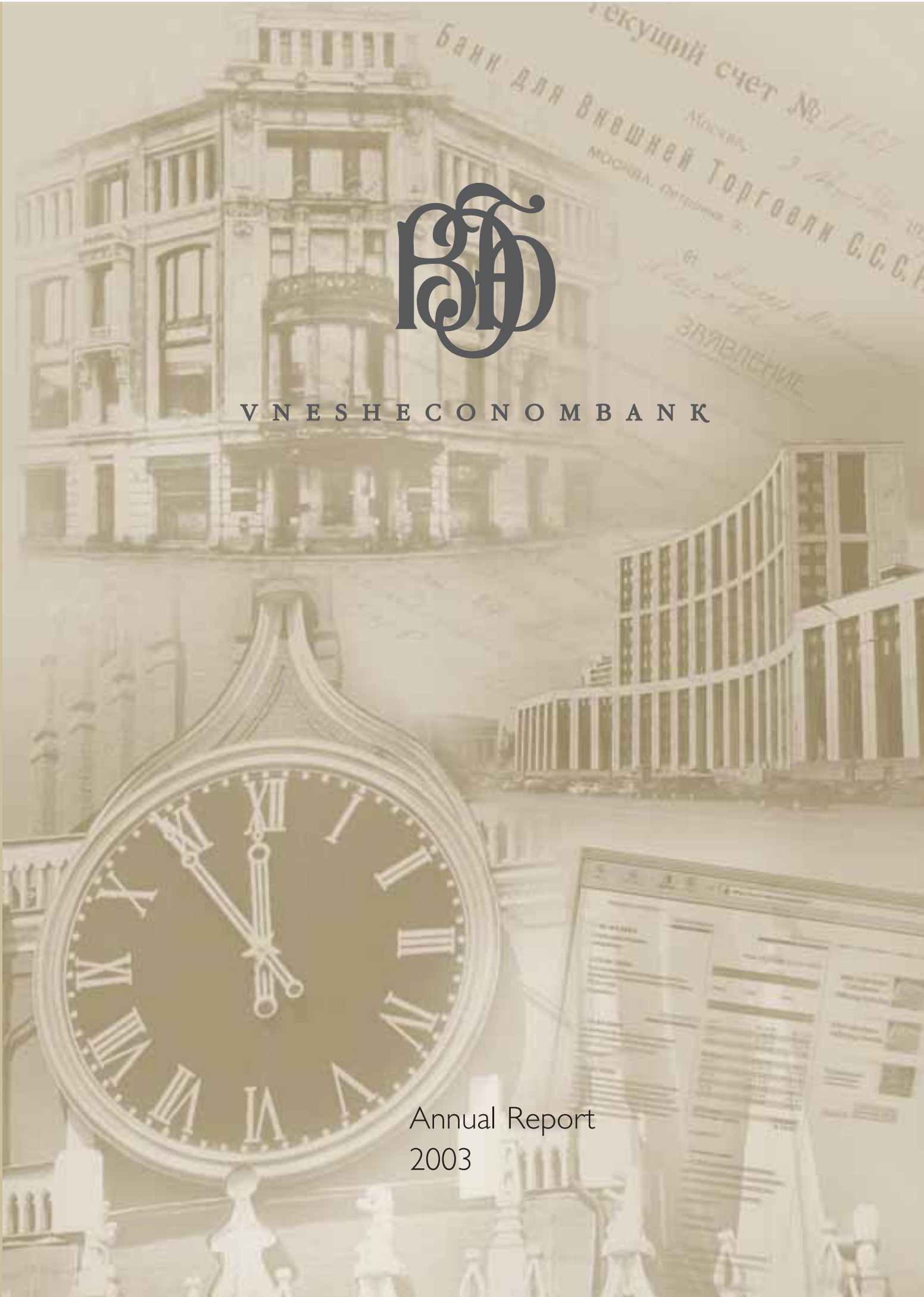




V N E S H E C O N O M B A N K

Annual Report
2003





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

TO THE
80th
ANNIVERSARY



Annual Report
2003



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Ladies and Gentlemen!

In this report we are aiming to give you a detailed description of Vnesheconombank's activities in 2003, to highlight major performance results, the Bank's financial standing, as well as its role and place in Russia's banking system.

Strategically, the past year was quite successful for Russian economy, with major macro-economic indicators posting sustainable growth. Thus, Russia's GDP increased by 7.3 percent. Industrial production grew by 7 percent. Remarkably, the rate of investment growth into fixed assets, a key indicator of economic development dynamics, increased from 2.8 percent in 2002 to 12.5 percent in 2003, while the vol-

ume of investment reached RUR 2.18 trillion. Russia's gold and foreign exchange reserves rose by 60.1 percent to run at USD 76.9 billion. More importantly, for the first time, the country succeeded in keeping the inflation rate well within the 12 percent limit set in the federal budget for the year 2003.

For the Russian banking system, the year 2003 proved to be a year of dynamic and sustainable growth. To illustrate, the banking sector assets grew by more than one third to stand at RUR 5.6 trillion. At the same time, the year witnessed a reduction of the share of foreign currency-denominated assets in the aggregate assets of the banking sector. The capital of Russian banks was estimated to have increased by more than 40 percent to reach RUR 815.6 billion.

This past year, Vnesheconombank continued to consistently and successfully develop its core businesses designed to ensure banking support for structural reforms undertaken by the state, first and foremost, in the areas of economy and social welfare.

For Vnesheconombank, the year 2003, despite a decrease in commercial operations, unrelated to state programs implementation, was marked by the growth of the Bank's major financial indicators. Thus, at year-end 2003, income before income taxes reached USD 173 million, which demonstrates a 15 percent increase on the previous year figure and is an all time high for the last five years.

Also, central to our performance in 2003 was further upgrading the Bank's activities as an agent of the Government of the Russian Federation. Overall, in 2003, as a result of operations with Russia's external financial assets the sum of USD 1.5 billion was transferred to the federal budget. The past year, in strict compliance with the law on 'The Year 2003 Federal Budget' new schemes of sovereign foreign debt redemption, with no direct budget expenditures involved, were applied. Also, the year saw further progress in activities to recover credits extended to Russian companies out of the federal budget funds. Largely as a consequence, overall in 2003, USD 1.3 billion worth of such obligations owed to the Ministry of Finance was settled.

Equally important, the year 2003 witnessed substantial progress in such relatively new for Vnesheconombank strategic areas as support and promotion of Russian exporters and assisting the state in its pension reform effort.

The way Vladimir Putin, the Russian President, sees it and has continuously emphasized, the ongoing pension reform is one of the major components in delivering Russia's economic and social transformation agenda. It's designed to meet the economic challenges the country is faced with and contribute to the prosperity and well-being of the Russian people.

To embrace new priorities, the Bank continued its effort to invest Russian Pension Fund's assets in securities. Vnesheconombank's performance as a Pension Fund agent was positively evaluated by the Russian Ministry of Finance with the year-end 2003 results credibly estimated as 'sensational'. Actually, the yield generated from the

Pension Fund's securities portfolio trading made 30 percent per annum.

In 2003, Vnesheconombank completed meticulous work to start acting as a State Trust Management Company, with respective agreements with the Russian Pension Fund and the specialised depository concluded. Special trust management accounts were opened. To drive the business forward, an autonomous and independent structural division to handle pension funds was created.

We acknowledge high skills and professionalism of Vnesheconombank's staff, long-term experience of operating on financial markets will enable the Bank to most efficiently embrace the function of a State Trust Management Company and maximize pension funds value.

Principally, identifying economic policy priorities, Mikhail Fradkov, the Chairman of the Government of the Russian Federation, placed tighter focus on the development of non-raw materials and high-tech sector, as well as emphasized the need to enhance the competitiveness of Russian exporters both on domestic and foreign markets. It's another priority task Vnesheconombank was entrusted with by the Russian Government.

Admittedly, while elaborating the Concept of State Financial Support /Insurance/ of Industrial Exports adopted last year, considerable benefits were derived from Vnesheconombank's in-depth expertise and intelligence gained over the years of long-standing cooperation with export credit guarantee agencies and specialised banks of industrialised nations. To reinforce the selected strategic area, Vnesheconombank, acting on the instructions of the Russian Government, was aiming to galvanise Roseximbank's activities as a core institution in implementing the Concept.


Equally important, this past year, within the framework of the official visits of the President of the Russian Federation V. Putin to foreign countries, agreements with the financial institutions of the USA, Great Britain, Germany, France and Italy were concluded, the major underlying aim being credit and insurance support of export and investment projects of Russian enterprises implemented jointly with leading foreign companies in third countries. Hopefully, such 'equal footing' cooperation will enhance the country's competitive edge, which, in light of Russia's G8 group membership, acquires a special urgency.

Recognising the Bank's sound performance in 2003, such leading international rating agencies as Fitch and Moody's upgraded Vnesheconombank's ratings. Thus, the Fitch rating agency raised Vnesheconombank's long-term credit rating from 'BB-' to 'BB+', while Moody's upgraded its long-term deposit rating from 'Ba3' to 'Ba1'. Traditionally, Vnesheconombank's ratings are at par with the sovereign rating of Russia.

For Vnesheconombank, the current year is going to be very special. This year we are celebrating the 80th anniversary of the Bank's foundation. We are real proud of the Bank's history, closely aligned with the history of the country. On this significant

occasion, I would like to congratulate all the veterans and employees of the Bank. Also, we realise our success comes down to close cooperation with our colleagues and partners, their reinforced trust and support, which enabled us to deliver tangible results. I should record my thanks to them.

I am fairly confident, our joint efforts and the synergy will help meet all the tasks and objectives set by the President and the Russian Government and serve as a strong leverage for reinforcing national economy and ensuring Russia's well-being and prosperity.



Chairman
of Vnesheconombank
V. Chemukhin

Board of Directors



Chairman of the Bank
Vladimir Anatolievich Chernukhin



First Deputy Chairman
Nikolay Nikolaevich Kosov



Deputy Chairman
Vasily Vyachaslavovich Kirpichev



Deputy Chairman
Sergey Anatolievich Storchak



Deputy Chairman
Anatoly Pavlovich Zabaznov



Deputy Chairman
Mirza Abdulkerimovich Imamaliev



Security Director
Aleksandr Sergeevich Gruzinov



Chief Accountant
Vladimir Dmitrievich Shaprinskiy



Vnesheconombank 2003 -
Financial Highlights and Operating Statistics



Vnesheconombank 2003 - Financial Highlights and Operating Statistics

Management believes the year 2003 proved to be a hallmark event in the Bank's development. Principally, it was the first year that saw an enhancement of the Bank's role as a specialised financial institution designed to ensure banking support for state economic and social policies.

