

***MOSCOW JOINT STOCK COMMERCIAL BANK VOZROZHDENIYE***

**1999 ANNUAL REPORT**

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## DMITRY L. ORLOV, PRESIDENT OF VOZROZHDENIYE BANK

## ADDRESS OF THE PRESIDENT

Dear shareholders! Dear colleagues!

Last year was marked by intensive recovery efforts and, at the same time, by intensive broadening the spectre of banking products. Despite a number of external challenges, the Bank survived, maintained its capital, its customer circle, and repaid its debts. The unfavorable environment forced us to confront the challenging but valuable experiences of coping with problems that resulted from the financial crisis of 1998. However, I would like to state clearly and without doubt Vozrozhdeniye Bank has overcome all the challenges we faced during last two years.

Currently, the Bank is actively regaining momentum. This is assisted by a well-planned and effectively implemented program of stabilization measures. Vozrozhdeniye Bank is one of the few multi-branch banks that has succeeded in maintaining as a core asset its diversified and smoothly functioning branch network. We intend to develop our network further. This means paying attention not only to extending our geographic presence but also to increasing the quality of our local offices and optimizing their operations. Our highest priority efforts are aimed at further developing and diversifying the business through increasing the number of clients and enlarging the resource base of funds which can be lent. The tasks of using modern technology in practical banking applications has become more important, as this helps us meet the growing demand from local financial markets for competitive products and services. We want our bank products to be distinguished by their high quality, convenience and effectiveness for our clients.

One of the strongest examples is the Bank's dynamically developing plastic cards program. Our early decisions, initial priorities and sophisticated planning have enabled us to

successfully develop this promising business. Our existing technology base gives us a real competitive advantage in the field of issuing and acquiring cards of different international payment systems.

Developing services for new market segments under the current economic environment will provide additional potential for developing the Bank's network. Strengthening our market position will enable us to achieve our key strategic goals. All of our actions have been taken with a single aim, i.e. to meet the high standards of our clients which will be measured by our building relations with them based on mutual confidence and assistance.

I feel a deep satisfaction about the preservation of our integrity. Despite the turbulence of the post-crisis period, we held to our core principles and our constant readiness to make full and honest settlements with all our customers.

This is equally true for our external commitments, in particular, those to the World Bank and the European Bank for Reconstruction and Development. We have kept our use of funds borrowed under these for their targeted purpose and are seriously considering resuming cooperation with these International Financial Institutions within the Enterprise Support Project and the Housing Development Project.

I would like to express my appreciation for our shareholders' contribution to our work. Their participation in managing the Bank has involved taking the decisions required to meet our challenges. As well, I wish to thank our clients for their loyalty, their deep commitment to achieving common goals, and the beneficial cooperation between us.

Vozrozhdeniye Bank is optimistic in looking ahead. There are good reasons for this optimism. The Bank employees and management are a strong team remarkable for its high professionalism, its commitment to our common goals, and its creative approach and initiative.

I would like to extend my deep gratitude to all my colleagues for their commitment, performance and contribution to our common cause.

I wish you success: I am confident our combined efforts will inevitably yield success for all of us.

Dmitry Orlov

### *Vozrozhdeniye Bank's Development Perspectives*

The significance of Vozrozhdeniye Bank's operations for the Russian economy has always been evident. The Bank has constantly remained among the country's financially sustainable credit institutions. Vozrozhdeniye Bank is determined to maintain a leading position in Russia's evolving banking industry. Our strategic path in developing the Bank is a continuing increase in the quality and volume of services we provide, as well as developing new and competitive products and services.

In order to facilitate the Bank's further successful development, we will work to continue to strengthen our customer relations. This will be based on increasing their confidence and our cooperation with clients and our Russian and Western partners. Expanding the sources of financial funds through attracting new clients is a most important area. One major factor in raising the Bank's financial stability in a period of continued general economic instability will be an increased in our equity.

Support of local producers continues as one of our most important activities. Credit policies will continue to be oriented towards support of the economy's real sector. To meet the specific demands of different types of clients, the Bank will be applying new types of lending that most fully meet customers interests. Clients actively involved in foreign economic operations will get our assistance in financing export and import transactions with the participation of the Western trade banks.

Significant attention will be paid to further extending operations within the Moscow region. When appropriate we will continue to support enterprises and organizations across the Moscow Oblast through credits and new loans. Cooperation with municipal and district authorities across this region will be targeted to support economic stability and their further development.

The Bank is interested in continued participation in state programs, of which one of the most important is the lending to enterprises in the agro-industrial sector.

Along with developing the customers base, the Bank's plans include expanding the range of services available to corporate and private clients.

The Bank will continue its work on improving the effectiveness of banking operations. This objective will be reached by cutting back administrative and non-interest expenses, introducing new profitable products and services, and adjusting our pricing policies to meet current economic conditions.

Further developing sales of banking products through the Bank's branches presents one of the highest objectives for Vozrozhdeniye Bank. To raise the quality of services rendered to clients and to increase efficiency of sales, the entire system of managing bank products will be improved. We will continue to standardize our currently available services and develop new ones.

In servicing our corporate and private clients Vozrozhdeniye Bank will continue to provide banking services based on advanced technology. The Bank will carry on its program of further developing card products. Our technological potential and the advantages of our multi-branch network facilitate solutions that are convenient for customers. We will continue promotion of bank cards and related services throughout different Russian regions but mainly in the Moscow Oblast.

Attention will continue to be paid to increasing the number of cash exchange offices and the automatic teller machine network as well as to servicing bank cards for trade and service enterprises. The Bank will continue to develop an advanced infrastructure of non-cash payments to solve effectively the problems of insufficient cash turnover in some regions of the country. Payment of wages and salaries through plastic cards and encouraging cards as a payment mechanism for goods and services helps to sustain the required level of goods and cash turnover at the local levels.

The management of the branch network will be enhanced through monitoring branching performance and improving the efficiency of business practices in major operation areas.

We will continue to improve the practical application of computer-aided banking technologies which play a significant role in optimizing the management of finance and information flows within the Bank and in developing the quality services for our customers.

The Bank is prepared to continue, and to extend, our cooperation with international financial institutions, particularly, the World Bank and the European Bank for Reconstruction and Development in terms of implementing the projects on assisting in Financial Institutions Development (FIDP) and Enterprise Support Projects (ESP).

Vozrozhdeniye Bank enters the new millennium with great professional and creative potential that will enable it to retain its leading role in building the reliable and stable banking system which is required for Russia to reach its strategic goals for the economy.

## **Vozrozhdeniye Bank 1999 Performance**

### **MAJOR RESULTS**

Throughout 1999, Vozrozhdeniye Bank aimed to resolve two major tasks: implementing a post-crisis stabilization program and advancing towards our strategic goals.

The 1998 general economic crisis appeared to be a serious challenge for the Bank which threatened to destroy entirely the results of our 9 years of operations. However, the financial stability built over that period and our accumulated experience helped the Bank confront all our difficulties. It is very appropriate to mention the special role played by the high professionalism of Bank's staff and the significance of the policy of information transparency pursued by the Bank. The Bank's goodwill, shaped over the years of its operations as a reliable credit institution and reflected in the relations of confidence, mutual aid and cooperation established between Vozrozhdeniye Bank and its clients, was very important in overcoming the effects of the crisis.

Late 1998, our program for overcoming the crisis was approved and endorsed by the Central Bank of Russia (CBR). The CBR extended two loans to the Bank: in November 1998, a loan of 380 million roubles and in March 1999 another loan of 870 million roubles. These two loans were later extended in order to increase financial sustainability.

The Central Bank has been closely monitoring the implementation of this approved program. Given our results, the CBR positively assessed the performance of Vozrozhdeniye Bank in 1999. According to the criteria set out by the CBR for assessing commercial banks standing, Vozrozhdeniye Bank was listed in the category of financially stable banks.

In July 1999, the Board of Directors of the Agency for Restructuring Credit Organizations (ARCO) made a decision on cooperating with the Vozrozhdeniye. This relationship was

developed based on essentially different terms compared with other commercial banks. The working relationship does not include the transfer of the Bank's shares to the Agency nor does it restrict the Bank's operations. Through this relationship, ARCO agreed to purchase from Vozrozhdeniye Bank one of its long-term assets in the amount of 632 million rubles with the right of repurchase by the Bank of this asset after three years.

