Credit and Risk Management

Background

Effective risk management is critical to the success of a full service financial institution and is a core element of the Bank's overall business strategy. The Bank is presented with a number of risks in its daily operations and proactive management of these risks is of paramount importance in ensuring the continued development and success of the Bank.

The Bank's successes in this area are self evident: despite substantial increases in the volume of lending activity, the Bank was able to maintain a high quality credit portfolio and to minimise the potential for credit losses, exposure to market risks was strictly monitored and kept at acceptably low levels, and the Bank's liquidity position was carefully managed.

Europe House, Moscow centre

Belorusski Railway Station,
Moscow centre

Credit risk

● Continued focus was directed towards the careful selection and analysis of corporate, bank and individual borrowers, collateral and structural requirements, and on the thorough monitoring and administration of the credits granted. The majority of corporate credits granted were executed on a secured and/or structured basis. In responding to general market demands and trends, maturity terms for corporate credits increased during 2001. The majority of consumer loans were also granted on a fully secured basis.

● Positive developments in Russia's banking sector, coupled with increased liquidity on the inter-bank market, and generally stable macroeconomic environment, allowed for an increase in the number and volumes of clean lines of credit granted to Russian banks, and Russian subsidiaries of foreign banks increased – of course, at all times based on the close monitoring of the financial standing of the counter-party.

● Responding to the substantial increase in lending activity, and to ensure the maintenance of high standards in credit granting and maintenance, the Bank increased the number of staff employed in its Credit and Risk Management Division, and further improvements were made in the areas of systems and procedures. In addition, this unit provided support and training to the Bank's product and marketing departments.