This past year, we set out in some detail and undertook a strenuous effort to further upgrade Vnesheconombank's performance as an agent of the Government of the Russian Federation and the Russian Pension Fund agent, as well as to strike out into new strategic directions. The new areas of business embraced implementation of Russian industrial exports support program and the state pension reform effort.

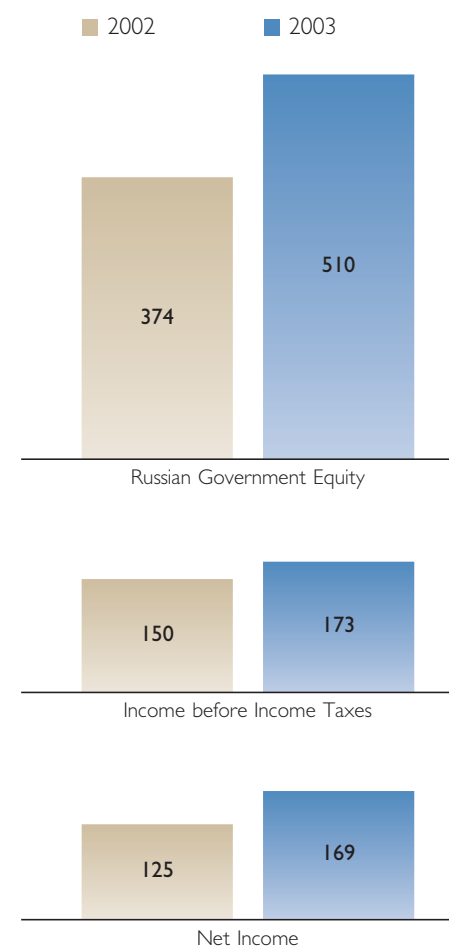
In addition, enhanced focus placed on identifying the most efficient ways of assets investment enabled the Bank to deliver tangible financial results, by far exceeding previous years' figures.

To illustrate, in the year under review, income before income taxes reached USD 173 million, which is a more than 15 percent increase on the year 2002. Alongside that, net income grew by 35 percent from USD 125 million to USD 169 million. The Bank's capital (Russian Government equity) posted a 1.36 time increase, the highest figure since 1998 (Diagram 1).

Within the year, securities portfolio balance sheet value increased by 28 percent. The volume of net commercial loans portfolio also showed growth on the previous year. At the same time, the Bank's total assets (liabilities), excluding agency operations, made USD 4.701 billion, which practically equals the previous year figure.

In appreciation of Vnesheconombank's sound financial performance leading international rating agencies the Fitch and Moody's upgraded the Bank's ratings. Thus, the Fitch rating agency raised Vnesheconombank's long-term credit rating from 'BB-' to 'BB+', while Moody's upgraded its long-term deposit rating from 'Ba3' to 'Ba1'. Both major agencies give a positive outlook for Vnesheconombank's ratings.

Diagram 1
Financial Highlights as of December 31,
respective year
USD million





Customer Profile

Correspondent Banking

Customer Profile

Obviously, Vnesheconombank's customer-focused policy is reflective of its unique position as a specialised state financial institution. The Bank seeks to generate a flow of new customers offering them access to a whole range of services. Among them, primarily, are major enterprises engaged in implementing projects of state importance. We acknowledge the Bank's expertise and execution capabilities in the area of international settlements, custody services, as well as lending and guarantee operations give it a strong competitive edge.

Largely as a consequence of the Bank's targeted efforts to enhance its customer connections, the average yearly balances in corporate customer accounts witnessed a 6 percent growth¹, one of the reasons for the growth being that 39 new corporate customers applied for Vnesheconombank's services. Among them are the GNK NAFTA MOSCOW joint-stock company, the National Depository Centre, the Ministry of Industry, Science and Technology of the Russian Federation, etc.

This year we tried to adopt a greater focus on developing partnership relationships with machine-engineering enterprises which are designed to help resolve a major issue of considerably reducing Russian economy's dependence on raw materials- and energy resources-led exports.

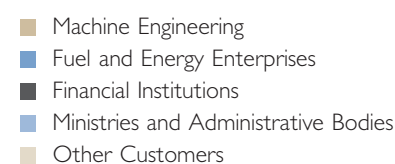
Presently, we proudly count among our customers such major enterprises and companies as the state-owned 'Rosoboronexport', the 'Sukhoi Aviation Holding', the 'Ilyushin Aviation Complex' and 'AvtoVaz' joint-stock companies, etc. Management recognises the core of the Bank's strategy is to best suit individual customer needs, irrespective of the cooperation timeframe. In 2003, the Bank's professionals, acting as experts, were actively engaged in negotiations with the customers' business partners, invariably seeking to make enhancements to financial parameters of the operations to be effected.

The past year saw further progress in the Bank's activities as an agent of the Russian Ministry of Finance. In its agency capacity, Vnesheconombank is authorized to service accounts of various enterprises and organisations within the framework of the International Bank for

¹ Corporate customers meaning legal entities, residents of the Russian Federation (except banks).

Reconstruction and Development (IBRD) projects to be financed out of the IBRD funds extended to the Government of the Russian Federation, as well as the European Bank for Reconstruction and Development (EBRD) funds. Among the key projects were: 'Environmental Management', 'Social Protection and Implementation', 'Capital Market Development', 'Treasury Development', 'Electricity Sector Reform', 'Energy Efficiency', 'Urban Municipal Transport', 'Urban Transport'.

Diagram 2
Yearly Turnovers on Customer Accounts



Correspondent Banking

Actually, a shift in the focus of Vnesheconombank's activities predetermined the need to optimize the correspondent network. First and foremost, a concerted effort was made to consistently expand and enhance correspondent relations with Russian banks, as well as with the international clearing and settlement centres Euroclear Bank (Brussels) and Clearstream Banking (Luxembourg). Over the year, the total number of nostro accounts increased by 20 to reach 227. The growth in the number of loro accounts was directly reflective of Vnesheconombank's enhanced and strengthened place and role in the banking system of Russia. Over the year 2003, 45 loro accounts were additionally opened. The Bank's current correspondent network is clearly illustrated in the table given below.

Vnesheconombank's Correspondent Network as of December 31, 2003

	Loro Accounts	Nostro Accounts
Europe and North America	16	83
Asia, Africa and Latin America	35	108
Russia	368	31
CIS	131	1
International banks	8	4
Total	558	227

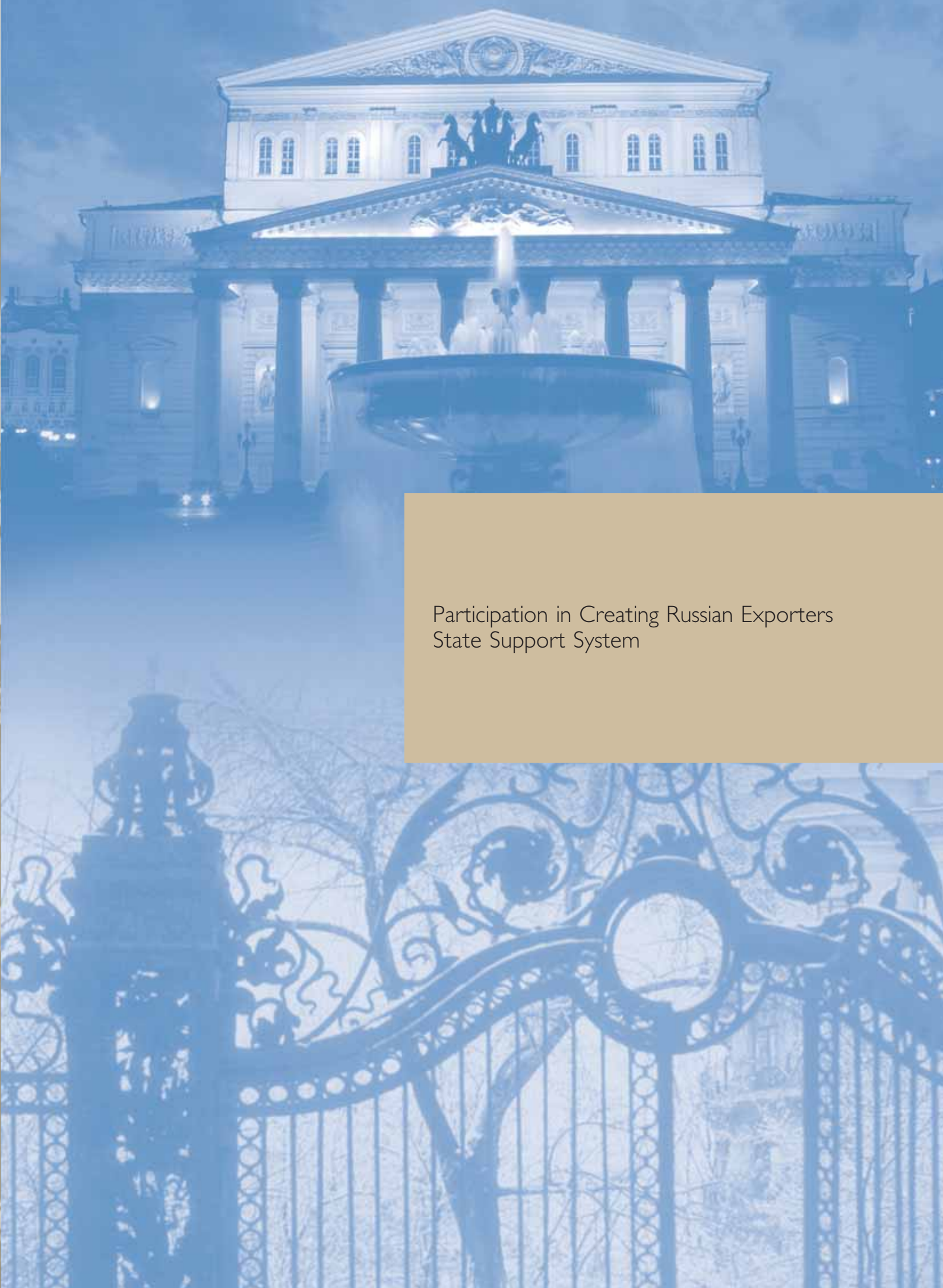
In 2003, the turnover over the Bank's correspondent accounts grew by 58 percent to reach USD 380 billion. In certain cases, Vnesheconombank managed to get the conditions of maintaining nostro accounts improved through certain arrangements reached as a result of negotiations, inclusive of lower commission, enhanced spectrum of free of charge services, higher interest rates on account balances.

As of December 31, 2003, Vnesheconombank set limits on 109 banks and financial companies, inclusive of 52 foreign correspondents.