The determination and prompt implementation of stabilization actions enabled the Bank to resume its operations and regain its liquidity. From early 1999, the Bank has made all client payments without delay and promptly transferred all taxes to the budget. The Bank now makes full payments from personal deposits on clients' requests.

Vozrozhdeniye Bank has settled its relationships with foreign creditors. The Bank reached the agreement on the mechanisms of restructuring foreign liabilities related to financing clients' foreign trade transactions. In September 1999, Vozrozhdeniye Bank completely repaid its USD 32 million indebtedness on a syndicated loan provided by BankAustria.

In autumn 1999, the Bank participated in the re-accreditation process for banks that wished to continue activities within the World Bank and EBRD projects which were part of the Program for Financial Institutions Development (FIDP) and other projects conducted by international financial institutions. The World Bank experts positively assessed actions taken by Vozrozhdeniye Bank to restructure its foreign liabilities, to redeem syndicated loans promptly, to reduce risks, and to raise the quality of our credit portfolio. The corrective actions program drafted by the Bank to overcome the effects of the banking systemic crisis was recognized as one of the best by foreign experts.

From the moment of its set-up, Vozrozhdeniye Bank has been audited according to international auditing standards. The Bank's auditor, the world-wide recognized company PricewaterhouseCoopers, conducts regular annual audits as well as intermediate diagnostics within the year. The audit of 1999 performance results once again confirmed the Bank's compliance with financial reporting and accounting according to both Russian and international standards.

The Bank's operations and positive financial performance are in full compliance with the requirements of the Central Bank of the Russian Federation.

The Bank's performance indicators for last fiscal year show our positive development. The full recovery of Vozrozhdeniye Bank's standing within the banking community and in financial markets provides evidence of the appropriateness of the policies we pursued.

Vozrozhdeniye Bank is an universal bank. The close relations between the Bank and our customers is based on a reciprocity of economic interests. The conservative approach adopted by the Bank in conventional banking domains is coupled with creative techniques based on advanced technologies. This enables the Bank to achieve leading positions in general accomplishment and in innovative service and delivery.

The Bank not only restored its client base after the crisis, but has attracted new clients, both individuals and corporate enterprises.

Optimizing the branch network has enabled us to enlarge the number of the Bank's local branches while, at the same time, raising the quality of our operations. In the last year, major steps were taken to extend the range of services provided and developing new competitive banking products based on technology. The Bank has made especially energetic steps in the plastic card market.

The results of Vozrozhdeniye Bank's operations over the previous year reinforced our position in the Russian banking system and confirm our right to take a position among the leaders in the financial services market.

## **Vozrozhdeniye Bank On the Banking Services Market**

The Bank occupies a solid position in the Russian market. The range of services available to clients is extremely wide encompassing various forms of lending and settlement services, currencies conversion and foreign exchange control, documentary and guarantee transactions, international settlements and transfers. The Bank is actively involved in transactions with plastic cards and checks, as well as making transactions on the stock market. Vozrozhdeniye Bank provides financial consulting for enterprises and renders assistance in restructuring of their business. The Bank designs individual settlement schemes for our clients and promotes new types of banking products in the market. Along with conventional forms of banking services, this includes brokerage and depositary servicing.

Banking products are developed by Vozrozhdeniye Bank based on the most advanced technologies. The high quality and wide range of these products ensures their competitiveness. They are designed to serve our various client segments including the largest industrial and agricultural enterprises, retailers and service providers, participants in foreign economic activities, as well as our core client base of small businesses and individuals.

Vozrozhdeniye Bank's major principle for working with our clients is an individual approach which selects the most appropriate services for each client. Over the past year, the Bank's specialists have improved our banking products in response to the demands and needs of different segments of clients and adapted our operations to new economic conditions and legal amendments. This has developed new positions for operating in the market-oriented environment for bank products and financial services.

In order to raise the quality of service provided individual managers are provided to our commercial clients. These managers assist by providing daily control over cash flows in clients' accounts and promptly inform the client of newly received or disbursed amounts. Managers arrange the most efficient interaction patterns between clients and the Bank's units

and provide consultancy services. By developing financial transactions mechanisms for our clients, managers build effective business relations.

**Lending** has always been a major area of operations since the Bank's founding. Over 76% of the Bank's overall assets is represented by our credit portfolio.

At the end of last year, the Bank's credit portfolio amounted to 6.7 billion roubles. Within the year, amounts of loans extended remained stable and showed a smooth upward tendency. Stability was also characteristic of the portfolio profile; one third of our loans were denominated in rubles and two thirds in foreign currencies.

A primary goal in the current unstable economic environment is further improvement in the management of the credit portfolio and its optimization with respect to the accurate and timely perception of risks. This enables a rational shaping of the assets' profile and minimizes losses in lending.

By suggesting to clients different lending schemes, Vozrozhdeniye Bank always pursues a well-balanced and flexible credit policy to ensure the high liquidity of our loan portfolio.

Last year, as in previous years, Vozrozhdeniye Bank continued measures to optimize our credit portfolio. By doing this, the Bank reduced the proportion of credits that yielded insignificant profits. New credits are granted in balance with liabilities.

In pursuing our credit policies, the Bank aims to lend to strategically important clients who have significant fund turnovers at their accounts with the Bank, who hold a sustainable financial position, and who occupy key positions in regions.

To meet our clients' increasing needs for credit resources, the Bank developed overdraft lending which enables clients to meet their borrowing needs flexibly.

A high priority area in the Bank's credit policy over many years has been financial assistance to the economy's real sector. This depends on close cooperation with industrial, construction, agricultural, and trading enterprises, as well as funding social/welfare and economic development programs implemented by regional and local authorities. These sectors receive 76% of our credited funds. In 1999, the industry profile in the Vozrozhdeniye Bank's credit portfolio was somewhat reoriented. The proportion of credits extended in the previous year to financial and credit institutions of 12% and to trading enterprises of 18%, have been reduced to current shares of 2% and 8% respectively. The Bank's funding to industry grew as at 1 January 2000 to 31% of the overall credit portfolio. The Bank gives its preference to borrowers representing highly effective economic industries and to local producers enjoying sustainable products sales and funds turnovers.

Vozrozhdeniye Bank participation in large-scale government programs shows a high degree of confidence in the Bank on the part of executive authorities. This also speaks of successful experience accumulated by Vozrozhdeniye Bank in social and economic spheres both on the federal and regional levels.

In 1999, as in previous years, the Bank was involved in the government program to support the agribusiness complex. The Bank has acted as an authorized agent bank to provide concessionary lending to this sector through a special fund set up by the Russian Federation Government.

Last year, concessionary credits in the amount of approximately 500 million roubles were extended to over 260 enterprises within the agribusiness complex. Over 300 million roubles of this was extended to enterprises and institutions located in the Moscow region.

Throughout last year, the Bank maintained close cooperation with the Federal Road Service, extending guarantees to clients for their participation in tenders within the World Bank's program on reconstruction of automobile roads throughout the Russian Federation, and assisting in settling on debt repayment.

Last year, the status of Vozrozhdeniye Bank as a State Customs Committee's authorized bank was confirmed. This gives the right for the Bank to act as a guarantor to customs authorities.

The Bank pays special attention to cooperating with the Russian municipal and regional authorities. Over many years, it has been actively involved in implementing their social/welfare and economic projects. This interaction is exercised within a framework of cooperation agreements signed with regional and local authorities.

Vozrozhdeniye Bank is an authorized bank for the Moscow Government and Moscow Oblast Authorities. Lending activities across the Moscow region are targeted at stimulating the region's economic development. This combined region's share totals 95% of the Bank's overall credit investments.

The Bank continues its cooperation with the Food Resources Department of the Moscow City Government by extending guarantees to Moscow-based enterprises on credits for purchasing agricultural products, raw materials, and food products. Vozrozhdeniye Bank is actively involved in programs to assist in the financial rehabilitation of Moscow-based industry.