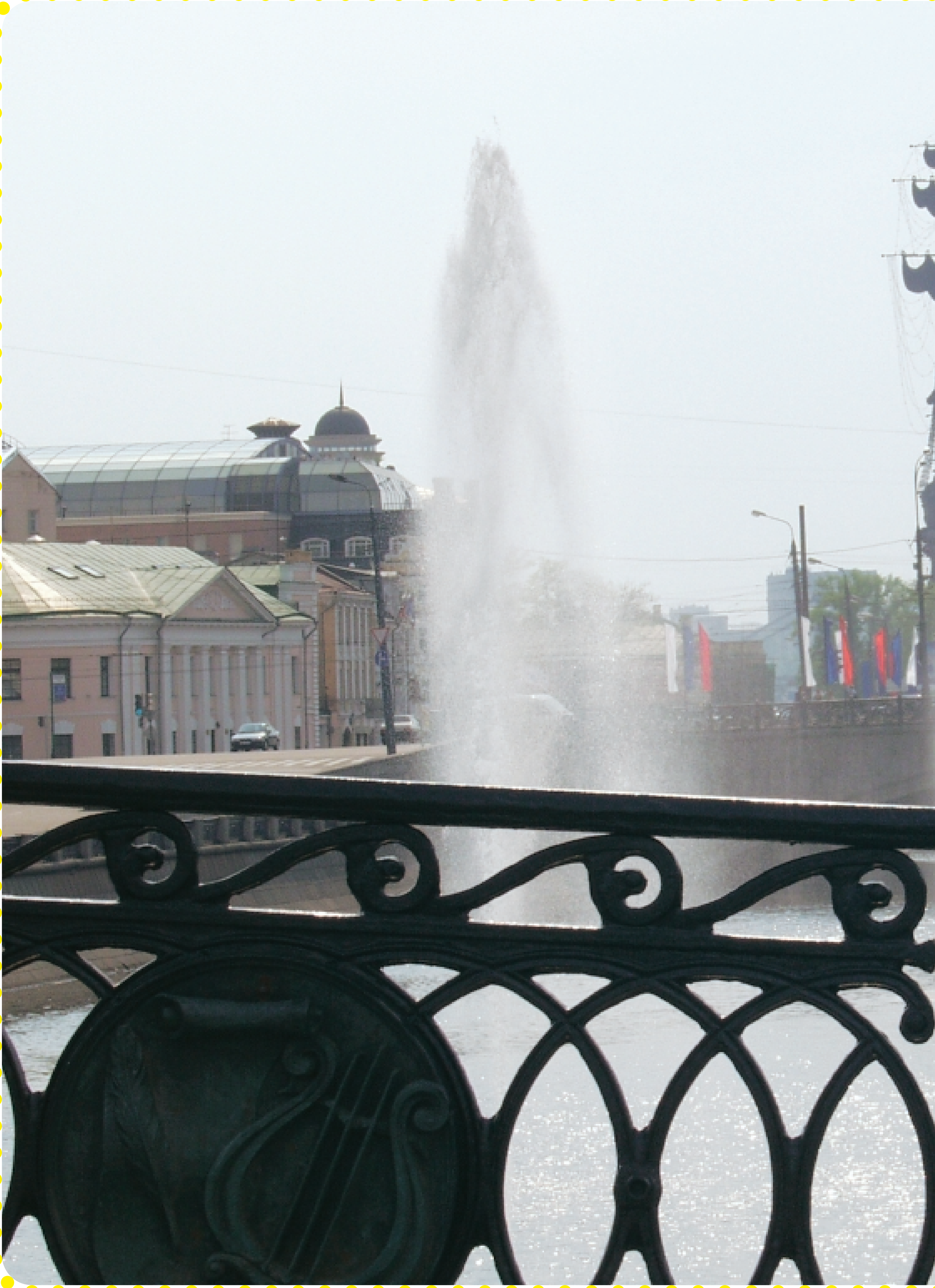
Market and liquidity risks

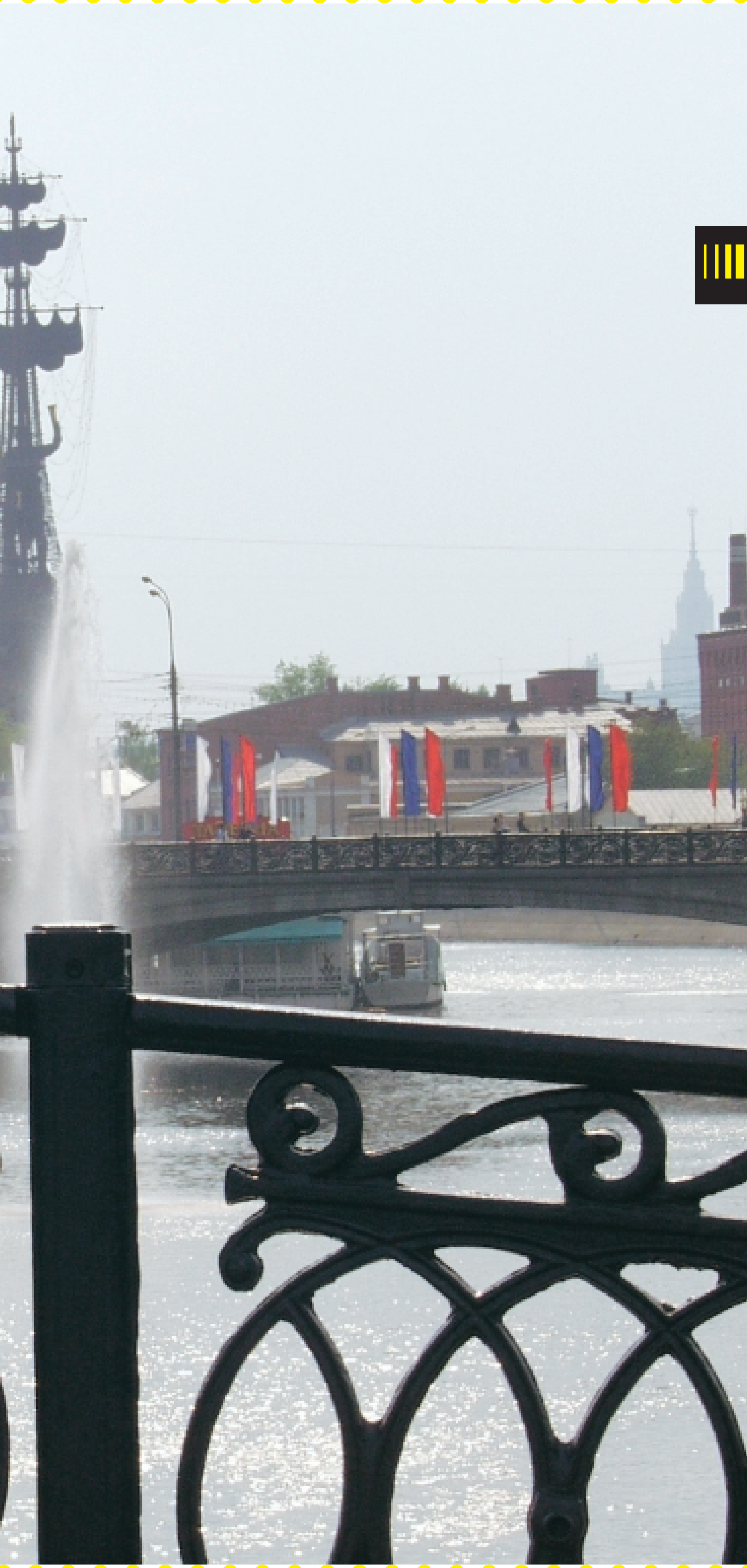
● Market risks involving FX, price and interest rate risks were maintained at low levels throughout the year. Volatility in the main trading area of the Bank, i.e. the USD/RUR foreign exchange market, further decreased, and liquidity further improved.

● In 2001, the Bank commenced trading in fixed income corporate bonds, in line with investment banking activities. Advanced models based on the Value-at-Risk approach were used to ensure the appropriate management of market risks for all the traded products.

● Due to the increase in the balance sheet and especially longer-term assets, special attention was paid to the liquidity situation of the Bank. Peculiarities of the market with respect to the availability of medium and longer term funds, necessitated further emphasis on the attraction of such funds in close cooperation with the Bank's parent as well as major market investors such as the EBRD, etc.

Church,
Moscow centre





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