Vnesheconombank pressed ahead with reinforcing relationship with banks-counterparties who accept the Banks' liabilities without any collateral. Largely as a consequence, a considerable part of foreign financial institutions set or increased limits on the Bank for documentary, guarantee, foreign exchange, deposit and securities operations. Among them are: Deutsche Bank AG, Bayerische Landesbank Girozentrale, Westdeutsche Landesbank Girozentrale, The Bank of New York, Nordea Bank Finland Plc.

With the aim to enhance and diversify customer base and reinforce relations with regional and domestic banks, presentations of Vnesheconombank and Roseximbank were prepared and carried out within the framework of major international and Russian events, such as: the forum 'Correspondent Relationship 2003' held in London, the Day of Russian Banks in Vein, the Russian-Indonesian Business Forum, the First Economic Forum of the Eurasian Economic Community in Moscow, an international scientific-practical conference 'Development of Documentary Operations and Russian and International Trade Customs and Practices' in Kazan.

High energies were devoted to reinforcing the ongoing relations with the Institute of International Banking Law and Practices, as well as with the International Association of Financial Services.



Participation in Creating Russian Exporters
State Support System



Participation in Creating Russian Exporters State Support System

Admittedly, while elaborating the Concept of State Financial Support /Insurance/ of Industrial Exports considerable benefits were derived from Vnesheconombank's in-depth expertise and intelligence in export-import financing and insurance against commercial risks, gained over the years of long-standing cooperation with export credit guarantee agencies and insurance companies, as well as specialised banks of industrialised nations. The Concept defining state policy tasks, objectives and priorities in the above area and setting out measures of their implementation was adopted by a directive of the Government of the Russian Federation.

In delivering Russian industrial exports support agenda, Vnesheconombank stepped up Roseximbank's activities as a core institution in implementing the Concept. In 2003, Roseximbank's authorized capital was increased by way of an additional share issue, with 100 percent of it purchased by Vnesheconombank. Presently, among Roseximbank's top executives are Vnesheconombank's professionals possessing vast experience and intelligence in export-import financing. A number of regulatory documents designed to ensure greater transparency of utilisation and availability of the federal budget funds, earmarked for the above purposes for all the participants in foreign economic activities, were devised.

An increased focus was placed on fostering contacts and reinforcing cooperation both with national and international financial institutions specialising in exports promotion and exporter interests accommodation and protection. In 2003, Vnesheconombank initiated and arranged a Round Table 'Support for Russian Exports and Foreign Investment into Russia'. More importantly, the initiative was approved by the Government of the Russian Federation and implemented in close interaction with the International Union of Credit and Investment Insurers ('the Bern Union').

Vnesheconombank's concentrated efforts to ensure banking support for state economic policies, as well as its well-established reputation of a highly reliable partner served as a strong leverage for entering into a number of agreements with leading export credit agencies, insurance

companies and specialised banks of industrialised nations. Thus, in 2003, Vnesheconombank signed cooperation agreements with the US EX-IM Bank, the Export Credits Guarantee Department of the UK (ECGD), KfW (Germany), the association of French banks 'AFB-export', SACE, an export credit insurance agency and SIMEST, an Italian financial institution for development and promotion of Italian business abroad.

These agreements, signed with the participation of Roseximbank, are instrumental in implementing joint projects of the parties concerned in third countries. Overall, it is viewed as a window of opportunity for Russian exporters of high-tech industry products (aerospace, atomic energy, etc.) to enhance their competitive edge. According to the terms of the above agreements, support to Russian exporters can be rendered both in the form of direct lending to foreign buyers of Russian industrial products and through insurance of export credits extended by the Russian party.

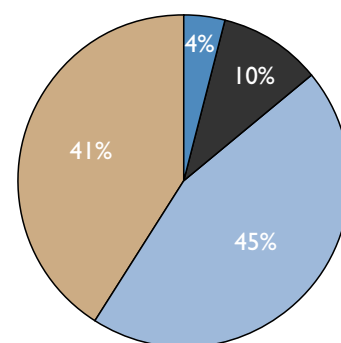
Similar agreements are being elaborated with the Export-Import Bank of Hungary and the state Hungarian insurance company MEXIB, as well as with the Japanese Bank for International Cooperation (JBIC).

Identifying export support priorities, the Bank intensified its efforts to ensure adequate financial servicing of projects implemented by Russian enterprises, whose export activities are of vital importance for the national economy. To illustrate, the volume of loans extended to corporate clients in 2003 exceeded USD 600 million. At the same time, there was an increase in the portfolio of guarantees issued by Vnesheconombank, including those to collateralize contractual obligations of the 'Atomstroieexport' and 'TVEL' joint-stock companies, etc. As a matter of fact, the biggest volume of Vnesheconombank's guarantees was extended within the framework of contracts made with enterprising economic entities and state institutions and organisations of China and India.

In 2003, in an effort to reinforce strategically selected areas of activities, substantial preliminary work to ensure implementation of federally important projects was accomplished. By way of example, acting in the capacity of a financial consultant, Vnesheconombank actively participated in devising efficient schemes to finance the con-

Diagram 3
Guarantees issued,
valid as of December 31, 2003

- Advanced Payments Guarantees
- Performance Guarantees
- Cash Payments Guarantees
- Other Guarantees



struction of the Angarsk-Nakhodka major oil pipeline (with a branch to Datsin). The project envisages raising funds from JBIC, as well as the use of state financial resources of the People's Republic of China. The Angarsk-Nakhodka oil pipeline scheme was already approved by the Japanese party and Russia's Ministry of Energy, while the issue related to the construction of the 'Chinese' part of the oil pipeline and its financing is still being debated by the parties. Moreover, Vnesheconombank performed pre-contract analysis of the energy projects to be launched in 2004 in Vietnam, as well as in some republics of the former Yugoslavia.

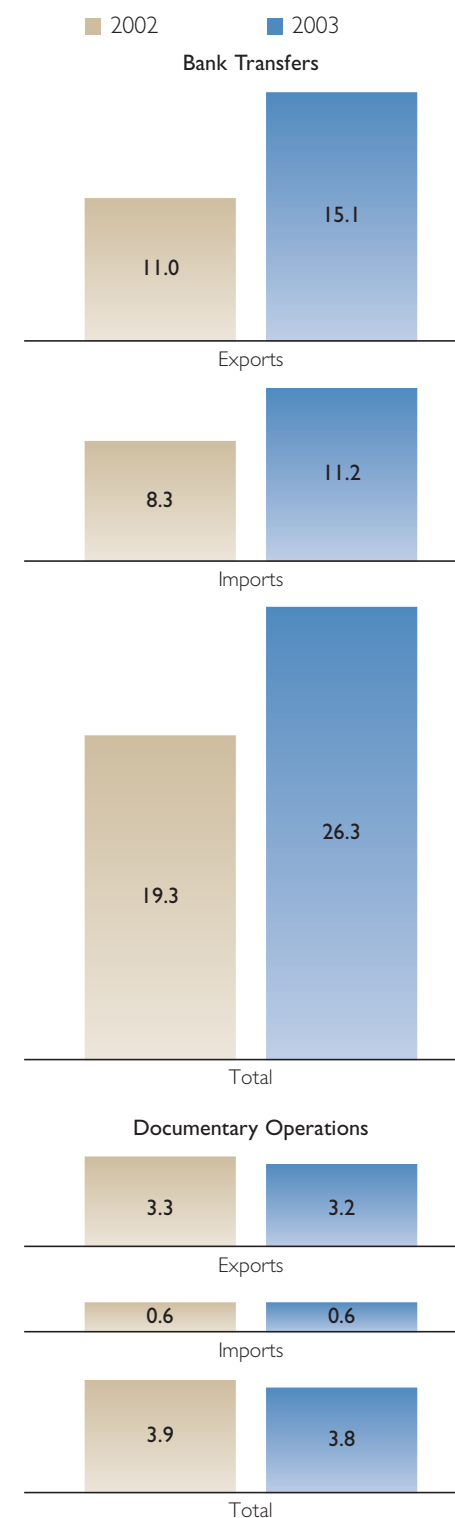


- International Settlements
- Operations on Securities Market
- Custody Services





Diagram 4
Payments under International Settlements
USD billion



International Settlements

Management believes, in 2003, the Bank, invariably taking the lead in the Russian banking system, reinforced its strong pattern of leadership in the international settlements area. Admittedly, throughout its 80 years of operating on the global financial markets, Vnesheconombank gained a reputation of a reliable partner, capable of best ensuring the interests of both its customers and their counterparties abroad.

The past year witnessed the volume of international payments effected by the Bank and receipts arising out of customer operations increase by 29.7 percent to stand at USD 30.1 billion, as compared to the year 2002. The volume of receipts generated under customers' export contracts amounted to USD 18.3 billion, while payments under import contracts reached USD 11.8 billion. Remarkably, the Bank's share in servicing the country's foreign trade turnover reached 11.9 percent, as compared to 11.4 percent in 2002².

The biggest volume of all international settlements effected (87percent) were bank transfers made through Vnesheconombank's correspondent accounts, with 95 percent of them being in freely convertible currencies. Traditionally, Vnesheconombank is known for its proven experience in effecting settlements under documentary L/Cs in clearing currencies. It, primarily, concerns settlements made in redemption of India's sovereign debt owed to the Russian Federation, as well as L/Cs opened to effect operations related to the redemption of Vietnam's indebtedness. In particular, a big volume of settlements was made in the so-called 'US dollars under settlements with the PRC', the use of which is specified in the Russian-Chinese intergovernmental agreement of 1995.

Throughout the period under review, tighter focus was placed on delivering a wider spectrum of customer-oriented high quality products and services. New energies were devoted to Vnesheconombank's performing the role of a reimbursement bank. Acting within authorizations received under Russian commercial banks' L/Cs, the Bank issued reimbursement obligations seeking to meet all the requirements of nominated banks under relevant transactions.

² According to the Bank of Russia's estimates, as of January 5, 2004. 'Assessing Russia's Balance of Payments for the Year 2003'.

The Bank continued its practice of opening uncollateralized L/Cs (within limits set on customers), security-pledged L/Cs, as well as using complex settlement schemes, inclusive of the use, among others, of Stand-by L/Cs.

Clearly, Vnesheconombank's success in providing international settlement services comes down to its long-term experience and unique execution capabilities in the settlement/payment area, a well-established global correspondent network, sophisticated IT platform and expertise of its staff which demonstrates high professional standards. Overall, it enables the Bank not only to offer its customers engaged in foreign economic activities a wide range of services, but also facilitate and streamline payment routes, thereby ensuring high quality and speedy transactions.

Encouragingly, Vnesheconombank closely cooperates with the representatives of both Russian and global banking community. In particular, the Bank continues active participation in the work of Commissions on Banking Technique and Practice of the International Chamber of Commerce (ICC) and the Russian National Committee of the ICC. There, various issues related to business customs and practices to apply to procedures regulating international settlements are being continuously debated.