All levels of authorities in the Russian Federation's member territories received credits of more than 1 billion roubles. Among the biggest borrowers are the Moscow Government, municipal and district authorities in the Moscow and Yaroslavl Oblasts, Chukotsky Autonomous Okrug, and the Finance Ministry of the Republic of Mordovia.

In 1999, within the framework of the World Bank's Housing Project Program, Vozrozhdeniye Bank funded the construction of four comfortable residential houses with 52 thousand square meter living area in Moscow, a cottage village in the Moscow vicinity and construction industry enterprises in the Moscow Oblast towns of Odintsovo and Mytishi. The construction of these funded projects has been practically finished.

Last year, the Bank continued funding the reconstruction of industrial enterprises in vicinity of Moscow through funds extended earlier within the framework of the Business Support Project sponsored by the World Bank and EBRD.

**Full servicing package on settlements** provided by Vozrozhdeniye Bank gives its corporate clients an option of convenient and prompt management of their funds. Accounts of all types can be immediately opened with the Bank. The Bank gives its clients advice regarding the order of conducting banking transactions. Vozrozhdeniye Bank provides money orders throughout Russian and abroad, assists in receiving payment orders to clients' accounts, uses letters of credits and other paper settlements, and conducts cash collection operations. The Bank's clients can make conversion transactions and receive services on converting and crediting cash to their checking accounts. The Bank's cash collection service is equipped with modern armored cars and provides wide services on collecting and delivering cash and transporting clients' valuables.

Clients' funds deposited in the Bank as at 1999 end amounted to 5.3 billion roubles. Cash volume received by the Bank through its cash offices during last year grew by 13% against the previous year. This is a convincing proof of confidence by the Bank's clients.

In settlement services the Bank makes continuous efforts to develop schemes and terms that are the most beneficial and convenient for its clientele. Professionalism and high qualification of the Vozrozhdeniye Bank's staff ensure quality service for clients on settlement transactions while the application of technology and the use of modern equipment ensure promptness, convenience and safety.

Vozrozhdeniye Bank provides its clients with an opportunity to make payments through the modern "Client - Bank" Account Management System. This computer system enables clients without visiting the Bank to make all major transactions and receive information on cash flows on their accounts during an extended operational day. The "Client - Bank" System also gives clients an opportunity to promptly process payment documents and, thus

facilitates reducing the costs associated with document completion and delivery to the Bank. Speeding up settlements through the “Client – Bank ” System assists clients to increase funds turnovers. Last year, electronic payments’ share of total settlements grew by 3-fold.

The “Client - Bank” System is being currently upgraded and thus ensuring compatibility of this system with most popular accounting programs.

**Financial instruments suggested by the Bank for placing temporary free funds** meet the most diverse of clients’ needs and interests. Depending on the specific requirements of companies, the Bank can modify agreements on terms and procedures for paying interest to clients.

Clients temporary free funds can be placed on either ruble or foreign currency deposits which can provide clients with flexible schemes for accruing interests, for instance, on a “floating rate” basis. In defining contract terms, provisions can be made regarding extension of deposits.

The Bank offers its clients registered deposit certificates which require minimal paperwork . In 1999, the Bank launched a process of renewing certificates which ensured greater flexibility for this financial instrument.

In working with clients, the Bank provide its own bills of exchange which are widely accepted and liquid payment instruments. Bill are quoted by the leading market agencies, such as Finmarket and RosBusinessConsulting. Vozrozhdeniye’s bill has many uses; it can be used for settlements in paying for goods or services as well as for investing or lending.

The Bank has not only stabilized its positions in the households’ deposits market but also become more actively involved in transactions with individual depositors. The Bank offers its clients the most beneficial terms and optimal schemes of servicing. It has introduced a facility for accruing interest on deposits in special card accounts. Vozrozhdeniye Bank

provides bank cards at concessionary rates to our depositors. It is the Bank's tradition to offer individuals at year end special Christmas deposits "Rozhdestvensky" and "Rozhdestvensky - Pensionny" with attractive interest rates.

**Bank cards issuance and servicing** represents one of the most rapidly developing areas of the Bank's activity.

As a full member of the international payment systems Visa International and Europay International, the Vozrozhdeniye Bank has significantly reinforced its positions in the plastic card market last year. The Bank issued 37 thousand cards, set up 38 automatic teller machines (ATMs), and opened over 100 cash paying offices across the country's different regions. Last year, Visa International granted the license to the Bank authorizing it to operate with trading enterprises in the Moscow Oblast and later – throughout the RF regions. That was followed by signing agreements on servicing bank cards with 150 enterprises within a trading and servicing network which including shops, hotels, restaurants, medical centers, chemists, and petrol stations.

The Bank's own Processing Center enables us to continuously extend the range of services provided and to issue new card products as well as providing clients with servicing in compliance with international payment systems. In 1999, the Vozrozhdeniye Bank offered its clients international cards V.Bank Visa Gold, V.Bank Visa Business, V.Bank Visa Classic, Visa Electron and a local V.Bank card. In 2000 we will add a V.Bank Visa Platinum card.

Special programs are implemented based on bank cards. The Visa Electron cards and local V.Bank cards are widely applied in the Bank's operations with enterprises to pay wages and salaries by direct deposit to employees' card accounts. These salary projects assist both enterprises and employees who obtain cards. The popularity of these salary paying projects is attributed to the total confidentiality of information and the greatly simplified procedure for paying salaries with a significant reduction in costs.

In the immediate future, once our Processing Center is certified by the international payment system Europay International, the Bank intends to offer its clients the following additional cards: Eurocard/MasterCard Gold, Eurocard/MasterCard Business, Eurocard/MasterCard Standard, and Cirrus/Maestro.

Through its plastic cards operations, the Bank is making efforts to meet different client groups' demands by providing access to a wide variety of services. Last year, special concessionary rates were set for students, pupils, retirees and social welfare schemes recipients.

The different services provided by the Vozrozhdeniye Bank through bank cards are used by approximately 40 thousand individuals and corporate clients.

Bank cards ensure their holders' safety of storing and using their funds. In the event of loss of a card, the account will be frozen. A card holder enjoys a round-the-clock access to his/her account practically around the globe and the opportunity of making non-cash settlements in trading and servicing networks. Bank card account balances earn interest. The Bank provides the opportunity to its clientele to have two or more cards for accessing their rouble or foreign currency accounts, including additional cards for family members.

The Vozrozhdeniye Bank's wide branch network, and its developed infrastructure of facilities to service bank cards, enable clients to draw cash and replenish their card accounts in any of the Bank's branch regardless of which branch opened their account.

The Bank's Telecard system gives clients the ability to get information on their account balances via telephones with security features which provide safety and confidentiality.

In the year 2000, the Bank's clients will be able to make payments for public utilities as well as other payments by using the Bank's card and electronic facilities.

Vozrozhdeniye Bank has greatly extended the range of transactions made through plastic cards both in the Moscow Oblast where the Bank's position has traditionally been strong and in other regions across the country. Last year, the Bank's transactions by plastic cards grew significantly and reached 300 million roubles.

Many card products provided by the Bank include additional services. The Bank offers its clients Global Calling Card telephone cards which give these card holders the option of making international telephone calls at concessionary rates and subsequent paying their bills by Visa card. Purchasing the International Air Passengers Association (IAPA) cards gives holders considerable discounts for hotel accommodation and car rentals.

**Servicing transactions in securities** has been provided by the Bank from the very foundation of the Russian stock market. Vozrozhdeniye Bank has accumulated notable experience in dealing with securities enabling the Bank to provide a wide range of services to its clients with stock market instruments.

Vozrozhdeniye Bank is a professional participant on securities markets. The Bank holds membership among professional participants, i.e. NAUFOR, PARTAD, and NAURAG. It is also represented on the MICEX, MFSE, and in the Russian Trading System (RTS). In November 1999, it took part in a promoters' meeting of the National Foreign Exchange Association.

In 1999, Vozrozhdeniye Bank serviced clients' transactions on the market of government short-term non-coupon bonds and federal Treasury bills (GKOs and OFZs respectively). At clients' request the Bank makes sales transactions in the RF Finance Ministry's government domestic Frex bonds (OGVVZ), Treasury savings bonds (OGSZ), and corporate and bank bills. The Bank also provides brokerage services for its clients on transactions in Russian issuers' shares through MICEX, MFSE, and the RTS.

The Bank's experts provide advisory services to clients on shaping their investment portfolios, providing analytical information on the current state of monetary and stock

markets, assists clients to restructuring GKO and OFZs portfolios, and renews government liabilities in compliance with procedures set by the Russian Federation Finance Ministry.

**Foreign currencies conversion is provided** to both corporate clients and individuals. The Bank swiftly responds to its clients' requests on purchase or sale of foreign currencies for Russian roubles and makes foreign currency conversions offering competitive commission rates. All branches make transactions in cash foreign currencies and their range is being constantly extended. The foreign currency cash exchange office network is growing across Russian regions. At year end, there were 106 foreign currency exchange offices, of which 72 were in the Moscow region.

**Housing and public utilities charges, tax and other payments** from individuals to enterprises and institutions are currently made through 70 payment offices throughout the Moscow Oblast. In the last year, the Bank significantly increased such transactions.

**Services on storing valuables in a depository storage** are provided by practically all branches. Safety deposit boxes are leased based on confidential contracts designed for any term. Each depository for precious metals, securities, cash or antiques is equipped with a modern security system and has a high degree of security.

**Commemorative coins** of different denominations and different types, including those of precious metals (silver, gold, and platinum) are sold by the Bank's branches. Purchase of commemorative coins made of precious metals can be a reliable method of investing money. Corporate clients can use commemorative coins as souvenirs. Collectors-numismatists have a chance to buy copper-nickel-made commemorative coins issued in different years and devoted to different subjects or to order other coins meeting their interests that are scheduled for issue during the year.

**Transactions in gold** are made based under authorization license. The Bank makes transactions with gold ingots that meet the world's quality standards. Vozrozhdeniye Bank has a certified vault for storing its gold ingots.

### **Bank's Transactions on Financial Markets**

In 1999, the Bank confirmed its reputation as a reliable and sustainable operator on the financial markets. It makes transactions of an extensive range and in different currencies; government liabilities, corporate securities, and interbank credits. Given the experience of 1998, Vozrozhdeniye Bank pays particular attention to estimating risks associated with making its own transactions in money and stock markets.

One of the Bank's major areas of operations on the financial markets is assistance to in recovery of all the main negotiable instruments in which it is active in developing transactions for its clients.

Expanding the clients' base in this area has increased the share of transactions made by request of clients against the total share of transactions. The emphasis on financial markets activity by Vozrozhdeniye Bank was in widening the range of services provided to clients and raising their quality.

Currently, Vozrozhdeniye Bank's major efforts on the stock markets are targeted at developing brokerage transactions in securities of all types. Efforts are also made on developing modern bank products that would meet clients' requirements under new conditions in the securities market.

The Bank's own transactions due to the reduction of the interbank market have significantly dropped. The Bank's portfolio of government debt liabilities, OFZs, after the restructuring implemented on 1 January 2000 amounted to 44.4 million rubles.

In 1999, the Bank maintained its leasing operator status on the OGVVZs market. Major attention was concentrated on improving the Bank's portfolio quality. Along with that, transactions in OGVVZs were actively made at the request of clients who were offered a standard list of transactions in this instrument. The Bank's own portfolio at the year end amounted to USD 13.4 million at par value.

In the second half-year, the tendency towards reviving the interbank market became evident and Master Agreements with counterpart banks were more readily signed indicating a gradual restoration of confidence between market participants. These positive changes were demonstrated through the increase in daily trades across different market sectors and in increasing liquidity in the market. The Bank deals only with banks that maintained the reputation of reliable counterparts.

In 1999, Vozrozhdeniye Bank's operations on the domestic foreign exchange market gained momentum. The Bank's major transactions were made through the electronic trading system of the Moscow Interbank Currency Exchange.

## **CORRESPONDENT RELATIONS**

Vozrozhdeniye Bank conducts settlements with clients and correspondent banks using all of the forms applicable in international and Russian practices.

A high level of technical equipment enables the Bank to promptly make international settlements and to serve clients without delays. The Bank's key principle in this area is a close contact with clients that facilitates reaching joint agreements on payment terms for foreign trade contracts in the process of their preparation.

Last year, the Bank's efficiency was increased by improving and optimizing the correspondent banks network. After the introduction of the non-cash "Euro", the Bank opened Euro accounts for its clients' use that are maintained in parallel with existing accounts in national European currencies.

As of 1 January 2000, the Bank maintained correspondent relations with banks located in 98 countries and made settlements in practically all freely convertible currencies. As well, Vozrozhdeniye Bank enjoys correspondent relations with 53 Russian banks and 9 banks located in CIS countries and the Baltics.

The wide correspondent banks network inside the country and abroad provides the opportunity to make immediate clients payments in all currencies based on the application of modern bank technologies through the international telecommunication system, SWIFT, and REUTERS DEALING dealers' network.

## **COMPUTERIZING BANK TRANSACTIONS**

In 1999, Vozrozhdeniye Bank completed work on preventing "Y2K Bug" effects on its computer systems. The Bank's experts created an inventory of both software and hardware that were potentially susceptible to this problem, conducted prior testing and then modernized and tested systems. This ensured the Bank's capability to enter the new year and provide services to clients without interruption.

Complying with the scheduled development of computer-aided, or automated, bank technologies, in 1999 the Bank primary efforts were continued within the framework of our Victoria project. Within this project, the first stage of implementing the Bank's corporate database was finalized in which a unified software approach was applied to processes of

collecting, processing and preparing bank reporting and ensuring centralized management of information for the Bank.

The Bank's telecommunication systems were further improved during 1999. Vozrozhdeniye Bank's unified telecommunication network covers 38 affiliate offices and branches. There are plans to continue in the year 2000 efforts targeted at further incorporation of the Bank's remaining branches into the integrated database network.

In 2000, attention will be centered around implementation of information technologies which will enable to increasing the quality of settlement services through electronic systems as well as improving the managing resources and risks.

## **THE BANK'S BRANCH NETWORK**

Vozrozhdeniye Bank's branch network comprises 62 branches and 30 additional offices in different regions across the country. Its wide coverage makes the Bank readily accessible for clients throughout Russia while our technology equipped network connects our central office with local branches to ensure a high quality of service to clients regardless of the branches location. Further network development is one of the major priorities among the Bank's operations.

During 1999, the Bank's all our branches not only maintained their client base but also reinforced their standing in the regions through implementing our stabilization program.

Moscow Oblast remains, as always, a strategic area for Vozrozhdeniye Bank's operations. The Bank holds traditionally stable positions within the region. Its network there comprises 39 branches. Last year, branches located at Khimki and Dmitrov began operations and an additional branch was open in Lyubertsy. Simultaneously with the branch development in

the Moscow vicinity area, the Bank is continuing to pursue effective network enhancements and additional offices in Russia's other regions. In 1999, an additional office was open in Rostov-on-Don and early 2000, a branch in Krasnodar will be opened.

Developing the subsidiary/branch network supports the Bank's strategy aimed at coping with new tasks, such as increasing quality of servicing clients and raising the awareness of the bank products and services market. A significant issue is the optimizing of branch performance, enhancing effectiveness of the network and relations among branches. New branches will be opened when required, to pursue to the Bank's and our clients' long-term interests. A major factor in opening up a new branch is the perspective of immediate returns on the investment and the branch's success in gaining customers.

Major tasks for branches continue to be the effective selling of bank products, penetration of the bank services market, and increasing access for clients.

## **HUMAN RESOURCES POLICY**

The capability of a modern bank to solve strategic tasks and to make advances in the market for financial products is largely determined by the level and quality of its employees' professionalism. One aspect of successful professional performance by any credit institution is its managerial team's ability to motivate the employees, encouraging their intellectual and professional potential.

Therefore Vozrozhdeniye Bank places a great concern on issues about managing our human resources development. the effects of the 1998 financial crisis were overcome thanks to the high level of competence of each employee and collective efforts made by all the Bank's branches.