In 2003, to foster and promote best banking documentary operations practices among Russian banks, Vnesheconombank, together with Euromoney Legal Training, organised a specialised seminar 'Documentary L/Cs in International Trade Operations'. Remarkably, the seminar was highly appreciated by the participants.

Operations on Securities Market

New challenging tasks set for Vnesheconombank by the Government gave a fresh impetus to its operations on both the domestic and global financial markets. In light of this, special emphasis was placed on reinforcing the Bank's position as a major market-maker of Russian government foreign currency-denominated bonds.

The year 2003 witnessed further increase in prices of foreign currency-denominated bonds of emerging market countries. Thus, the JP Morgan EMBI+ index posted a

28.8 percent rise as compared to 14.2 percent in 2002, with its Russian component making 22.5 percent. The yield spread between Russia's Eurobonds '2030', a major benchmark when evaluating Russia's risks, and the US Treasury 10-year bonds (UST10Y), dropped from 526 to 288 basis points.

The strategy of increasing investment into Russian government foreign currency-denominated bonds adopted by Vnesheconombank against the background of a rising price trend for these instruments brought about a good yield.

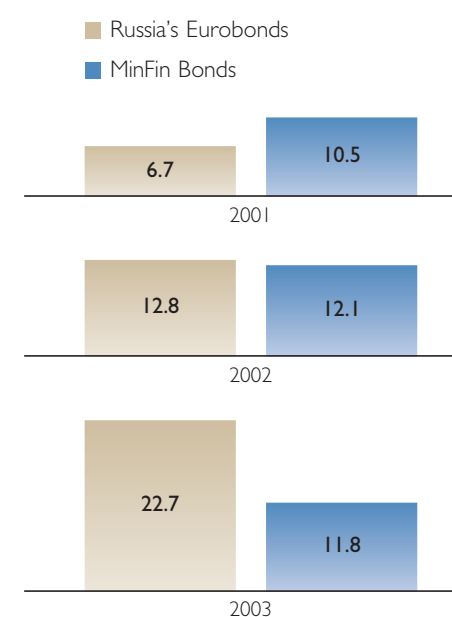
The average volume of the Bank's securities portfolio grew by 53 percent to stand at USD 2 billion, as compared to the previous year. The turnover under securities transactions amounted to USD 42.4 billion, as compared to USD 35.5 billion within the previous period under review. Special energies were devoted to dealing in Russian Eurobonds and MinFins (Diagram 5). Simultaneously, the turnover under transactions with foreign currency-denominated Russian corporate bonds showed growth.

Largely as a consequence of an enhanced turnover under securities transactions, the year 2003 saw an expansion of the group of the Bank's counterparties operating on the foreign currency-denominated debt securities market. Also, the Bank continued to pursue opportunities for embracing more of its Russian counterparties. Within the year 2003, 12 new general agreements with banks and financial companies, residents of the Russian Federation, were signed.

A strategic priority for Vnesheconombank, acting as an agent of the Pension Fund of the Russian Federation, was meticulous and impeccable execution of all orders to invest funds accumulated in the savings portion of labour pensions, as well as temporary idle funds of Russia's Pension Fund budget reserve. To compare to the year 2002, the number of transactions made in 2003 on the orders of the Pension Fund grew more than 5 times.

In the period under review, Vnesheconombank lead managed the issuance of bonds for the sum of RUR 1 billion for 'The Agency for Mortgage Loans' joint-stock company, with the MDM-Bank and the Renaissance Capital Ltd. acting as co-lead managers. The underwriting procedure went off well.

Diagram 5
Volumes of Operations in Securities
USD billion



Custody Services

Vnesheconombank's Custody Department has been operating for four years. Over this short period, it has become one of the major custody services market participants.

At year-end 2003, the number of customers' custody accounts opened with the Bank totalled 1107, while the average yearly volume of securities kept in safe custody with Vnesheconombank increased by 13 percent to reach USD 7.9 billion.

Eurobonds of the Russian Federation accounted for 56 percent of all the securities kept in the Bank's safe custody, with the yearly turnover under the above securities totalling from USD 4 to 5.5 billion a month. Largely as a consequence, in 2003, in terms of key indicators of Eurobonds servicing, Vnesheconombank's Custody Department has become a leading Russian depository and a major Russian counterparty of the international clearing centre Euroclear Bank.

Throughout 2003, the number of operations over the customers' custody accounts opened with the Bank nearly doubled to reach 13 thousand. This was mainly achieved through a wide use in servicing clients of such schemes as 'segregated' and 'tied' transactions, as well as 'back-to-back' operations.

A new area of the Custody Department business activities has become settlement servicing under transactions with the American Depository Receipts (ADRs), as well as services on conversion of Russian companies' equities into ADRs' through depositories, servicing ADRs' issuers.

Thus, in 2003, Vnesheconombank's Custody Department reached new highs, which enabled it to provide its customers with a whole spectrum of custody services existing on custody services market.

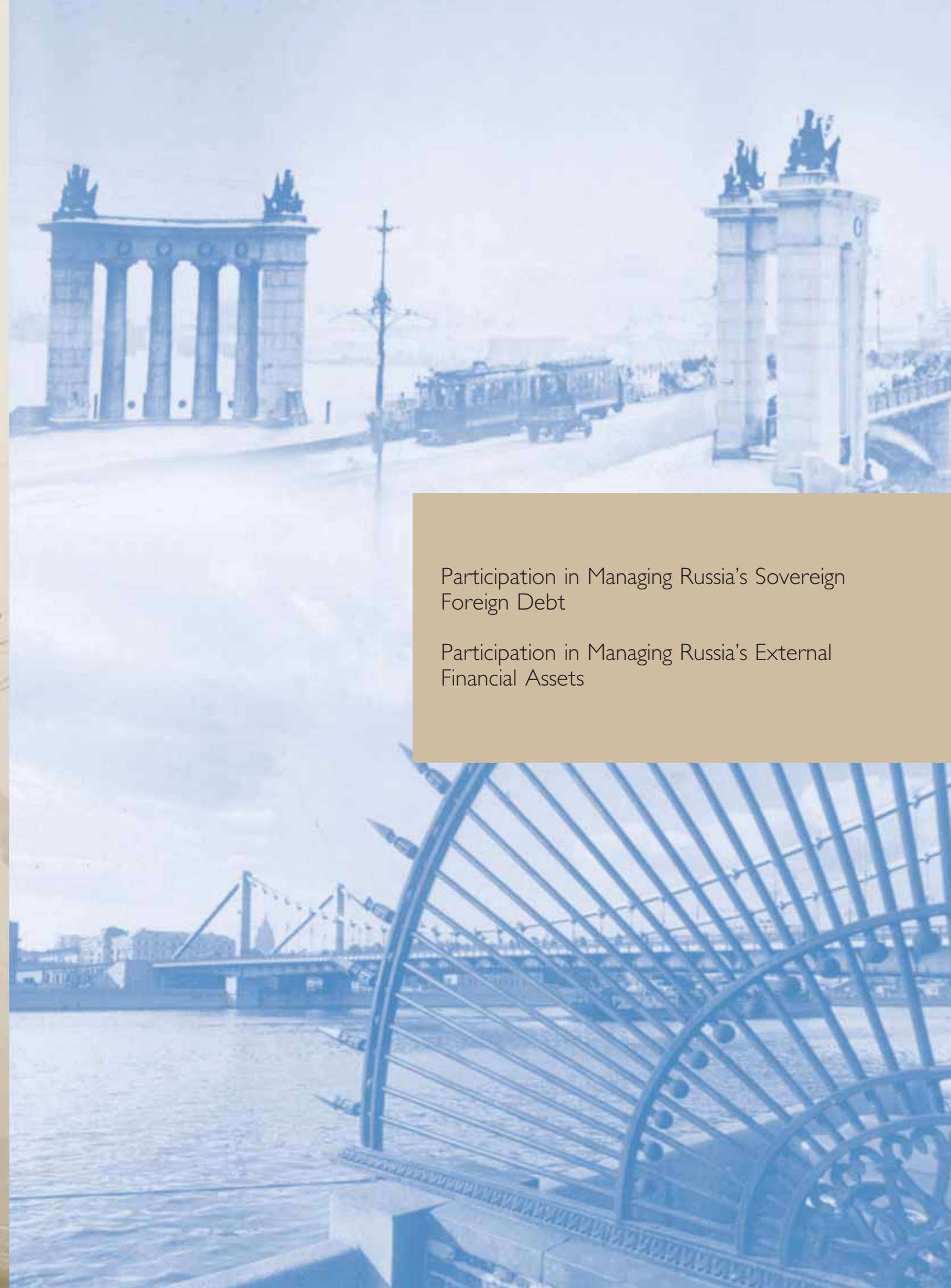
Acting as a payment agent under corporate bonds, Vnesheconombank effected two semi-annual coupon payments under the bonds of the 'Agency for Mortgage Loans' and the 'Irkut' joint-stock companies.

To improve the quality of custody services the Bank provided its customers with an opportunity to get statements of custody accounts the day the transactions were executed (at the end of the business day). Also, the proceeds under the securities could be transferred in favour of the client the day the respective amounts are entered

into Vnesheconombank's correspondent accounts maintained with international clearing centres. To enhance efficiency of customer information servicing within Euroclear Bank system a new software package Euroclear Bank 'EUCLID' ensuring electronic turnover of documents was introduced by Vnesheconombank's Custody Department.

The Bank's representatives took part in the work of the task forces of the State Duma of the Russian Federation related to the issues of setting up Russia's Central Depository, as well as making amendments to the Law 'On the Securities Market' regarding registrars' and depositories' activities.

Analytical documents, developed with the participation of Vnesheconombank's professionals, were used in practical work of the above task forces, as well as the Professional Association of Registrars, Transfer Agents and Depositories and the National Stockmarket Association.



Participation in Managing Russia's Sovereign Foreign Debt

Participation in Managing Russia's External Financial Assets

Participation in Managing Russia's Sovereign Foreign Debt

Overcoming the peak in redemption of the sovereign foreign debt of the Russian Federation was a milestone event of the year 2003. Vnesheconombank's tangible contribution was a significant leverage in meeting the challenge. It facilitated transfers for the sum of USD 10.1 billion, ensured the implementation of goods delivery debt redemption schemes in the amount of USD 365 million and debt assignment schemes totalling USD 375 million.

As of December 31, 2003, the sovereign foreign debt of Russia was estimated to total USD 119.1 billion, inclusive of the sum of USD 106.6 billion being recorded on Vnesheconombank's books. Over the year, the indebtedness decreased by USD 6.65 billion. Among the major reasons for the decrease appeared to be: due settlement of liabilities under Russia's new debt, writing off certain debt categories owed to the official creditor-countries who are not members of the Paris Club within the framework of the debt settlement schemes, as well as the redemption of the IV tranche MinFins and two 1998 Eurobond issues.

Alongside that, the depreciation of the US dollar against major world currencies, first and foremost, Euro appeared to be the reason for a certain 'statistical' growth of the dollar equivalent indebtedness amount owed to the Paris Club member-countries.

Indebtedness to Paris Club Member-Countries

Liabilities toward the Paris Club creditors (standing at USD 46.4 billion) constitute the biggest share (more than 38 percent) in the structure of Russia's sovereign foreign debt, inclusive of USD 42.16 billion being credits restructured in line with the agreements, made within the framework of the Paris Club multilateral protocols.

In 2003, Vnesheconombank executed payments to 22 export credit agencies of the Paris Club member-countries for the total sum of USD 0.94 billion and EURO 2.5 billion. The payments were effected in conformity with the terms and conditions of the 44 current bilateral intergovernmental and 12 interbank agreements.

Throughout the period under review Vnesheconombank acting in cooperation with the organisa-

tion authorized by the British party (the Export Credits Guarantee Department - the ECGD) completed a year and a half-long reconciliation of the debt obligations towards Great Britain totalling USD 1.3 billion. The above mentioned indebtedness was settled within the framework of the multilateral Paris Club protocols concluded with Russia. However, due to some disagreements a number of sums of debt obligations formally remained beyond the framework of the intergovernmental arrangements. In the course of the reconciliation, favourable for Russia rates of conversion of national currencies into GBP were agreed, as well as arrangements in accordance with which the British party will not charge penalty interest over the period from 1998 to 2002 were achieved. Obviously, all that contributed to the reduction of the indebtedness towards Great Britain.

Also, Vnesheconombank continued preparation to implement the programs of sovereign foreign debt conversion. Once the respective arrangements with investors and creditors are achieved, Russia will be able not only to reduce the cost of servicing of the former USSR indebtedness towards Italy, Finland and Spain, settled within the framework of the Paris Club, but also to increase the influx of investment into Russian economy. Thus, with Vnesheconombank's direct participation a conversion program 'debt-investment swap' for the sum of up to USD 550 million was agreed with the Italian party in general, as well as a Russian-Italian Panel on Conversion was formed. Vnesheconombank was designated as the Russian party's official representative on that Panel. Work practices and work schemes to apply to individual conversion operations were developed. Also, requirements defining the set of documents needed for taking part in the program were prepared and placed on Vnesheconombank's website.

The Former USSR Commercial Indebtedness and the Former USSR Indebtedness to the International Bank for Economic Cooperation and the International Investment Bank

As of December 31, 2003, the unsettled part of the former USSR commercial indebtedness was estimated as standing at USD 1.94 billion.

Vnesheconombank continued working on reconciliation of the given sovereign foreign debt category, as well

as on preparation of the second tranche of exchange of commercial indebtedness for Eurobonds maturing in 2010 and 2030. Notifications to withdraw court ruled debt recovery claims were sent to a number of creditors. The Bank managed to withdraw a claim of one of the foreign creditors and to unblock funds totalling EURO 2.9 million which had been arrested on the account with the Ost-West Handelsbank.

In 2003, the Bank started to implement the decisions of the Government of the Russian Federation regarding the settlement of the former USSR indebtedness towards the International Bank for Economic Cooperation (the IBEC) and the International Investment Bank (the IIB) through the exchange of these obligations for the obligations of the IBEC and the IIB towards foreign creditors with their simultaneous exchange for Russian Eurobonds maturing in 2010 and 2030.

Memoranda on reconciliation of the indebtedness defining major terms and conditions of cooperation in the given area were signed with the IBEC and the IIB.

The first stage of the exchange of the former USSR obligations towards the IBEC and the final settlement of the indebtedness towards the IIB are to be implemented over the first quarter of 2004.

Indebtedness under Untied Credits and the Russian Government Bonds

At year-end 2003, Russia's indebtedness under untied credits obtained in mid 90s was estimated to total USD 1.1 billion (USD 1.4 billion as of January 1, 2003). The payments under credits obtained from Natexis Bank (Paris), the consortium of Banks headed by Deutsche Bank Luxembourg S.A., as well as from JBIC were executed in full and within the timeframe stipulated by the agreements. The indebtedness under the first two credits was fully redeemed.

As of December 31, 2003, the indebtedness under foreign currency-denominated bonds of the Russian Federation was estimated to total USD 44.7 billion.

Throughout 2003, Vnesheconombank acting as a payment agent of the Russian Federation Ministry of Finance effected redemption and coupon payments of the IV tranche MinFns and two Eurobond issues. The Bank exe-

cuted coupon payments on the V-VII tranche MinFns and semi-annual coupons on the 1999 MinFns.

Indebtedness to Other Creditor-States

The sum of the former USSR and Russia's indebtedness registered on Vnesheconombank's books towards official creditors who are not members of the Paris Club, as compared with the previous period under review, decreased by the sum equivalent to USD 600 million. The decrease was mainly achieved due to the reduction of debt towards former socialist states, inclusive of debt claims assignment and goods delivery schemes. With a direct support of Vnesheconombank, 22 Russian organisations-exporters took part in the implementation of the 'debt-goods swap' schemes.

With the aim of settling the debts the Bank's professionals took part in 23 rounds of intergovernmental negotiations, in developing intergovernmental draft agreements and amendments to them, as well as in preparing and signing interbank agreements and other documents. In particular, a multilateral intergovernmental memorandum on adjustment of mutual financial claims under settlements relating to the trade turnover between the former USSR and the former Socialist Federative Republic of Yugoslavia (SFRY) was signed with the states-successors to the former SFRY. The relative multilateral interbank draft agreement was forwarded to the authorized banks of the above states.

As a result of five year-long negotiations an intergovernmental agreement was signed, defining the terms and conditions of a comprehensive settlement of the former USSR and the Russian Federation indebtedness towards the Republic of Korea. A provision to release Vnesheconombank of all obligations under the 1991 loan agreements was stipulated in an interbank agreement signed as a result of intergovernmental arrangements. The given provision has considerably expanded a window of opportunity for the Bank as far as our cooperation with Korea is concerned.

Of great importance was the signing of an intergovernmental protocol on a comprehensive settlement of indebtedness towards Hungary under the agreement of 1994, regulating a unified approach to a debt write-off and

the recognition by the Hungarian side of the obligations to pay for the deliveries of Russian goods made in 1995-1998. The practical implementation of the given document allowed Vnesheconombank to write off the Bank's books debt obligations totalling USD 62.0 million, falling within the category of disputed debts.

Throughout 2003, Vnesheconombank in cooperation with the Russian Federation Ministry of Finance carried out a number of operations related to a partial settlement of indebtedness owed to the Republics of Hungary and Slovakia through assignment of rights in favour of Vnesheconombank. After a five year-long break, financial relations with Thailand and Oman were resumed and intergovernmental agreements signed. An interbank document was signed with the Eximbank of Thailand.

Of major importance is the arrangement reached on a complete writing off the debt related to the implementation of the state project on the construction of mining works in the city of Krivoy Rog (the Ukraine). A relative amendment to the interbank agreement of 1987 was signed with the German bank Kreditanstalt für Wiederaufbau.

Throughout the period under review, final operations to redeem debt to Romania under the agreement of 1999 were completed. Actually, after Poland, Romania became the second official creditor outside the Paris Club, the indebtedness towards whom is fully redeemed.

Former USSR Internal Foreign Currency-Denominated Debt

In 2003, a fresh impetus was given to the financial relations with the CIS countries and their residents. In particular, a plan of measures and policies to be taken to overcome the after-effects of the former USSR default on the internal foreign currency-denominated debt was devised and adopted. Vnesheconombank prepared and forwarded to the Ministry of Finance of the Russian Federation draft documents (an Address to the Paris Club, letters to the IMF and IBRD executive directors from the Russian Federation and others) designed to reinforce Russia's position in negotiations with the CIS countries. The issue of the former USSR foreign currency-denominated debt concerning the interests of legal entities, residents of Byelorussia,

was fully settled. The indebtedness for the total sum of USD 239 million was taken off the Bank's books.

In the given area of activity, Vnesheconombank was drawing on the expertise and practices of committees on cooperation with the CIS countries. The respective proposals to be included in the agenda of the meetings and final documents regarding relations with Armenia, Azerbaijan, Kazakhstan, Moldova, the Ukraine and Uzbekistan were forwarded to the above committees.

Raising and Utilising 'Tied' Credits

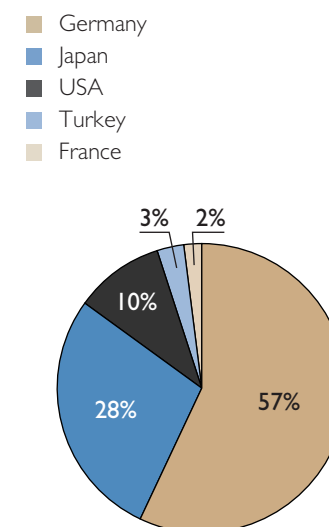
Over the year 2003, 5 new individual loan agreements with the banks of the OECD member-states for the total sum of EURO 88.1 million were entered into under the guarantees of the Russian Government. In compliance with the major policy guidelines pursued by the Government of the Russian Federation, credit resources raised on such conditions since 2001 are to be solely used for financing social projects. In particular, within the framework of the arrangements reached, deliveries of equipment for the Vishnevsky hospital and baby food producing plant in the city of Yoshkhar-Ola are envisaged.

The upgrading of the credit rating of Russia (to the 4th category in conformity with the OECD classification) considerably reinforced Vnesheconombank's interaction with foreign creditor-banks. In particular, interest income earned by the AKA German banks consortium for extending 'tied' credits under the guarantees of the Russian Government was reduced. This makes financing of the projects of the Russian organisations and enterprises less expensive.

The total volume of credit resources utilized in 2003 by the Russian ministries, administrative bodies, enterprises and organisations under the agreements concluded earlier reached USD 472 million (Diagram 6).

The principal amount of indebtedness under the 'tied' credits raised under the guarantees of the Russian Government recorded on Vnesheconombank's books as of December 31, 2003 amounted to USD 3.7 billion (USD 4.17 billion in 2002). The number of loan agreements was reduced to 306 (389 loan agreements in the previous period under review) with 300 of them concluded under the guarantees of the Government of the Russian Federation after January 1, 1992.

Diagram 6
Utilising Credits Raised under the Guarantees of the Russian Government



Participation in Managing Russia's External Financial Assets

In 2003, the Bank's activities in the capacity of the Russian Government agent embraced three major dimensions, namely, settling debts owed to the Russian Federation by foreign states, generating revenues for the federal budget as a result of external financial assets management, utilisation of state credits extended.