The Bank's constantly improves our managing of human resources using the most advanced Russian and international experience. During the previous year, the human resources policy

pursued by the Vozrozhdeniye Bank was targeted at creating an optimal structure for head office and in branches and at developing a stable cadre of personnel. As of 1 January 2000, the Bank's employed 3,377 staff.

Much attention is paid by the Bank to stimulating relations within the team, as mutual support and team spirit are fundamental for building a strong corporate culture.

An important part of our personnel planning is the continuous increase of our staffs' professional level, including the assessment of each staff member potential, career development and, naturally, vocational training.

The system developed in the Bank for monitoring and appraising professional knowledge serves the basis for personnel development and upgrading. As in previous years, the 1999 training and staff qualifications upgrading was conducted both outside the Bank with the help of well reputed learning establishments, and at seminars within the bank. One of our effective forms of training is the on-the-job training within in the Bank. Regular meetings convened for branch managers were used for exchanging the most effective experiences.

Under the accelerating competition in banking environment, the creative and professional potential of staff is a prerequisite for successful resolution of strategic tasks faced by the Bank.

## **SOCIAL INVOLVEMENT IN WELFARE AND CHARITY**

Despite the post-crisis environment which entailed a notable reduction generally in private socially-oriented programs, the Bank did not fail to continue its efforts in this domain. Last year, Vozrozhdeniye Bank continued its work to support socially unprotected population strata, the needy, and the disabled. The Bank maintained assistance to orphanages, boarding schools, hospitals, veterans associations, low-income families, retirees, and culture-related facilities.

## FINANCIAL PERFORMANCE AND MANAGEMENT ANALYSIS

### *Key Performance Indicators*

*Rbl, thousands*

	<i>As at 01.01.1999</i>	<i>As at 01.01.2000</i>
<b>Assets</b>		
At year first date (net)	8,087,762	8,723,555
average (net)	5,758,884	8,432,650
<b>Interest-Bearing Assets</b>		
At year first date (net)	6,924,710	7,024,912
Average (net)	4,848,129	6,536,372
<b>Net lendings</b>		
At year first date	5,892,823	6,492,332
Average	3,688,633	5,231,259
<b>Bank's capital</b>		
At year first date	556,219	545,637
Average	642,462	554,094
<b>Total income</b>	2,161,876	3,158,804
<b>Net current income</b>	11,311	196,663
<b>Balance profit</b>	- 83,098	43,887
<b>Owners equity per common share of stock, Rbl</b>	56.58	55.5
<b>Estimated ratios, %</b>		
Net loans to net assets ratio	72.9	74.4
Assets utilization ratio (total income to average assets)	37.5	37.5
Capital to total liabilities	7.5	6.9
<b>CBR's Requirements, %</b>		
Capital to risk-weighted assets ratio N 1 - min. 8 %	9.6	8.0
Liquid assets to on-call liabilities ratio N 2 - min. 20 %	31.1	25.9

Financial results estimation and compilation was based on data from the below given ***Vozrozhdeniye Bank's Balance Sheet and the Profit and Loss Statement***. Interest-bearing assets and average indicators were estimated through methods employed by the Bank. The Bank's equity was estimated in compliance with the RF Central Bank's Instruction No. 1.

### ***The Bank's Core 1999 Performance Indicators***

Results shown in the *Core Performance Indicators* table reflect changes in major indicators over 1999 against 1998.

In the year under review, the Bank's assets maintained their stable growth pattern. Average total of net assets equaled Rbl 8,432,650 thousand which is 46.4 % higher over the 1998 indicator.

At year-end 1999, the Bank's net assets total has reached Rbl 8,723,555 thousand as compared with 8,087,762 at year-end 1998.

Average total for the interest-bearing assets grew by Rbl 1,688,243 thousand, or 34.8 %, and amounted to Rbl 6,536,372 thousand in 1999 against Rbl 4,848,129 thousand in 1998. The assets growth was largely influenced by credit portfolio growth, the average volume of which grew by 41.8 % in 1999 over 1998 level.

In 1999, the Bank's net current income increased significantly and amounted up to Rbl 196,663 thousand against Rbl 11,311 thousand in 1998.

Increased net current income was stipulated by the leading growth in current income – 134.8% over operational expenses – 116.4%. Net income went upwards from transactions in securities, and so did the net income from transactions on the forex market followed by the increase in net commission income.

Vozrozhdeniye Bank's equity volume as estimated in compliance with the RF Central Bank's (CBR) Instruction No. 1 has slightly descended. This reduction resulted from the amended methodology for estimating equity introduced by the Central Bank in the end of 1999. However, as estimated pursuant to the RF Central Bank's methodology for banks' publications of financial results and shown in the Vozrozhdeniye Bank's Balance Sheets, the Bank's own equity grew from Rbl 628,018 thousand as at 01.01.1999 to 766,484 thousand as at 01.01.2000.

Currently, capital sufficiency indicators remain within the normal range of requirements set by the CBR.

***Vozrozhdeniye Bank's Balance Sheet***

*Rbl thousand*

	<b>As at 01.01.1999</b>	<b>As at 01.01.2000</b>
<b>ASSETS</b>		
1. Funds and accounts with the RF Central Bank	237,940	760,247
2. Government debt securities	942,075	321,660
3. Funds with lending institutions	100,068	129,282
4. Net investments in securities for resale	7,679	11,212
4.1. Securities for resale (book value)	14,912	14,713
4.2. Securities devaluation provision	7,233	3,501
5. Loans and similar debt	5,967,723	6,688,539
5a. Interest accrued (including overdue)	1,371	174,401
6. Funds allotted for leasing	0	0
7. Loss allowance	74,900	196,207
8. Net loans outstanding	5,892,823	6,492,332
9. Difference coverage for estimated and 1994-generated loan loss provisions	0	0
10. Fixed assets, intangible assets, auxiliary products,	636,300	618,198

nonvaluables and nondurables		
11. Net long-term investment in securities and equity units	90,404	94,559
11.1. Long-term investment in securities and equity units (book value)	93,729	110,249
11.2. Securities and equity units devaluation provision	3,325	15,690
12. Income accrued	75,539	72,367
13. Other assets	103,563	49,297
<b>TOTAL ASSETS</b>	<b>8,087,762</b>	<b>8,723,555</b>
<b>LIABILITIES</b>		
1. Loans from the RF Central Bank	380,000	1,233,706
2. Deposits from credit institutions	1,251,735	505,139
3. Customers' deposits	5,327,835	5,337,173
3.1. of which individuals' deposits	926,551	742,107
4. Expenditures accrued	20	34
5. Issued debt securities	323,758	641,057
6. Other liabilities	176,396	239,962
7. Recovery funds for settlements with debtors, risks and liabilities	0	0
<b>8. Total Liabilities</b>	<b>7,459,744</b>	<b>7,957,071</b>
9. Authorized capital (stock capital), of which:	111,251	111,251
9.1. Registered common shares of stock	98,306	98,306
9.2. Registered preferred shares of stock	12,945	12,945
10. Bank's shares of stock repurchased from shareholders	0	0
11. Share premium	9,020	9,020
12. Funds and earnings retained with the Bank	301,495	205,576
13. Fixed assets revaluation	299,650	298,109
14. Net profit (loss) for the report year	- 83,098	43,883
15. Dividends accrued from current year profit	0	0
16. Unretained profit (excluding dividends)	0	33,184
17. Retained profit	- 83,098	10,699

18. Costs and risks affecting shareholders' equity	10,300	- 131,829
<b>19. Total shareholders' equity</b>	<b>628,018</b>	<b>766,484</b>
<b>TOTAL LIABILITIES</b>	<b>8,087,762</b>	<b>8,723,555</b>

*Income and Loss Statement*

*Rbl Thousand*

<b>INCOME AND LOSS STATEMENT BREAKDOWN</b>	<b>1998</b>	<b>1999</b>
<b>Interest received and similar income from:</b>		
1. Funds placed with banks in the form of loans, deposits, borrowings and on accounts with other banks	471,454	753,143
2. Loans extended to other customers	803,291	1,012,470
3. Leased funds	0	0
4. Fixed-yield securities	22,691	66,632
5. Other sources	2,453	1,660
<b>6. Total interest received and similar income</b>	<b>1,299,889</b>	<b>1,833,905</b>
<b>Interest paid and similar expenses incurred by:</b>		
7. Funds from banks	555,816	974,801
8. Funds from other customers, including loans and deposits	484,973	706,995
9. Issued debt securities	100,094	97,962
10. Lease payment	16,663	22,743
<b>11. Total Interest paid and similar expenses</b>	<b>1,157,546</b>	<b>1,802,501</b>
<b>12. Net Interest and similar income (item 6 through item 11)</b>	<b>142,343</b>	<b>31,404</b>
13. Commission income	134,551	157,973
14. Commission charges	8,961	14,512
<b>15. Net commission income (item 13 through item 14)</b>	<b>125,590</b>	<b>143,461</b>

<b>Other operational income:</b>		
16. Income from transactions in foreign currency and other forex valuables including interest rates difference	476,690	472,069
17. Income from transactions in selling precious metals, securities and other property, positive results of revaluating precious metals, securities and other property	242,262	687,094
18. Dividend income	106	75
19. Other current income	8,378	7,687
<b>20. Total other operating income</b>	<b>727,436</b>	<b>1,166,925</b>
<b>21. Current income (item 12 + item 15 + item 20)</b>	<b>995,369</b>	<b>1,341,790</b>
<b>Other operational expenses:</b>		
22. Labor remuneration costs	61,905	44,225
23. Operating costs	122,067	165,548
24. Costs of transactions in foreign currency and other forex valuables, including interest rate difference	427,074	365,924
25. Costs of transactions in selling precious metals, securities and other property, REPO transactions, negative results of revaluating precious metals, securities and other property	269,019	406,587
26. Other current expenses	103,993	162,844
<b>27. Total other operating costs (sum of item 22 through item 26)</b>	<b>984,058</b>	<b>1,145,128</b>
<b>28. Net current income prior to provisions and less contingent income (item 21- item 27)</b>	<b>11,311</b>	<b>196,662</b>
29. Change in loan loss provisions	78,712	144,156
30. Change in securities devaluation provisions	- 6,352	8,623
31. Change in other provisions	0	0
<b>32. Net current income less contingent income (item 28 - item 29 - item 30 - item 31)</b>	<b>- 61,049</b>	<b>43,883</b>

33. Contingent income less contingent expenses	0	0
<b>34. Pre-profit tax net income (item 32 + item 33)</b>	<b>- 61,049</b>	<b>43,883</b>
<b>35. Profit tax<sup>5</sup></b>	<b>22,042</b>	<b>20,169</b>
36. Deferred profit tax	0	0
36a. After tax contingent expenses	7	0
<b>37. Net profit (loss) for report period (item 34 - item 35 - item 36 - item 36a)</b>	<b>- 83,098</b>	<b>23,714</b>

*Comments to the Balance Sheet and the Profit and Loss Statement*

Financial reporting is exercised by the Bank in compliance with the Russian Federation law.

Currency used for compiling the report is the Russian ruble.

Assets and liabilities denominated in foreign currencies are translated into rubles at the respective currency exchange rate as of the date of the report compilation.

Translation of major foreign currencies into the Russian Federation's national currency was implemented on the basis of the Russian Federation Central Bank's rate:

31 December 1999 – 20.6500 Rbl per USD 1; 12.3460 per DM 1.

31 December 2000 – 27.000 Rbl per USD 1; 13.9200 – per DM 1.

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<sup>5</sup> Pursuant to requirements of the CBR for financial indicators presentation in 1998, tax expense for 1998 includes all taxes paid during this period. Tax expense other than profit tax for 1999 (e. g. securities trade taxes, currency conversion tax etc) are included in respective expense items.

Fixed assets, tangible stocks, intangible assets are included into assets indicator calculated by residual cost (less depreciation).

The Bank's assets and liabilities incurred by transactions in foreign exchange are included in the reports as figures estimated at the rate running for the date of recording income (expenses). Income and expenses from revaluation of forex assets are included into income and expenses from transactions in foreign currencies.

Abbreviations used: rouble - Rbl; US dollar – USD.

*The Profit and Loss Statement* presents financial results of the Bank's performance over the last two years. The Bank's performance over 1999 and efforts for restoring the Bank's standing enabled it to get a positive financial result: on-balance profit reached Rbl 43,883 thousand over the year. In 1998, an actual financial result was a loss of Rbl 61,049 thousand attributable to objective reasons: unfavorable external and domestic factors in the country's economy that predetermined a pre-crisis situation in the banking sphere in end 1997 and first half of 1998 as well as a general economic crisis that broke in Russia in 1998.

In the report year, there was a growth in income across all business lines. On-balance income was significantly affected by the net income growth from transactions in securities and from transactions on the foreign currency market.

Net commission income grew as a result of the increased volume of operations made and services rendered.

The interest-bearing income from securities was generated through summing up coupon-income from the federal Treasury securities - OGVVZs, OFZs and OGSZs and discount markets.

The interest-bearing income grew by 26 % on extended loans. An increase in income was brought about by the Bank's energetic efforts on optimizing its credit portfolio, reducing share of loans bearing insignificant income, and an on-going screening of doubtful loans.

Increase in interests paid for extended credits is due to the CBR's loan provided at the higher rate than median interbank loan rates in 1998. In 1999, the interbank market has not yet recovered after the crisis which limited opportunities for borrowings.

The yield on the forex market transactions was generated through positive revaluation as the result of raised USD rate while in 1998 a negative result was incurred by transactions in derivatives which was largely affected by the 1998 crisis.

The year witnessed a change in the value of allowance for loan losses and allowance for securities depreciation totalling Rbl 152,779 thousand (Rbl 72,360 thousand in the previous year). A significant increase in these funds in 1999 resulted from the amended CBR's requirements, in the same time filling in with the Bank's interests in hedging possible losses and risks.

In 1999, there was an increase in taxes to be paid from profits and the profit tax. The CBR has recently changed the method of presentation of tax expenses in financial statements. For instance, a sum of taxes paid out of profits in 1999 totaled Rbl 33,184 thousand, of which a profit tax made up Rbl 20,169 thousand. In 1998, total taxes paid out of profits reported Rbl 22,042 thousand, of which the profit tax made up Rbl 16,804 thousand.

## **Risk Management**

Managing bank risks is the fundamental factor for the Bank's successful development. The bank's yield is affected by various risk types, such as credit risks, liquidity risks, interest risks, forex risks, technological risks, off-balance transactions risks, risks associated with amendments in the laws.

To efficiently manage risks, there was set up the Assets and Liabilities Management Committee in the Vozrozhdeniye Bank.

The Bank pays special attention to managing credit risks and liquidity risks.

### *Assets Quality and Credit Risks Management*

The Bank's assets are ensured by efficiency of operations, by liquidity, and by reliability of lendings. They are based also on the analysis of the current market situation and adequate market behavior. The Bank operated in response to the occurring changes in the market environment, adopting assets profile to situation and developmental necessities.

The main segment of assets make up lending operations – their fraction in total net assets at year-end 1999 matched 76.7 %; that is slightly higher than it was in the previous year - 73.8 %. Therefore the Bank is highly focused on the credit risks analysis. Credit risks are also present in operations made with other types of assets. With the view to adequate evaluating, controlling and minimizing credit risks, the Bank established appropriate rules, procedures and techniques and divided authority for loan decision-making along operational management levels and respective tiered volume limits.

The procedures for extending loans are determined by the Bank's credit policies which are established and supervised by the Credit and Investment Committee. All credit risks-related issues are subject to detailed analysis and consideration as well as subsequent approval by the Credit and Investment Committee.

The profile, cost, terms of lendings, borrower's status, potential effectiveness and expediency of loans, their size and collaterals are determined with conformity to the Bank's resources and income-bearing assets policies.

The Bank extends loans under mandatory compliance with the principles of redemption, on agreed maturity and interest rates, with sound purposefulness. Loans are provided against collaterals which guarantee repayment of loans and payment of interest by the borrower.

In very unstable economic context, the Bank scrupulously screens borrowers giving preference to reliable customers with sustainable financial standing and good reputation, with sound credit history and playing key role in development of respective regions.