Settlement of Debts Owed to the Russian Federation by Foreign States

In 2003, Vnesheconombank continued to work intensively to keep the applicable debt records and effect settlements under the debt obligations of 57 debtor-countries within the framework of 634 loan agreements. Primarily, a stronger focus was placed on debt reconciliation under state credits extended (sometimes as long back as 30 to 40 years), as well as making respective interbank agreements with the authorized organisations of the countries which are Paris Club clients.

As of December 31, 2003, the overall sum of these debt claims approximated USD 5 billion.

On the whole, Vnesheconombank met all the year 2003 challenges in developing and streamlining the underlying interbank documentation and ensuring settlements with debtor-countries under indebtedness restructured within the Paris Club. As a matter of fact, by year-end 2003, debt liabilities restructuring terms with 21 debtor-countries were agreed. Throughout the year, table appendixes to 10 bilateral intergovernmental agreements, as well as to respective amendments to the agreements on restructuring debts owed to the Russian Federation by Benin, Burkina Faso, Zambia, Madagascar, Mali, Mozambique, Nicaragua, Tanzania, Serbia and Montenegro were elaborated. Vnesheconombank's professionals actively participated in negotiations held by the Russian Ministry of Finance with 7 debtor-countries which are Paris Club clients. Overall, within the framework of agreements made in 2003 and amendments to the documents already signed, indebtedness for the sum of USD 468.23 million was effectively settled.

To fully implement intergovernmental arrangements 7 interbank agreements and amendments to them were

prepared and forwarded to the respective authorized institutions of debtor-countries. Moreover, interbank agreements with Madagascar and Mozambique were signed, while the indebtedness of Burkina Faso and Mali was completely settled and written off the Bank's books.

Largely as a consequence, Russia was given special recognition and credit for its effort in a global bid to reduce emerging economies debt pressures. Hence, during the G8 summit in Kananaskis Village, Canada, data related to the Russian Federation's assistance to emerging economies in Asia, Africa and Latin America, as well as to the Commonwealth of Independent States (CIS) within the period of 1998-2002, were released. It was made known that with respect to the assistance indicator, calculated both in absolute and relative terms, (against Russia's GDP), the Russian Federation ranks among the top nations of the world. Remarkably, the same conclusions were made on the basis of calculations and comparisons made by the Bank's professionals in strict accordance with the Organisation for Economic Cooperation and Development (OECD) methodology applied.

As of December 31, 2003, the indebtedness of the debtor-countries, which are not members of the Paris Club (exclusive of the CIS countries) amounted to an equivalent of USD 76.52 billion. The major debtors within the group were Afghanistan, Iraq, the People's Republic of Korea, Laos, Libya, and Syria. With a view to facilitate negotiations on settling these countries' indebtedness to Russia, Vnesheconombank presented all the analytical data and calculations. To illustrate the point, the Bank prepared table appendixes to a draft agreement with Laos, forwarded the Afghan party a set of documents and calculations with respect to the country's debt obligations under credits extended by the former USSR, made all the calculations agreed upon under the arrangements achieved with Mongolia at year-end 2003 on settling its debt in transferable roubles.

Furthermore, in implementation of agreements reached with Tunisia on the settlement of debts owed to the former USSR, Vnesheconombank ensured speedy and efficient elaborating and signing of all the respective credit documentation. It enabled the debtor to fully effect payments to Russia within the timeframes agreed. Thus, by year-end 2003, financial relations between Russia and such

a potentially promising trading partner as Tunisia were properly streamlined.

Within the period under review, settlements under state credits extended to the Check Republic were completed, with the indebtedness written off Vnesheconombank's books. Also, a complicated issue initiated by Vnesheconombank on Serbia and Montenegro designating an authorized bank for settlements under a state credit extended to the former Socialist Federative Republic of Yugoslavia in 1997 was successfully resolved.

As of December 31, 2003, the CIS countries' indebtedness to the Russian Federation under credits formerly extended amounted to USD 3.33 billion. In 2003, Vnesheconombank was striving to ensure further settlements under these debt claims, with its professionals actively engaged in the debt recovery process. In particular, a substantial amount of work was done to implement the 'debt-investment swap' scheme, applied by the Government of the Russian Federation in recovering debts from Armenia. Actually, all the necessary prerequisites and underpinnings to apply the same scheme when dealing with Khirgizia and Tadjikhistan were created.

External Financial Assets Management and Federal Budget Revenues

Overall in 2003, as a result of external financial assets managing the sum equivalent to USD 1.48 billion³ was generated for the federal budget by the Bank. It is a 21percent increase on the year 2002, derived mainly from a rise in the payments effected by Russian investors under respective agreements with the Russian Ministry of Finance.

In the year under review, we made new enhancements to the list of debt claims in the settlement and blocked currencies, as well as the so-called 'rights to purchase goods' at tenders held by the Bank on the instructions of the Ministry of Finance. Improved PR support also played a positive role. Largely as a consequence of 2003 successful performance, revenues from debt claims tenders increased by 12 percent to stand at USD 447.8 million.

³ The results of netting operations with Egypt and the Ukraine not taken into account

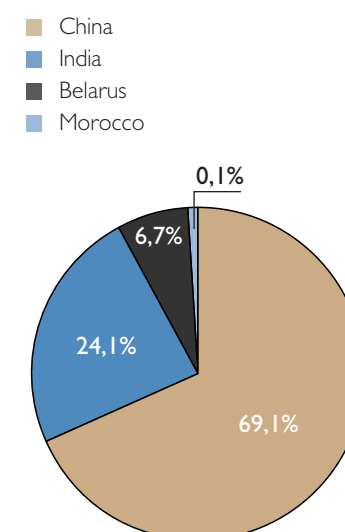
In 2003, Vnesheconombank succeeded in delivering tangible results while recovering credits formerly extended to debtor-countries, with the settlements effected in the form of cash transfers. The volume of revenues generated for the federal budget as a result of redemption and servicing of the above debts amounted to USD 508.1 million, posting a 33 percent increase on the year 2002. At the same time, payments to redeem the indebtedness restructured under the agreement with the Paris Club reached the sum of USD 328 million. Admittedly, it is a record level since Russia's joining the Club.

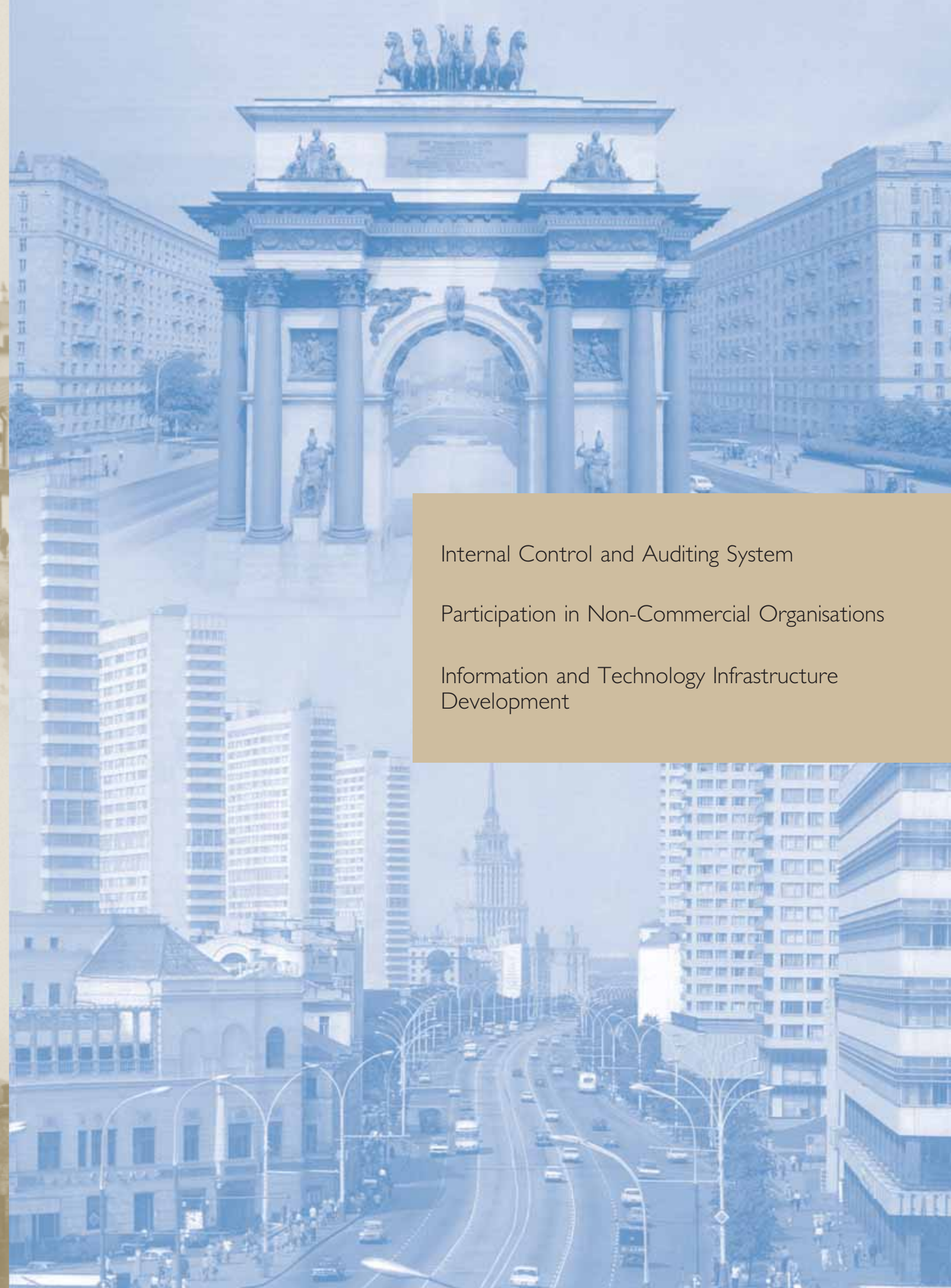
Utilisation of State Credits Extended

The year 2003 was marked by the Bank's concerted effort to ensure settlements in utilisation of state credits extended, with the respective sum running at USD 596.3 million (Diagram. 7). Actually, it is a USD 187.1 million rise on the figure of the year 2002. Mainly, the credits were utilised through export of Russian goods to 4 countries, inclusive of India, China, Belarus and Morocco.

The rising volume of credit utilisation was predominantly achieved through enhanced equipment deliveries for the construction of a nuclear power plant in China. In the meantime, the volumes of credit utilisation for similar purposes by India grew 3.7 times.