Loans in foreign currency are extended in US dollars and other foreign currencies within the limits of available resources in respective currency. These loans are mainly are mainly rendered for funding foreign trade transactions.

The Bank provides project financing, whereas terms and conditions for related credit facilities are determined individually and depend on specific character of each respective project.

The Bank makes major emphasis on diversification of risks associated with extending large credits. A cumulative size of big credits extended by the Bank as at 01.0.2000 does not exceed the rate fixed by the RF Central Bank.

In extending credits and guarantees, the Bank follows the RF Central Bank's requirements on the maximal risk per one borrower.

	CBR's requirements	Actual indicator, %	
		01.01.1999	01.01.2000
Large loans total to the Bank's capital ratio, N 7	<b>max. 800%</b>	<b>790 %</b>	<b>745.2 %</b>
Total liabilities (including off-balance requirements - 50% of guarantees and sureties) of bank's insider and related persons to bank's	<b>min. 2%</b>	<b>0 %</b>	<b>0.2 %</b>

capital ratio, N 10			
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### Interest-Bearing Assets' Profile

As at 01.01.1999      As at 01.01.2000

	<i>Rbl, thousands</i>	<i>%</i>	<i>Rbl, thousands</i>	<i>%</i>
<b>Commercial loans to corporate customers</b>				
<b>Short-term loans (including bill loans)</b>	<b>4,550,585</b>	<b>65.7</b>	<b>3,806,962</b>	<b>54.2</b>
in rubles	1,607,158	23.2	1,881,517	26.8
in foreign currency	2,943,427	42.5	1,925,445	27.4
<b>Long-term loans</b>	<b>393,769</b>	<b>5.7</b>	<b>2,211,663</b>	<b>31.5</b>
in rubles	28,880	0.4	302,333	4.3
in foreign currency	364,889	5.3	1,909,330	27.2
<b>Loans overdue</b>	<b>29,101</b>	<b>0.4</b>	<b>73,104</b>	<b>1.0</b>
in rubles	29,101	0.4	73,104	1.0
in foreign currency	0		0	
<b>Total loans to corporate customers</b>	<b>4,973,455</b>	<b>71.8</b>	<b>6,091,729</b>	<b>86.7</b>
<b>Loans to individuals</b>				
in rubles	219,695	3.2	435,153	6.2
in foreign currency	79,749	1.2	16,785	0.2
loans in rubles overdue	0		130	
<b>Total loans to individuals</b>	<b>299,444</b>	<b>4.4</b>	<b>452,068</b>	<b>6.4</b>
<b>Short-term loans and deposits in banks</b>				
in rubles	27,109	0.4	103,789	1.5
in foreign currency	667,429	9.6	40,953	0.6
in rubles loans overdue	286		0	

<b>Total short-term loans and deposits in banks</b>	<b>694,824</b>	<b>10.0</b>	<b>144,742</b>	<b>2.1</b>
<b>Short-term investments in securities</b>				
in rubles	85,708	1.2	59,639	0.8
in foreign currency	871,279	12.6	276,734	4.0
<b>Total short-term investments in securities</b>	<b>956,987</b>	<b>13.8</b>	<b>336,373</b>	<b>4.8</b>
<b>Total interest-bearing assets</b>	<b>6,924,710</b>	<b>100.0</b>	<b>7,024,912</b>	<b>100.0</b>
in rubles	1,997,937	28.9	2,855,665	40.6
in foreign currency	4,926,773	71.1	4,169,247	59.4

In 1999, the Bank followed up on diversifying performing assets and improving their profile. Because of big risks existing on recovering markets, investments in securities and interbank credits were significantly reduced, and there was an increase in the share of loans extended to corporate customers and other legal entities.

A major source for long-term lending were resources raised by the Vozrozhdeniye Bank within the framework of the World Bank's programs.

The segment of ruble-denominated assets increased up to 40.6 % of the total Bank's assets, and, as the segment of foreign currency assets dropped, ruble- and foreign currency-denominated parts of the Bank's assets became more balanced.

Like in previous years, the amount of loan loss reserves, did not exceed 3.5% of the extended credits.

#### **Allowance for Loan Losses**

*Rbl, thousands*

	<b>1998</b>	<b>1999</b>

<b>Allowance balance at year-start</b>	8,472	74,900
<b>Allowance balance at year-end</b>	74,900	196,207
<b>Total loans extended at year end</b>		
	5,967,723	6,688,539
Of which loans overdue	29,387	73,234
<i>Loans overdue in total credits, %</i>	0.49	1.1
<i>Total allowance to extended loans ratio, %</i>	1.26	2.93
<i>Total allowance to overdue loans ratio, %</i>	254.9	267.9

### Loan Loss Allowance

The allowance for loan losses was estimated in strict compliance with the RF Central Bank's requirements. These requirements include a system for evaluating credit risks and a respective classification of loans. According to these criteria, lendings are divided into 4 risk groups each with a prescribed level of provision (see table below).

High quality of the Bank's loan portfolio confirms the dominance of loans of credit risk group 1 of the RF Central Bank's classification, this group embraces most reliable loans at minimum risk level.

Risk Groups	Loans Characteristics	Allowance Level, %
1	Standard	1
2	Nonstandard	20
3	Doubtful	50
4	Bad	100

In 1999, the CBR has increased the amount of allowance not lower than 50 % of recorded provisions from 40 % in 1998. Vozrozhdeniye Bank strictly followed these requirements

during the year, and in 1999 the allowance volume exceeded 2.6 times the 1998 year amount. The share of overdue credits made up 1.1% of the Bank's lendings. In 1999, the allowance to overdue loans ratio recorded 267.9 %, thus exceeding the previous year level.

A slight increase in outstanding debt resulted from a slow and insufficient recovery of some of the Bank's clients in post-crisis period, however, these loans still are not considered as bad ones.

### ***Liquidity Risks and Asset Liability Managing***

The major factor in raising funds by the Bank and in strengthening its resource base is its goodwill and a reputation of a reliable and stable institution capable for prompt honoring its commitments to customers. In view of this, the Bank is strongly focused on issues of liquidity management.

All of the Bank's profit-centered operations are made in consistent compliance with principles of maintaining its resources and ensuring availability of sufficient funds in Russian rubles and in foreign currency for settlements at clients' requests and on the Bank's own commitments.

The Bank's policies on raising resources are tailored taking into consideration the state of financial markets and adequate responding to occurring changes. Raising resources and managing interest risks, the Bank employs financial instruments which meet all clients' interests and simultaneously serve the Bank's interests.

The active Bank's presence on the currency and credit markets, as well as on other financial markets facilitates raising resources. Credit facilities from correspondent banks provide the Bank with further sources for expanding resource base.

In pursuing its resource policies, the Bank follows the "Guidelines to Managing the Vozrozhdeniye Bank Resources". Resources in Russian rubles and foreign currency are

contracted to the deposits with the Bank in the form of demand deposits (balances on clients' checking and current accounts, balances on correspondent banks' accounts) and time deposits (deposits by individuals and corporate customers, issued debt securities, interbank loans including CBR's centralized resources).

According to their maturity terms, time deposits can be divided into short-term (up to 1 year), middle-term (up to 3 years) and long-term (over 3 years) deposits. Rates on borrowed resources are determined by current prime rate of the RF Central Bank and average rates on the financial market.

### Central Bank's Prime Rate Changes, %

Developing the resource base is regarded by the Bank as the key component of financial policies: the volume of the raised funds determines the Bank's potential, its standing among other banks by assets, liquidity, profitability, sustainability and credibility.