Diagram 7
Utilising State Export Credits





Internal Control and Auditing System

Participation in Non-Commercial Organisations

Information and Technology Infrastructure
Development

Internal Control and Auditing System

In the year under review, we continued to pursue policies to further upgrade the system of internal control, a major element seriously underpinning efficient management of the Bank's activities. Principally, a further impetus was given to the application of a sophisticated critical business processes control technology, globally applied in the banking industry. Largely as a consequence of regular checks and monthly business processes monitoring, it became feasible to ensure a deep analysis of the Bank's various divisions and units performance and thereby identify and reduce risks of unforeseen losses or a loss of the Bank's goodwill.

In 2003, the system of internal control embraced the whole range of the Bank's operations, with special energies devoted to major areas of activities. The internal control and auditing system put in place at the Bank ensured effective monitoring of its performance on financial markets and in a currency control agent capacity, as well as compliance of the Bank's regulatory framework with the Russian Federation's legislation in force, inclusive of the tax regime. Further emphasis was placed on upgrading IT auditing procedures. Special attention was devoted to controls over removal of failures and inadequacies spotted in the course of complex revisions and specific checks.

Management acknowledges the importance of having a highly professional and competent controls and auditing staff. To meet the goal, the controls and audit staff had a chance to continuously upgrade professionalism. Remarkably, this past year, after taking a special examination 9 of the internal controls and auditing department people were properly certified by the Federal Commission on Securities.

In 2003, just as in the past, the Bank was subject to checks by external auditing and controlling bodies, namely the Auditing Chamber (8 checks), the regional branch of the Bank of Russia for the city of Moscow (2 checks), the Moscow Division of the Ministry of Taxation of the Russian Federation (1 check). Encouragingly, throughout the external inspections and checks no materially significant remarks were made or serious shortcomings revealed.

Cooperation with the 'Ernst & Young' auditing firm and Fitch and Moody's international rating agencies was suc-

cessfully continued. Positive financial results delivered by the Bank coupled with a greater focus on the policy of transparency and openness contributed to further upgrading the Bank's rating in 2003.

Participation in Non-Commercial Organisations

Placed in an evolving environment Vnesheconombank has been continuously seeking to maintain focus on participation in the activities of non-commercial organisations (various associations, committees, partnerships and foundations of regional, as well as global importance) of which it is, presently, a member. Benefiting from their capabilities and competences, the Bank was not only seeking to find a proper role and position for itself in the Russian and global banking communities, but also to contribute to the decision-making process there.

Currently Vnesheconombank enjoys membership in the National Foreign Exchange Association, the National Stockmarket Association, the National Association of Stockmarket Participants, the Association of Bill Market Participants, International Securities Market Association (ISMA), the Emerging Markets Traders Association (EMTA), the Financial Market Association, the National Association of S.W.I.F.T. Members, the Association of Russian Members of Europay International.

In the period under review, close cooperation with the Association of Russian Banks was a priority task. The Bank's professionals strenuously participated in such hallmark events launched by the organisation as the XIYth Congress 2003, a Round Table on 'Legal Regulation of Documentary L/C's Practices', a conference on 'Liberalisation of Banking Business and Banking Legal Framework', as well as an international scientific-practical conference on 'The Development of Documentary Operations and Unification of Russian and International Trade Customs and Practices'.

Encouragingly, the Bank continued active participation in the work of the International Chamber of Commerce (ICC) bodies, inclusive of the Commission on Banking Technique and Practice of the ICC Russian National Committee. Exemplary is the fact that the Bank's representative was invited to participate in the work of an inter-

national task force to ensure preparation of a new wording of the 'Uniform Customs and Practices for Documentary L/C's'.

Vnesheconombank's involvement in the work of the Professional Association of Registrars, Transfer Agents and Depositories and the National Stockmarket Association enabled it to be directly and pro-actively engaged in shaping up these organisations' stance with respect to such important issues as creating Russia's Central Depository and making relative amendments to the federal law on 'the Securities Market'. The Bank's proposals concerned, in particular, certain provisions regulating registrars' and depositories' activities.

Information and Technology Infrastructure Development

Throughout the period under review, in a bid to be well technologically equipped for the growing competitive challenges, Vnesheconombank continued work to ensure speedy and reliable interaction of the Bank's divisions and units with information, trading and payment systems, as well as numerous exchanges.

Practically, a switch over from the TurboSWIFT/Telex system, serving as an interface for interaction with SWIFT and TELEX global systems for financial communications, to a new hard- and software platform was completed. Simultaneously, part of the work to switch this system over to a new SWIFTNet FIN technology facilitating access to SWIFT under telecommunications protocol TCP/IP was accomplished. The ongoing need for upgrading is reflective of the new requirements towards the S.W.I.F.T. system members.

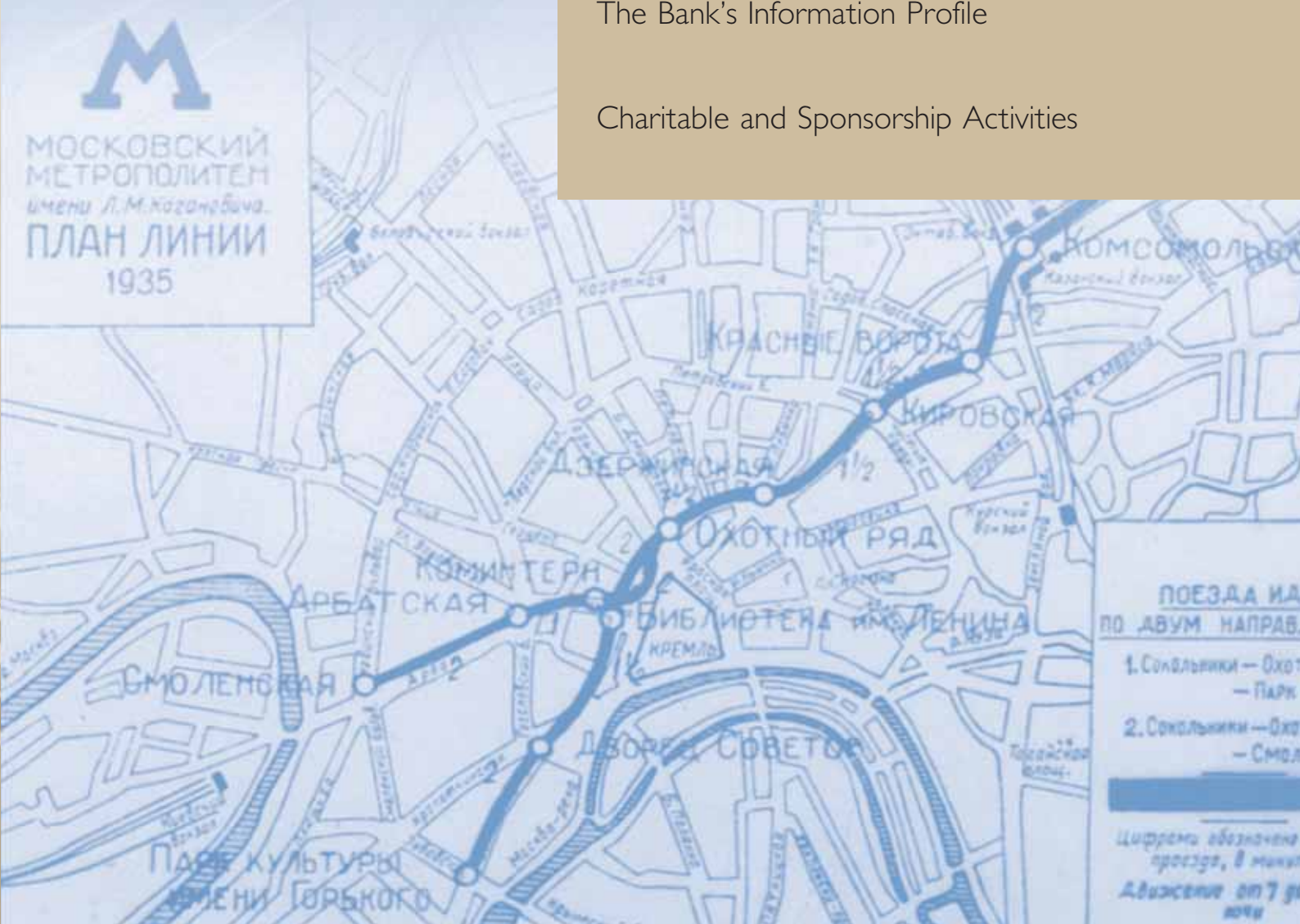
Actually, within the year, the working places of all the Bank officers whose responsibilities embrace effecting operations related to pension savings trust management, were properly equipped and linked to trading and information systems. More importantly, technically, the above working places operate in an autonomous and independent way of all other Bank's divisions. New soft- and hardware packages were introduced enabling the Bank to get its own Processing Centre appropriately certified within the VISA International and MasterCard International payment systems.

A comprehensive set of measures was put into place to further develop automated corporate systems facilitating the input, storage, monitoring and analysis of data on the various aspects of the Bank's activities, as well as producing respective reporting files.

Striving for further technological efficiency of operations performed by the Bank as a Russian Government agent authorized to manage Russia's sovereign foreign debt, Vnesheconombank's IT professionals devised and introduced software packages enabling the Bank to effectively make all the computations needed within the framework of restructuring the former USSR indebtedness towards the IBEC and the IIB. Of special note is the fact that the Bank practically completed the development of new software packages facilitating pension savings trust management operations. Also, respective software packages were developed and introduced, allowing the Bank to automate operations effected in the capacity of a payment agent under the bonds of 'The Agency for Mortgage Loans' joint-stock company.

СХЕМА ЛИНИЙ СКОРОСТНОГО ТРАНСПОРТА МОСКВЫ

FAST TRANSIT SYSTEMS OF MOSCOW



- Representative Offices
- The Bank's Information Profile
- Charitable and Sponsorship Activities

Representative Offices

The tasks confronting Vnesheconombank today predetermine its rather conservative policy with respect to Representative Offices network development. The Bank recognises the importance of maintaining its presence in the regions which are of interest for implementing federal-ly important projects. This past year, fresh energies were devoted to the operation of the Representative Offices in China and India considerably assisting the Head Office in resolving issues related to managing sovereign foreign debt, extending state export credits, as well as managing external financial assets.

The way we see it, the Representative Offices are instrumental in ensuring proper information support and facilitating the Bank's core businesses. Also, they considerably contribute to the promotion of goods and services offered by Vnesheconombank's clients to local markets.

The timely on-site information ensured speedy response and efficiency in decision-making on the issues regarding Vnesheconombank's performance in the respective countries.