### Deposits Profile

	As at 01.01.1999		As at 01.01.2000	
	<i>Rbl,</i> <i>thousands</i>	%	<i>Rbl,</i> <i>thousands</i>	%
<b>Clients' deposits</b>				
<b>Clients' checking and current accounts</b>	<b>4,401,284</b>	<b>60.4</b>	<b>4,595,066</b>	<b>59.6</b>
In rubles	1,397,835	19.2	2,883,439	37.4
In foreign currency	3,003,449	41.2	1,711,627	22.2
<b>Individuals' time deposits</b>	<b>926,551</b>	<b>12.7</b>	<b>742,107</b>	<b>9.6</b>
In rubles	369,097	5.1	307,456	4.0
In foreign currency	557,454	7.6	434,651	5.6
<b>Total clients' deposits</b>	<b>5,327,835</b>	<b>73.1</b>	<b>5,337,173</b>	<b>69.2</b>
<b>Financial institutions' deposits</b>				
<b>Banks' correspondent accounts</b>	<b>152,861</b>	<b>2.1</b>	<b>192,745</b>	<b>2.5</b>

In rubles	11,644	0.2	2,602	0
In foreign currency	141,217	1.9	190,143	2.5
<b>Banks' time deposits</b>	<b>1,478,874</b>	<b>20.3</b>	<b>1,546,100</b>	<b>20.0</b>
In rubles	39,500	5.4	1,295,276	16.7
In foreign currency	1,087,374	14.9	250,824	3.3
Total financial institutions' deposits	<b>1,631,735</b>	<b>22.4</b>	<b>1,738,845</b>	<b>22.5</b>
<b>Other deposits</b>				
<b>Deposit certificates</b>	<b>76,646</b>	<b>1.1</b>	<b>93,255</b>	<b>1.2</b>
In rubles	76,646	1.1	93,255	1.2
<b>Bills</b>	<b>247,112</b>	<b>3.4</b>	<b>547,802</b>	<b>7.1</b>
In rubles	147,320	2.0	279,875	3.6
In foreign currency	99,792	1.4	267,927	3.5
<b>Total other deposits</b>	<b>323,758</b>	<b>4.5</b>	<b>641,057</b>	<b>8.3</b>
<b>Total deposits</b>	<b>7,283,328</b>	<b>100.0</b>	<b>7,717,075</b>	<b>100.0</b>
In rubles	2,394,042	32.9	4,861,903	63.0
In foreign currency	4,889,286	67.1	2,855,172	37.0

Extending the customers base and enhancing the quality of services enabled the Bank to increase the volume of resources raised practically across all deposit categories and to use these as a major source of maintaining income-bearing assets.

The raised funds amounted up to Rbl 7,77,075 thousand, and parallel to a significant growth of ruble deposits segment, there was a reduction in the foreign currency deposits segment. As a consequence, interest risk was reduced. Since the US dollar exchange rate was showing upward tendency throughout the report year, the reduction of foreign currency deposits positively affected the Bank's liabilities costs.

For instance, the volume of foreign currency deposits at 01.01.2000 has shown a 1.7-fold reduction over amount at 01.01.1999 and, respectively, their share in total deposits volume sank to 37 % (67.1 % at year-start 1999).

As at 01.01.2000 the segment of deposits made by financial institutions remained practically at the previous year level, though the profile of banks' time deposits has changed: after the redemption of the syndicated credit which had been extended to the Vozrozhdeniye Bank by the Bank of Austria, the share of banks' deposits in foreign currency dropped, while the share of banks' ruble deposits grew due to the loans provided by RF Central Bank.

These loans in the total amount of Rbl 1,230 million were extended to the Vozrozhdeniye Bank, because the CBR recognized the Bank as a banking institution of national significance. The CBR's loans were used to support the Bank's operations immediately after the 1998 systemic crisis.

Funds raised by the conventional financial instruments and banking services went upward, and balances on clients' checking and current accounts has also shown an increase. At 01.01.2000, balances on banks' correspondent accounts reported 26 % rise over their amount recorded at 01.01.1999. By end of the year under review, the volume of funds raised by deposit certificates grew by 21.7 %. The value of the Bank's bills issued by the Bank increased 2.2-fold over the previous year volume.

General liquidity management is conducted by monitoring assets and liabilities by maturity terms and by expedient running cash in- and outflows. Liabilities, i.e. time deposits placed for fixed terms specified in the contracts, are correlated with the assets having the same terms. Balances on clients' demand deposits or on equivalent accounts are statistically divided into "stable" and "hot" ones, and are used for lendings in compliance with liquidity requirements established by the Assets and Liabilities Management Committee of the Bank.

At 01.01.2000, there was a remarkable 3-fold growth over 01.01.1999 level of cash volume and balances on accounts with the RF Central Bank that are characterized by instant liquidity.

	CBR's requirement	Actual indicator, %	
		01.01.1999	01.01.2000
Liquid assets to Bank's liabilities on demand deposits ratio, <b>N 2</b>	<b>min. 20 %</b>	<b>31.1 %</b>	<b>25,9 %</b>
Loans and guarantees (with maturity over 1 year) to Bank's capital and liabilities (with over 1 year term) ratio, <b>N 4</b>	<b>max. 120 %</b>	<b>40.2 %</b>	<b>59.0 %</b>
Total liquid assets to total assets ratio, <b>N 5</b>	<b>min. 20 %</b>	<b>27.5 %</b>	<b>21.2 %</b>

The Table above shows liquidity indicators of the Bank's performance as compared with the requirements of the CBR's Instruction No. 1.

### ***The Bank's Liabilities to Nonresidents***

The Vozrozhdeniye Bank has settled its commitments to foreign creditors and made agreements on restructuring liabilities to nonresidents related to foreign trade finance operations of the Bank's customers.

The Bank has completely and in due time redeemed the syndicated loan in the amount of USD 32 million that had been extended by the Bank of Austria.

	CBR's requirements	Actual indicator, %	
		01.01.1999	01.01.2000

Liabilities held by nonresidents to bank's capital ratio, <b>N 11.1</b>	<b>max. 500 %</b>	<b>185.9 %</b>	<b>50.9 %</b>
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### *Shareholders' Capital*

	As at 01.01.1999	As at 01.01.2000
<b>Shareholders' (joint-stock) equity, Rbl thousand</b>	<b>556,219</b>	<b>545,637</b>
Equity capital per one common share of stock, Rbl	56.58	55.5
Price of 1 share to its book value	0.38	0.27
Market capitalization of shares, Rbl thousand	209,091	151,618
<b>Bank's authorized capital, Rbl thousand</b>	<b>111,251</b>	<b>111,251</b>
<b>Number of shares in circulation at year end:</b>		
Common shares of stock (10 Rbl par value), number of shares	9,830,572	9,830,572
Preferred shares of stock (1 Rbl par value), number of shares	12,945,041	12,945,041

### *Shareholders Capital*

In 1999, the Bank's authorized capital remained on the previous year level, and there have been no changes in the capital's profile. No person or group of associated persons did own more than 5 percent of any class of the Bank's shares. Shares owned by corporate persons and other legal entities including nonresidents make up 75.9% of the Bank's shares. Nonresidents own 4.9 % of the Bank's stock capital in the form of American depository receipts issued for the Bank's common shares.

At 01.01.2000, there were 8,404 of the Bank's shareholders equaled, 1,129 of them were legal entities and 7,275 – individuals.

Pursuing policy of further development of the Bank's equity, the shareholders' special general meeting, convened on 29.10.1999, made a decision on the increase in declared shares of stock. According to this decision, the Bank's authorized capital can be raised up to Rbl 300 million, and the Bank's Supervisory Committee adopted a resolution on 14-th issuance of shares within limits of declared authorized capital, in the amount of Rbl 45 million at par. The RF Central Bank registered the Issuance Prospectus of Vozrozhdeniye Bank on 30.12.1999. After the issue is completed and paid, the Bank's stock capital will amount to Rbl 156,2 million.

During 1999, despite a considerable decline in investors' interest to corporate securities stipulated by general economic and political situation in the country, the Bank's common and preferred shares were quoted by the Russian Trading System (RTS). The Bank's common shares were the only Russian bank shares represented through ADRs on the Berlin and Frankfurt Stock Exchanges. In contrast to insignificant turnover on the country's secondary stock market, transactions in ADRs on German stock exchanges were made on a regular basis. Total volume of transactions in the Bank's ADRs amounted to over 700 thousand, with average transaction price of USD 3.7 per ADR.

Maximum price for transaction in ADRs was reported in the third quarter of 1999. On the Berlin Stock Exchange it recorded USD 7.9, with turnover in ADRs of 12.2 thousand

transactions, while on the Frankfurt Stock Exchange at the price USD 7.8 the turnover made up 2.7 thousand transactions.