Russia

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

Russia

Kaliningrad
Komsomolskaya ul., 47-2
Kaliningrad 236000, Russia
phone: (7-0112) 51 6909
fax: (7-0112) 55 8405

USA

New York
400 Madison ave., suite 7B,
NY10017, New York, USA
Phone: (1-212) 421 8660
fax: (1-212) 421 8677

Italy

Milan
Piazzale Principessa Clotilde,
8-20121, Milano, Italy
phone: (39-02) 653 625
fax: (39 02) 655 16 97

Republic of South Africa

Johannesburg
P.O. Box 413742, Craighall, 2024,
2-nd fl., Chelsea Place,
138 West str., Sandton, Johannesburg, RSA
phone: (27-11) 783 3425
fax: (27-11)-784 4688

People's Republic of China

Beijing
20A, CITIC Building, 19, Jianguomenwai dajie,
100004 Beijing, China
phone: (86-10) 6592 8905
fax: (86-10) 6592 8904

Hungary

Budapest
1051, Bajcsy-Zsilinszky ut., 12
Budapest, 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: (91-112) 615 4835/36
fax: (91-112) 615 4837
Mumbai
11, World Trade Centre, Cuffe Parade,
Mumbai - 400005, India
phone: (91-222) 218 27 05
fax: (91-222) 218 5845

The Bank's Information Profile

We acknowledge the state dimension and social importance of the tasks and goals confronting Vnesheconombank today predetermine its information policies focus. This past year, we introduced the following strategic priorities: to improve our customers', partners' and general public's awareness and understanding of the Bank's performance, its attitudes and approaches while fulfilling its liabilities. Maintaining the Bank's impeccable record and goodwill was equally critical.

Underpinning Vnesheconombank's information profile lie such globally recognised values as the principles of transparency and openness. In view of the Bank's functions of an agent of the Government of the Russian Federation, the Russian Pension Fund agent and the State Trust Management Company, as well as the economic and social importance of the projects the Bank seeks to implement, these principles acquire a new meaningful dimension.

Remarkably, close cooperation with the Russian and foreign mass media was a strong contribution and enhancement to the Bank's information profile.

On a continuing basis, the Bank's top executives and professionals were aiming to increase public awareness of the results achieved.

To highlight the Bank's most important business areas and some specific aspects of its activities, press conferences and briefings were held. In the course of events launched abroad, Vnesheconombank's senior managers would make comments upon the Bank's most socially important decisions and actions, as well as the developments on financial markets of Russia and in the banking sector. In the press, Vnesheconombank's analysts and experts would, on a regular basis, project their vision of the ongoing challenges of Russian and global economies. The gains derived from these PR actions and endeavours helped Vnesheconombank to professionally and intelligibly explain and highlight all critically important areas of its performance: participation in managing Russia's sovereign foreign debt, pension reform effort, implementation of the Concept of support for Russian exporters of high-tech industrial products, etc.

To speedily deliver credible information the best use was made of sophisticated communication channels. Vnesheconombank's website (www.veb.ru) makes information on the Bank's activities, key divisions and units,

current tariffs and various analytical data readily available for site users, with the electronic archive embracing official information (press releases), financial statements, analytical articles by the Bank's professionals, as well as other materials.

Charitable and Sponsorship Activities

The need and desire 'to do good', seeking to help those in need and distress have always been a sign of a wise and mature society. For Vnesheconombank, charity and sponsorship are not an abstract concept, but a natural aspiration to demonstrate social responsibility. The Bank's dedication to charity and sponsorship has always been aimed at raising a well-educated and healthy generation, preserving Russia's intrinsic spiritual values. These activities are health-care, educational, cultural and sporting programs-oriented. In 2003, the Bank rendered assistance and ensured support to 43 organisations.

In general, child health-care is one of the priorities for the Bank. In this context, Vnesheconombank further assisted the 'World without Tears' child health-care project launched in 1999, with child cancer patients being the major aid recipients. To implement the project, funds were regularly transferred to the First Hospice for children with cancer problems to finance purchases of medicines, sophisticated equipment for improved diagnostics and treatment, rehabilitation process. In 2003, by long-standing tradition and continued policy, the Bank purchased expensive equipment for the Blokhin Research Institute of Children's Oncology and Haematology (an express-laboratory for a biochemical blood formula analysis).

Equally important, financial support was given to Baby-Care Centre _14, funds for the construction of a Rehabilitation Centre for Oncology and Haematology Child Patients in the town of Vladivostok were also transferred.

On a continuous basis, among our major aid recipients, are organisations for veterans and disabled people, with 5 regional organisations given support in 2003. To mark the 50th anniversary of Russia's military-technical cooperation with foreign countries, Vnesheconombank together with International Relations Department of the Russian Ministry

of Defence and the regional public organisation 'Veterans of Military-Technical Cooperation' arranged veterans meetings and various jubilee events.

To preserve and enhance Russia's intrinsic spiritual and cultural values, aid to Moscow Patriarch's Office and the Svyato Danilov male monastery was rendered. The key charity achievements also included: financing the Mariinskij Opera and Ballet Theatre's Academy of Young Soloists, as well as reconstruction and refurbishment of the Konstantinovsky Palace in Strelnya, insurance of a part of a unique state-owned musical instruments collection. With the financial support of the Bank, the 25th International Moscow Film Festival was held.

Overall, the year 2003 witnessed the implementation of 17 various goals-oriented sponsorship projects. Among major highlights was financial support for: an exhibition 'St. Petersburg. The Portrait of the City' held at the Pushkin Fine Arts Museum, the second All-Russia Festival of Youth Choreographic Groups launched by an All-Russia Musical Society, a jubilee concert of a well-known Russian composer N. Bogoslovsky, the 6th 'Early Music' Festival.

Financial aid ensuring proper training conditions was given to the National Handball Teams. The 4th Youth Karate-Do SITO-RU Championship was also sponsored by the Bank.

Vnesheconombank was striving to contribute financially to launching a number of events designed to upgrade economic relations and environment in Russia, as well as facilitate development of financial markets there. By way of example, a final stage of a prestigious competition 'The Year 2002 Exporter' held by the Russian Ministry for Economic Development and Trade, 'The 6th International Aviation and Space Show 2003', a conference 'Efficient Sovereign Debt Management' arranged by the Russian Auditing Chamber, the 6th Russian Economic Forum in London.

Vnesheconombank financially supported editing the 'Russia at the Millennium Watershed' encyclopaedia and the 'Russia 89 Regions: trade and investment guide' reference book.

Vnesheconombank's Management is fairly confident that the Bank's dedication to charitable and sponsorship activities intended to help the underprivileged, as well as Russian education, health-care, culture and sport will contribute to the prosperity and well-being of the nation.



Financial Statements





ZAO Ernst & Young Vneshaudit
Podsosensky Pereulok 20/12 Moscow 103062 Russia
Phone: +7 (095) 917-33-06, Fax: +7 (095) 917-24-10

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 103062, Москва, Подсосенский переулок, 20/12
Тел: +7 (095) 917-33-06, Факс: +7 (095) 917-24-10
ОКПО 00139790

Report of Independent Auditors

To the Board of Directors Bank for Foreign Economic Affairs of the USSR

We have audited the accompanying consolidated balance sheets of the Bank for Foreign Economic Affairs of the USSR (hereinafter referred to as “Vnesheconombank” or the “Bank”) as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vnesheconombank at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.

May 15, 2004

Партнер отдела аудита

Barry L. Edes



Барри Л.Идэн

Consolidated Balance Sheets

in millions of US dollars

	December 31	2003	2002
Assets			
Cash and cash equivalents		\$ 1,393	\$ 1,864
Due from other banks, net		849	856
Trading securities		1,578	1,118
Available for sale securities		349	247
Commercial loans, net		407	400
Receivable from the Russian government under London Club		37	37
Due to London Club creditors		(37)	(37)
Due from the Russian government		10	51
Fixed and other assets, net		139	175
Total assets		\$ 4,725	\$ 4,711
Liabilities and Russian government equity			
Due to other banks		\$ 1,167	\$ 695
Due to the Russian government and the Central Bank of Russia		2,576	2,249
Amounts owed to customers		372	1,236
Debt securities issued		19	53
Income tax liabilities		79	62
Other liabilities		15	42
Total liabilities		4,228	4,337
Minority interest		3	–
Russian government equity		494	374
Total liabilities and Russian government equity		\$ 4,725	\$ 4,711
Financial commitments and contingencies		\$ 622	\$ 844

Consolidated Statements of Income

in millions of US dollars

	Year ended December 31	2003	2002
Interest income:			
Securities		\$ 111	\$ 72
Loans		32	68
Placements with other banks		19	17
		162	157
Interest expense		(29)	(35)
Net interest income before reversal of (provision for) losses		133	122
Provision for losses (reversal of)		(32)	13
Net interest income after provision losses for (reversal of)		101	135
Fee and commission income, net		22	23
Gains less losses from trading securities		115	120
Gains less losses from foreign currencies		27	1
Other operating income		28	9
Total other income		192	153
Payroll and other staff costs		(48)	(55)
Occupancy and equipment		(17)	(16)
Taxes other than income taxes		(3)	(8)
Other operating expenses		(23)	(28)
Total operating expenses		(91)	(107)
Initial recognition of loans to customers at fair value		–	(31)
Income before income taxes		202	150
Income taxes		(49)	(25)
Net income		\$ 153	\$ 125

Consolidated Statements of Cash Flows

in millions of US dollars

	Year ended December 31	2003	2002
Cash flows from operating activities			
Net income		\$ 153	\$ 125
Adjustments for:			
Depreciation and amortization		1	2
Provision for deferred income taxes		25	12
(Reversal of) provision for losses		32	(18)
Change in unrealized appreciation of securities		(248)	(149)
Initial recognition of loans at fair value		–	31
Operating income before changes in net operating assets		(37)	3
(Increase) decrease in operating assets:			
Due from other banks		–	24
Trading securities		(182)	(173)
Securities available for sale		(149)	(70)
Commercial loans		(37)	168
Due from the Russian government		41	(46)
Other assets		42	30
(Increase) decrease in operating liabilities:			
Due to other banks		457	220
Amounts owed to the Russian government and the Central Bank of Russia		327	4
Amounts owed to customers		(873)	557
Other liabilities		(27)	(8)
Net cash used by operating activities		(438)	709

Cash flows from investing activities

Purchases of premises and equipment	(8)	(3)
Purchases of equity participations	–	(2)
Cash assumed in acquisition of subsidiary, net of cash paid	9	–
Net cash used in investing activities	1	(5)

Cash flows from financing activities

Repayment of issued debt securities	(34)	(34)
Net cash used in financing activities	(34)	(34)

Net change in cash and cash equivalents	(471)	670
Cash and cash equivalents at beginning of year	1,864	1,194
Cash and cash equivalents at end of year	\$ 1,393	\$ 1,864

Supplemental information:

Income taxes paid	\$ 5	\$ 14
Interest paid	31	32
Interest received	\$ 187	\$ 159



9, Akademika Sakharova Prospekt
Moscow, B-78, GSP-6, 107996, Russian Federation
Phone: +7 (095) 207 10 37
Fax: +7 (095) 975 21 43
www.veb.ru